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

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 2024

OR

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

Commission File Number 001-39722

ZeroFox Holdings, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware	**98-1557361**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1834 S. Charles Street Baltimore, Maryland	**21230**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (855) 936-9369

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, $0.0001 par value per share	ZFOX	The Nasdaq Stock Market LLC
Warrants, each whole warrant exercisable for one share of Common Stock at an exercise price of $11.50 per share	ZFOXW	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☒		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the Registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the Registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 July 31, 2023, the aggregate market value of the common stock held by non-affiliates was $87.4 million.

On August 3, 2022, the Registrant's Common Stock and Public Warrants began trading on the Nasdaq Global Market and the Nasdaq Capital Market under the symbols "ZFOX" and "ZFOXW," respectively.

The number of shares of Registrant's Common Stock outstanding as of March 13, 2024, was 124,843,024.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the 2024 annual meeting of stockholders (the Proxy Statement) are incorporated herein by reference in Part III of this Annual Report on Form 10-K (the Annual Report). The Proxy Statement will be filed with the Securities and Exchange Commission (the SEC) within 120 days after the year ended January 31, 2024.

Explanatory Note

This Annual Report on Form 10-K of ZeroFox Holdings, Inc. ("the Company") includes the consolidated financial statements of:

- The Company as of and for the year ended January 31, 2024, as of January 31, 2023, and for the period August 4, 2022, to January 31, 2023;
- The Company's predecessor, ZeroFox, Inc. ("the Predecessor"), for the period February 1, 2022, to August 3, 2022, presented within the prior period financial statements of the Company (see Note 2); and
- The Company's other predecessor, ID Experts Holdings, Inc. ("IDX"), for the period January 1, 2022, to August 3, 2022, presented as separate financial statements.

As of August 3, 2022, the Company merged with ZeroFox, Inc. and IDX (the "Business Combination") at which time ZeroFox, Inc. and IDX became indirect, wholly-owned subsidiaries of the Company. The financial statements for the Company's predecessors are not necessarily indicative of the Company's results of operations, cash flows, or financial position following the completion of the Business Combination.

The terms "ZeroFox", "the Company", "Successor", refer to ZeroFox Holdings, Inc. and its subsidiaries, including ZeroFox, Inc. and ID Experts Holdings, Inc. after the closing of the Business Combination. The term "the Successor Period" refers to the duration of time including the finalization of the Business Combination through the end of prior reporting period; August 4, 2022, to January 31, 2023. The term "Predecessor" refers to ZeroFox, Inc. and its subsidiaries prior to the closing of the Business Combination. The term "the Predecessor Period" refers to the duration of time from the first day of the Predecessor's prior fiscal year to just prior to the finalization of the Business Combination i.e., February 1, 2022, to August 3, 2022.

Forward-Looking Statements

This Annual Report on Form 10-K, including, without limitation, statements contained under the heading “Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II, contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future, are forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. The inclusion of any statement in this Annual Report does not constitute an admission by the Company or any other person that the events or circumstances described in such statement are material. These risks and uncertainties include, but are not limited to, the following:

- our ability to meet expectations regarding the timing and completion of the proposed Merger (as defined in this Annual Report);
- the possibility that the conditions to the closing of the proposed Merger are not satisfied, including the risk that the required regulatory approvals are not obtained or that our stockholders do not approve the proposed Merger;
- the occurrence of any event, change or other circumstance that could result in the Haveli Merger Agreement (as defined in this Annual Report) being terminated or the proposed Merger not being completed on the terms reflected in the Haveli Merger Agreement, or at all;

- the risk that the Haveli Merger Agreement may be terminated in circumstances that require us to pay a termination fee;
- potential litigation relating to the proposed Merger;
- the risk that the proposed Merger and its announcement could have adverse effects on the market price of our Common stock;
- the ability of each party to consummate the proposed Merger;
- risks related to the possible disruption of management's attention from our ongoing business operations due to the proposed Merger;
- the effect of the announcement of the proposed Merger on our ability to retain and hire key personnel and maintain relationships with customers and business partners;
- the risk of unexpected costs or expenses resulting from the proposed Merger;
- defects, errors, or vulnerabilities in our Platform (as defined in this Annual Report), the failure of our Platform to block malware or prevent a security breach, misuse of the our Platform, or risks of product liability claims that would harm our reputation and adversely impact our business, operating results, and financial condition;
- if our enterprise platform offerings do not interoperate with our customers' network and security infrastructure, or with third-party products, websites or services, our results of operations may be harmed;
- we may not timely and cost-effectively scale and adapt our existing technology to meet our customers' performance and other requirements;
- our ability to introduce new products and solutions and features is dependent on adequate research and development resources and our ability to successfully complete acquisitions;
- our success depends, in part, on the integrity and scalability of our systems and infrastructure;
- we rely on third-party cloud providers to host and operate our Platform, and any disruption of or interference with our use of these offerings may negatively affect our ability to maintain the performance and reliability of our Platform which could cause our business to suffer;
- we rely on data, software and services from other parties;
- we have a history of losses, and we may not be able to achieve or sustain profitability in the future;
- if organizations do not adopt external cybersecurity solutions that may be based on new and untested security concepts, our ability to grow our business and our results of operations may be adversely affected;
- we have experienced rapid growth in recent periods, and if we do not manage our future growth, our business and results of operations will be adversely affected;
- we face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition, and results of operations;
- competitive pricing pressure may reduce revenue, gross profits, and adversely affect our financial results;
- adverse general and industry-specific economic and market conditions and reductions in customer spending, in either the private or public sector, including as a result of inflation

and geopolitical uncertainty such as the war in Ukraine and the Israel-Hamas war, may reduce demand for our Platform or products and solutions, which could harm our business, financial condition, and results of operations;

- if we fail to adapt to rapid technological change, evolving industry standards and changing customer needs, requirements or preferences, our ability to remain competitive could be impaired;
- other risks and unforeseen events, including epidemics, pandemics or other outbreaks of illness, disease, or virus (such as the COVID-19 pandemic) and cybersecurity threats could adversely affect our business, operating results, and financial condition;
- we rely heavily on the services of our senior management team;
- one U.S. government customer accounts for a substantial portion of our revenue; and
- a delay in the completion of the U.S. Government's budget and appropriation process could delay procurement of solutions we provide and have an adverse effect on our future revenues.

Additional information concerning these, and other risks, is described in Part I, Item 1A, "Risk Factors" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Annual Report. We expressly disclaim any obligation to update any of these forward-looking statements, except to the extent required by applicable law.

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Part I

ITEM 1. BUSINESS

Unless the context otherwise requires, all references in this section to "we," "us" and "our" generally refer to ZeroFox Holdings, Inc. following the consummation of the Business Combination.

Overview

ZeroFox is a leading provider of SaaS-based external cybersecurity solutions. External cybersecurity focuses on exposing, disrupting, and responding to threats outside the traditional corporate perimeter. These are threats targeting organizations' growing public attack surface as well as broader external threats.

With digital transformation continuing to accelerate, the primary way that organizations interact and transact is now through digital channels and mediums. This has led to the proliferation of digital assets and data residing on external platforms that are outside the control of an organization. These external platforms include the surface web, deep and dark web, social media sites, collaboration platforms, code sharing sites, and mobile app stores (also referred to as "public attack service"). These external platforms are largely ungoverned, unmonitored, and unprotected by existing perimeter and internal security technologies. This public attack surface exposes organizations and their respective communities to threats to their organizations, brands, digital assets, and people. These threats include targeted phishing attacks, account takeovers, credential theft, data leakage, domain spoofing, and impersonations. The overall volume of external cyber threats targeting organizations in general continues to increase, driving a need for organizations to continuously monitor the external threat environment and incorporate threat intelligence into their security operations.

ZeroFox provides customers with an innovative, comprehensive, SaaS-based platform for external cybersecurity (our Platform) that protects organizations from threats outside the traditional corporate perimeter. Our Platform combines protection, intelligence, adversary disruption, and response services into an integrated solution.

Powered by patented technology and artificial intelligence innovations, our Platform collects and processes millions of pieces of content, rich media, posts, messages, global intelligence, and threat actor activity across the digital landscape, including social media sites, public, deep and dark web forums, mobile app stores, code repositories, representing thousands of digital platforms and discrete content sources. We apply advanced analytics to the data we collect and process to detect external threats to brands, people, systems, assets and data across a customer's public attack surface. Our adversary disruption services allow organizations to disrupt and remediate these threats.

As a result of internal efforts and our August 2022 acquisition of IDX, we also offer comprehensive response services, including breach response, incident response, and intelligence and investigative services. Our data breach solutions include prevention, detection, forensic services, notification, and recovery assistance. We also offer membership subscriptions that include credit and non-credit monitoring, prevention tools, and unlimited recovery assistance.

As a result of our April 2023 acquisition of LookingGlass, our Platform also includes threat intelligence and attack surface management capabilities. The integration of these capabilities into our Platform broadens our visibility into external attack surface and vulnerabilities, including improved actionable intelligence to disrupt emergent threats.

Industry Background

The focus of the cybersecurity industry has traditionally been protecting internal assets that are owned and controlled by the organization. Owned assets include laptops, networks, systems, and cloud workloads. With digital transformation continuing to accelerate, the primary way that companies interact and transact is now through digital channels and mediums.

An increasingly large number of businesses, including those in industries that were slower to adopt digital technologies, have adopted social media, mobile applications, and cloud computing resulting in more critical digital assets now residing outside of traditional firewalls. These organizations now offer mobile and web applications as a key driver of their revenue production in order to make customer access easier, transactions smoother, and their services more engaging. These same organizations have aggressively embraced social media and digital channels to interact and transact with customers, vendors, and partners.

The dramatic shift to digital channels has created an enormous digital footprint on the "public" internet, expanding the attack surface to include all externally available digital platforms. These public platforms are largely ungoverned, unmonitored, and unprotected by existing perimeter and internal security technologies.

Adversaries are increasingly targeting organizations' public attack surface which is reflected in increased threats including targeted phishing attacks, account takeovers, credential theft, data leakage, domain spoofing, and impersonations. All of these threats pose significant risk to organizations, their brands, and their assets. The volume of external cyber threats targeting organizations continues to increase, driving a need for organizations to continuously monitor the external threat environment and to incorporate threat intelligence into their security operations.

Protecting the public attack surface and defending against external threats is challenging. Organizations have limited visibility into their public attack surface. Traditional internal cybersecurity controls, including endpoint and perimeter solutions, do not provide visibility into or protection of the public attack surface and provide a limited view of the external threat environment. Continuously monitoring and protecting the public attack surface is difficult given its size and dynamic, unstructured nature. Additionally, many organizations continue to struggle with a scarcity of in-house cybersecurity expertise and resources.

We believe that securing the public attack surface and protecting organizations from external threats requires a platform-based approach that combines protection, intelligence, adversary disruption, and comprehensive response capabilities, including investigative, incident response and breach response services into a single solution. An external cybersecurity platform needs to provide continuous visibility into an organization's public attack surface and threat environment, continuous monitoring and protection, and the ability to take action to prevent attacks, limit exposure, remediate an incident, and disrupt an adversary. We believe protecting organizations from external threats, requires comprehensive response capabilities including investigative, incident response, and breach response services.

Our Solutions

We provide external cybersecurity solutions to customers around the world. Customers rely on us to address important cybersecurity problems and challenges that they face today and look for our guidance regarding the problems they will face tomorrow. Our Platform is a cloud-native enterprise software-as-a-service application focused on providing external cybersecurity teams with comprehensive solutions to address external cybersecurity threats and risks. Our Platform employs continuous digital identification and detection, comprehensive threat intelligence and persistent adversary disruption to support a wide variety of cybersecurity use cases that address pervasive business challenges. Our customers' adoption of the ZeroFox Platform often begins with the purchase of one or two core components and grows over time. Our Platform currently provides key capabilities across four strategic platform pillars: ZeroFox Protection, ZeroFox Intelligence, ZeroFox Disruption, and ZeroFox Response.

ZeroFox Protection: Powered by proprietary artificial intelligence, ZeroFox Protection gives customers real-time asset and vulnerability awareness of their external-facing internet accessible digital footprint and enables organizations to configure protective capabilities to continuously protect their external assets.

ZeroFox Protection provides technical capabilities to execute continuous attack surface identification and detection, which empowers the customer to gain an up-to-date picture of its internet accessible digital footprint. The digital presence typically includes social media accounts, collaboration platform accounts, domains, and internet-facing infrastructure, such as port, data, content, and images.

- Domains: continuous monitoring of newly registered or observed domains related to the customer's brands and continuous analysis of domains for malicious indicators is required to ensure capturing the domain when it is hosting malicious content, code, or payloads.
- Digital Platform Accounts: a catalog of owned digital accounts for brands, executives, individuals, locations, and products to adequately secure assets.
- Internet-accessible Infrastructure: ensures the mapping of the external internet facing infrastructure, externally-accessible networks and digital infrastructure components.
- Public, Private, and Proprietary Data, Content, and Images: the collection and analysis of data, content, images, and other information anywhere sensitive public, private, and proprietary information may reside on the internet to secure the customer's enterprise.

ZeroFox Protection's digital risk protection capabilities cast a digital net around owned assets across the internet including digital representations for the customer's brands, identities, systems, executives, accounts, domains, and mobile applications to secure their digital presence against targeted attacks, protect privacy, and decrease fraudulent activity across the internet.

ZeroFox Protection's capabilities include:

- Brand Protection: the intelligent identification of threats to brands to decrease the reach and efficacy of attacks.
- Domain Protection: the continuous scanning of the internet for malicious and infringing domains to decrease the risk of impersonating domains, phishing websites, and malicious URLs.
- Social Media Protection: the continuous monitoring of regional and global social media sites to detect malicious content and fraudulent profiles.

- Executive Protection: the enabling of comprehensive control and protection for an executive’s digital footprint to ensure it is free of impersonations, sensitive data leakage, and other cyber risks.
- Location Protection: continuous monitoring of the external threat environment to detect potential threats to physical locations.
- Dark Web Monitoring: continuous monitoring of the criminal underground and dark web to detect early warning signs of potential threats, compromised credentials for sale, and sensitive data leakage.

ZeroFox Intelligence: ZeroFox Intelligence provides customers with a broad array of global threat intelligence solutions that assist with predicting emerging new threat vectors. We provide threat intelligence solutions that enable customers to directly search across our data lake of global threat indicators, tactics, adversary intelligence, exploits, and vulnerabilities. Additionally, customers can request advanced cyber-criminal investigations or engagement, or customers can directly integrate data into their existing security tools to improve prevention, detection, investigations, and response efforts.

ZeroFox Intelligence's capabilities include:

- Intelligence Search: direct access to the ZeroFox data lake to search in real-time strategic, operational, and tactical global threat intelligence.
- Dark Ops Engagement: our multilingual research and intelligence team allows for embedded interaction across deep and dark web forums as a specialized capability that can be leveraged for advanced adversary investigation and disruption. This capability also allows us to use advanced tradecraft for human intelligence collection from hard-to-reach underground communities that then feeds into our Platform for additional context, analysis, and alerts.
- Intelligence Feeds: aggregated data of intelligence collections across the internet to ingest relevant threats and indicators of compromise findings into a customer’s technology stack.
- On-Demand Investigations: leverage ZeroFox’s intelligence team to conduct research and investigations targeted at specific organizational needs like persons of interest, executive threats, attack surface, and geopolitical incidents.
- Dedicated Analysts: supplement internal security teams with a dedicated threat intelligence analyst.

ZeroFox Disruption: ZeroFox Disruption leverages our Platform to report, block, and take down an attack’s core components across the internet. Disrupting threats often takes a significant amount of time and cost to comprehensively identify and then remove from the internet. We support customers by decreasing this significant cost through automation and leveraging technology-enabled solutions to report, block, sinkhole, and take down the components of an attack across the internet. By working with our Global Disruption Network, we are able to block and redirect traffic from malicious and nefarious locations. Our disruption capabilities also provide the ability to remove personally identifiable information from numerous data broker sites to disrupt phishing, social engineering attacks, doxxing, swatting, and impersonation attacks.

ZeroFox Disruption's capabilities include:

- Takedowns: a comprehensive, scalable, managed takedown service that removes offending or sensitive content on the customer’s behalf across social networks, mobile app stores, domains, data broker sites, and others with automated request submission.

- Global Disruption Network: distribution of threat indicators to our network of partners, including leading network providers, internet service providers, hosting providers, cloud providers, and content distribution networks, to block internet traffic from navigating to malicious locations across the web.

ZeroFox Response: ZeroFox Response enables organizations to provide the required 24x7 level of support necessary to quickly respond to cyber incidents including external attacks, data loss or exfiltration, ransomware, and potential breaches. With the global increase in computer generated information and data that is stored in the cloud, nearly every organization is more vulnerable to some level of external cyber threats and risk. These threats and risks are often exploited by persistent, malicious actors and criminals around the world, resulting in breaches, other types of disruption, or compromise of varying intensity and scale.

ZeroFox Response includes incident response services as well as a comprehensive data breach notification and response solution as a managed service for the breached enterprise. Our breach response solution is designed to comply with federal and state privacy and data breach notification laws and regulations in order to reduce overall risks to the breached enterprise. ZeroFox Response enables our customers to reduce overall enterprise risk by responding to these situations responsibly, in a timely manner, and in compliance with regulatory requirements.

ZeroFox Response's capabilities includes:

- Breach Notifications: in coordination with outside counsel and cyber insurers, our breach response service provides a dedicated project manager in order to ensure breach notification, information website, communications with the affected individuals, as well as enrollment in our SaaS solution that provides identity and privacy protection to the affected population.
- Identity and Privacy Services: in addition to providing response services, regulated enterprises are often required to provide ongoing protection services to compromised individuals to address their risks of harm. Our platform provides software to detect and address these risks, combined with complementary concierge-style services.
- Incident Response and Digital Forensics: leverage ZeroFox incident response experts to investigate and rapidly respond to security incidents.

Our Platform

The ZeroFox Platform is powered by patented artificial intelligence capabilities and is built on a modern, cloud-native technology architecture that supports our core capabilities and solutions. Our engineering teams, which are aligned by scrum development methodology, deploy code updates and improvements to our Platform on a continual delivery basis. Our customers and partners can easily use and implement integrations to our Platform with other vendors. This integrated ecosystem, which is built on top of our Platform APIs, enables us to extend an organization’s technology investment in ZeroFox, thereby maximizing our customers’ investments in other cybersecurity categories such as endpoint, network, identity, security event management, security orchestration and automation, and IT service management. Our App Library has hundreds of connected applications, or “apps”, that allow our customers to integrate our Platform into their operational and security processes. We also provide our Platform capabilities to customers via enterprise mobile apps available from the Google Play and Apple App Stores.

The ZeroFox Platform's transparent, artificial-intelligence-powered, engine curates content and distills the most critical issues of open source intelligence. We also leverage our research analysts to provide context and review of additional platforms, forums, and marketplaces to create a complete view of the threat landscape. Our customers' cybersecurity teams utilize this intelligence to make informed decisions regarding remediation actions.

The patented, artificial-intelligence-powered engines in the ZeroFox Platform enable automation and analysis-at-scale in several key areas. The ZeroFox Platform has implemented artificial intelligence capabilities in machine learning, natural language processing, computer vision, and deep learning. An example of our computer vision capabilities includes embedded image identification where we can train our algorithms to find images within images. This is particularly useful when looking for objects like company logos and credit cards. An additional example of our approach and implementation of advanced optical character recognition (OCR) enables us to extract characters and words regardless of language from images for further automated computer analysis. Our modular approach to artificial intelligence design and implementation has enabled us to use our components individually or in combination with each other to help address external cybersecurity challenges.

We employ a proprietary technology backend and have optimized our Platform to provide a customer-centric turnkey user experience from a customer's initial onboarding and configuration to ongoing use, reporting, analytics, and maintenance. Our platform can be quickly configured, effectively optimizing our customer's experience by minimizing their time-to-value and time to implement enhanced security controls.

Our around-the-clock OnWatch managed security team strives to become a natural extension of our customer's security operations center. The ZeroFox Platform is coupled with internal runbook integrations and workflows that enable global reach, response, and capacity. OnWatch teams are deployed in locations around the world to provide customers a prompt operational experience regardless of the time of day or night.

We have extended the ZeroFox App Library to integrate our Platform with the essential vendors within an organization's security and information technology tech stack. These integrations add value to our customers by providing enhanced visibility and threat intelligence context.

We expanded the capabilities of our Platform with the acquisition of IDX in August 2022. The integration of IDX's breach response solutions to our Platform provides a holistic offering to meet the growing demand for identity monitoring and breach response services.

Growth Strategy

We deliver exceptional and innovative external cybersecurity solutions that prioritize customer satisfaction and business resiliency. Embracing these priorities, we are pursuing the following growth strategies:

- **Drive new customer acquisition.** We believe that the market for external cybersecurity solutions is still emerging and that there is a significant opportunity to acquire new customers. We plan to drive new customer acquisition by continuing to expand our sales capacity, strengthening and expanding our channel partner relationships, and continuing to invest in marketing.

- **Increase adoption and platform usage by current customers.** We believe we have significant opportunities to expand our relationships with existing customers, including identifying and pursuing cross-sell opportunities with IDX customers. We plan to grow our business with existing customers by having them expand the use of our Platform to protect more assets and by having them adopt additional platform modules and services to address additional external cybersecurity use cases and security pain points.
- **Continue to innovate, enhance and expand our Platform.** We plan to continue to invest heavily in innovation to enhance and expand the capabilities of our Platform. We believe that expanding the capabilities of our Platform will further increase the value we provide to our customers and provide additional growth opportunities.
- **Expand high margin business.** We intend to focus on and continue to grow our higher margin enterprise platform subscription business in industry verticals that are experiencing the highest rates of cyberattacks.
- **Expand relationships with partners.** We also intend to continue to build our relationships with our channel partners, including Value-Added Resellers (VARs), Original Equipment Manufacturers (OEMs), distribution partners, cyber insurers, and breach response partners.
- **Expand our global footprint.** We intend to continue to grow our international customer base by increasing our investments in our international go-to-market efforts, operations, partners, and delivery capabilities.
- **Expand our total addressable market through strategic acquisitions.** We intend to complement our organic growth investments with strategic acquisitions in complementary technologies and markets to successfully execute on our long-term vision and platform strategy. We have proven our capability to identify, acquire, and integrate targets to expand our total addressable market, enhance our solution offering, and accelerate our growth.

Our Customers

As of January 31, 2024, we had over 1,300 subscription customers. We have key reference customers in many industry verticals including education, energy, entertainment, financial services, government healthcare, media, retail, services, and technology that we believe validate our solutions in the market. Our customers range from small and medium-sized organizations to Fortune 500 companies.

We have a single government customer that accounted for 35% of our revenue for fiscal year 2024. Excluding this customer, no single customer accounted for more than 5% percent of our revenue for fiscal year 2024.

Sales and Marketing

Our sales team is bifurcated into two sub-organizations: a new customer acquisition team and a customer success team. These teams are further structured into named-account sales teams that focus on targeted customer verticals, regions, and customer size. Most of our current business is in North America and as such, the team structure is proportionate in size and focus to the geographic distribution of our existing customer base. Members of the account management team are focused on creating successful customer outcomes, renewing customer subscriptions, and expanding platform adoption to drive customer upsell values.

In alignment with our corporate strategy, we are a channel-first organization. Our go-to-market strategy leverages our partner community to reach our desired customer cohorts. In North America, we generally rely on a single tier, value-added reseller and partner community. In other regions, we may employ a two-tiered approach by leveraging a network of distributors who then manage the various channel partners within desired territories or regions.

Our comprehensive marketing strategy focuses on an inbound marketing model designed to efficiently deliver high contact-to-opportunity conversion rates and pipeline velocity. We execute field, partner, and demand programs to drive ongoing engagement with prospects and leverage our sales development organization to mature those engagements into sales pipeline opportunities. Once prospects become customers, we continue engagement with solution-oriented content created by ZeroFox experts and executives through numerous collaboration channels designed to drive increased customer revenue and optimize our customers' long-term value. Additionally, we conduct webinars and podcasts, participate in cybersecurity industry events, and utilize our product marketing team to drive market awareness through thought leadership. The sophistication and experience of the ZeroFox threat intelligence enables us to package our thought leadership into daily and weekly threat intelligence reports, quarterly threat landscape reports, and annual threat reports. Other tactics leveraged to maximize inbound traffic include paid media, content syndication, social media, outbound campaigns, public relations, and remarketing advertising. These tactics frequently rely on the ZeroFox website to drive awareness, education, and opportunity conversion on the ZeroFox Platform's broad set of artificial intelligence capabilities. Furthermore, the website has been optimized to assist with lead conversion in mobile, tablet, and traditional desktop engagements. Marketing automation workflows continuously engage prospects throughout the buyers' journey with thought leadership and solution-centric content to advance their understanding of our Platform's value proposition.

Our global field and partner marketing strategy is designed to maximize the leverage of partner ecosystems and build brand engagement at regional and territory levels to drive and accelerate pipeline growth. We have strong participation in many prominent cybersecurity conferences and trade shows across many global geographies to expand our brand reach. In alignment with our sales approach, we have a channel-first sales and marketing strategy. We utilize technology-enabled communication and collaboration with partners at all sales lifecycle stages, from demand generation through technical validation and close. We believe that we have a state-of-the-art partner portal that allows global partners to take advantage of all aspects of our marketing strategy and content. The content on the partner portal provides partners with accelerated readiness through rapid product innovations to drive demand within their customer base and ensures their sales and technical teams are familiar with the latest capabilities of our Platform.

Research and Development

We devote significant resources to improve and enhance our solutions and maintain the effectiveness of our Platform. We work closely with our customers to gain valuable insights into their threat environments and security management practices to assist in designing new solutions and features that extend the capabilities of our Platform. Our engineering staff monitors and tests our software on a regular basis. We maintain a continuous integration and continuous delivery release framework to update and enhance our Platform and its modular capabilities. We can seamlessly deploy real-time upgrades with no downtime by leveraging our on-demand platform model.

Competition

The market for external cybersecurity solutions is competitive and characterized by rapid changes in technology, customer requirements, industry standards, and by frequent new product and service offerings and improvements. We see competition from the following categories:

- digital risk protection and threat intelligence providers such as Forta (through its acquisition of Phishlabs), Mimecast, Proofpoint, Recorded Future, Bolster, and Reliaquest (through its acquisition of Digital Shadows) who primarily focus on select niche sub-sector categories within security;
- broad infrastructure security vendors such as CrowdStrike, Fortinet, Palo Alto Networks, and Rapid7 (through its acquisition of IntSights), who are supplementing their traditional endpoint or network security solutions with threat intelligence solutions;
- broad technology providers, such as Google and Microsoft that continue to invest in adding cybersecurity capabilities to their offerings;
- data breach response services providers, such as Experian, Kroll, and Transunion, that have dedicated units focused on data breach response service offerings;
- identity and privacy identity protection providers such as NortonLifeLock, Experian, and Transunion who are focusing on driving consumer awareness and adoption of credit-related protection services; and
- managed security service and system integrator solution providers such as Secureworks (formerly Dell Secureworks), IBM, and Accenture who are using people to augment their combined technology offerings.

We believe that our external cybersecurity solutions offer advantages as compared to products offered by our competitors based on the following factors:

- ability of our Platform to address the entire external cybersecurity lifecycle with protection, intelligence, adversary disruption, and response associated with cyberattacks and incursions;
- ability of our artificial-intelligence powered platform and human threat intelligence team to acquire global data sets at scale on behalf of our customers;
- ability of our Platform and related service capabilities to assist our customers from the discovery of a potential cyber breach through notification and protection of the enterprise by ensuring compliance with federal and state privacy and breach response laws and regulations, as well as the risks of harm to those individuals impacted by the breach and compromise of personal information;
- ability of our Platform to leverage artificial intelligence to analyze data efficiently and effectively at scale to help customers achieve a wide variety of security protections;
- ability of our Platform’s App Library integrations to drive enhanced value to customers through partner technology workflow automation and enhanced data contextualization;
- ability of our Platform to drive in-platform policy orchestration enabling customers to automate ZeroFox-centric workflows; and
- ability of our Platform to provide full adversary kill chain disruption capabilities by automating the process for removal of malicious or infringing content and providing the ability to coordinate and/or integrate with several partners to disrupt cyberattacks.

Intellectual Property

The intellectual property rights we hold are a foundational asset in our portfolio and are core to our long-term strategy to create stockholder value. We rely on intellectual property protection under law (patents, trademarks, copyrights, and trade secrets) and leverage our rights through various agreements, including license agreements, confidentiality and non-disclosure agreements, employee non-disclosure, and assignment of inventions agreements. We believe all these intellectual property rights enable us to be a leading provider of innovative, cloud-based external cybersecurity solutions. We attract both customers and employee talent from our market leadership position in innovation.

From inception, we anchored our business' value proposition to the rapid creation of intellectual property; today this objective remains central to our Platform, capabilities, technology, service offerings and go-to-market strategy. Since then, we have ambitiously expanded our intellectual property portfolio by creating new inventions, tradecraft, and proprietary know-how stemming from our operational experience and research and development efforts.

The Company's subsidiaries collectively have 72 issued patents and 9 pending patent applications. These patents relate to a range of technologies and innovations including digital risk protection, threat intelligence, attack surface identification, cyber threat monitoring, breach response and privacy protection. The active patents are expected to expire between 2029 and 2042. We also own dozens of trademark registrations throughout the world and numerous registered domain names for websites that we use in our business, such as www.zerofox.com.

We will continue to invest in the innovation and development of our intellectual property portfolio through business acquisitions, technology alliance and strategic licensing relationships, and ongoing research and development. Our intellectual property rights will be at risk because invalidation, circumvention and third-party intellectual property claims, and litigation remain possible. In addition, our industry is competitive so the intellectual property created by our competitors could limit the adoption of our technologies and products.

We believe competitors may try to develop products that are similar to ours and that they may infringe our intellectual property rights. Competitors or other third parties may also claim that our Platform and other solutions infringe their intellectual property rights. Third parties may in the future assert claims of infringement, misappropriation, and other violations of intellectual property rights against us or our customers, with whom our agreements may obligate us to indemnify against these claims.

Despite our best efforts to protect and aggressively expand our intellectual property rights, there is always the potential that they may not be respected in the future or may be invalidated, circumvented, or challenged. The cybersecurity industry is characterized by the existence of a large and expanding number of patents and frequent claims and related litigation based on allegations of patent infringement or other violations of intellectual property rights. We believe our approach to constantly invest in intellectual property is a meaningful component of our corporate strategy to mitigate intellectual property risk and liability. As an organization, we may elect to protect our intellectual property rights and challenge our competitor's infringing use of such rights. Successful claims of infringement by a third party could prevent us from offering certain products or features, require us to develop alternate, non-infringing technology, which could require time and during which we could be unable to continue to offer our affected products or solutions, require us to obtain a license, which may not be available on reasonable terms or at all, or force us to pay damages, royalties, or other fees.

For additional information, see the section titled "Risk Factors-Risks Related to Legal and Regulatory Matters."

Backlog

We enter into both single and multi-year subscription contracts for our solutions. We generally invoice the entire amount at contract signing prior to commencement of the subscription period. Until such time as these amounts are invoiced, they are not recorded in deferred revenue or elsewhere in our consolidated financial statements and are considered backlog. As of January 31, 2024, we had $86.8 million in total deferred revenue, which excluded backlog of approximately $76.5 million. Of this amount, approximately $64.0 million is expected to be billed in fiscal year 2025. We expect backlog will change from period to period for several reasons, including the timing and duration of customer agreements, varying billing cycles of subscription agreements, and the timing and duration of customer renewals. Because revenue for any period is a function of revenue recognized from deferred revenue under contracts in existence at the beginning of the period, as well as new and renewing contracts during the period, backlog at the beginning of any period is not necessarily indicative of future revenue performance.

Human Capital

As of January 31, 2024, we employed 914 employees and 13 contractors. Our workforce is geographically distributed across the United States and various other locations around the world. None of our current employees are represented by a labor union and we have not experienced work stoppages. We consider our employee relations to be in good standing. We value our employees as a meaningful asset to our Company.

Attracting, Retaining, and Developing Talent

Our people team designs and implements key initiatives and employs business-driven human resources programs to recruit, hire, empower, develop, assess, and retain industry talent. First, we aim to build an effective team by leveraging our global footprint to find the right people, in the right geographies and place them into the right roles. Next, we empower employees to take ownership in their work while providing them with the tools, resources, and time to do their jobs well. We invest in our staff, offering coaching, training, and other support to develop short and long-term skills and provide them with opportunities for career growth. Our semi-annual performance management cycle, which is purposefully decoupled from compensation discussions to encourage non-biased dialogue, encompasses both look back and look ahead elements to celebrate success, make improvements, and develop competencies to address future business needs.

Diversity and Inclusion

Our corporate culture is built on the goal of creating a diverse and inclusive environment where employees’ unique opinions and feedback are respected, desired, and acted upon. As a team, employees constantly collaborate and work together to set policy, communicate openly, and drive an environment of transparency. For example, we frequently have global town hall meetings where the agenda is set by employees, hosted by employees that volunteer to emcee each event, and where multiple regions and business units share their achievements and successes.

Each global town hall has a segment referred to as "Fellow Foxes", where employees have the opportunity to thank and recognize their peers anonymously or openly in front of the entire company. It is not uncommon to see dozens of Fellow Foxes recognized in a single town hall; Fellow Foxes love to work hard and recognize their teammates.

The Fellow Foxes practice is an example of the framework and value system that has been built to recognize and reward employees based upon meritocracy. We believe that most talent not only wants to be listened to but also challenged and rewarded where they can rise to their full potential and deliver their top performance in a healthy, fun work environment. Our workforce's ability to execute relentlessly in pursuit of company objectives is both a primary differentiator and a critical component contributing to our success.

To ensure that we retain a highly capable workforce that represents a variety of diverse backgrounds and complies with contractual obligations and local compliance regulations, we regularly benchmark our program against industry standards, diversity objectives, and key employee drivers.

Employee Health & Safety / COVID-19

We are committed to protecting the physical well-being of our employees, families, and customers. To address the evolving complexities introduced by COVID-19, we have taken and will continue to take multiple steps to promote safety, realign workforce planning strategy, and support employee needs while continuing to drive customer satisfaction. We regularly review and update our health and safety plan based on guidelines, rules and capabilities issued by local, regional, and countrywide healthcare organizations. At present, a large majority of employees work from home. In select geographies some employees can optionally work out of a local office in a hybrid environment, and there is another group of employees that work primarily in the office. Concurrently, we have used a phased approach that entails re-classifying ongoing work locations across all roles and implementing a flexible hybrid work model where appropriate.

While onsite, we have protocols in place to help keep employees, customers, and other visitors safe. We exercise an abundance of caution where safety is concerned and are ultimately prepared, resourced and equipped to exceed customer expectations, whether working onsite or remote.

Government Regulation

As a provider of external cybersecurity solutions, our business is subject to a variety of domestic and international laws and regulations relating to the collection, use, retention, protection, transfer, and processing of business data, personal data, and other sensitive information. Certain aspects of our offerings may involve access to and use of personally identifiable information and other sensitive data. The nature of cybersecurity products, identity offerings, and related services requires the collection of various types of data. In the operation of our business, we may collect the types of data covered by these laws and regulations including personally identifiable information, information about an individual's health and financial information about individuals. To the extent we are in possession of such data and these various laws and regulations are determined to apply to us, this could require us to adopt additional operational, technological and security measures to protect and manage such information which could increase our costs of operations. Our failure to comply with such laws and regulations could also result in monetary fines and damage to our reputation which would have a negative impact on our business. These laws and regulations include, but are not limited to, GDPR, CCPA, CPRA, the Electronic Communication Privacy Act ("ECPA"), Computer Fraud and Abuse Act ("CFAA"), the Gramm-Leach-Bliley Act ("GBLA"), and the HIPAA/HITECH Act. In addition to these, other laws and regulations relating to cloud computing, cross-border data transfer restrictions, data collection and data localization may apply to our business as we expand outside of the U.S. market.

Our business is also subject to laws relating to import and export control such as U.S. export licensing requirements, trade and economic sanctions administered by the U.S. Office of Foreign Assets Control and anti-bribery laws such as the FCPA and the U.K. Anti-Bribery Act.

We believe that we are in material compliance with the laws and regulations that are applicable to us.

Many of these laws and regulations, such as those related to data protection and privacy, are frequently being revised and new laws in different jurisdictions are being adopted. Therefore, we must continually evolve our business practices to satisfy these regulatory obligations. We have policies and procedures that we rely on to satisfy these requirements and are transparent with our customers regarding our business practices, product features, and types of data that are collected when a customer uses our security solutions. In addition to the existing regulatory framework applicable to our business, some governments are considering whether to take a more active role in regulating the cybersecurity industry and, in the U.S., there are efforts to have the federal government regulate digital platform companies. New regulations in these two areas could impact our go-to-market model. Therefore, we keep abreast of these potential changes and how they may impact our business.

See the section titled “Risk Factors” for additional information about the laws and regulations we are subject to and the risks of our business associated with such laws and regulations.

Corporate Information

ZeroFox Holdings, Inc. is a holding company incorporated in the state of Delaware. ZeroFox Holdings, Inc. was formerly known as L&F Acquisition Corp. (L&F) and was a blank check, Cayman Islands exempted company, incorporated on August 20, 2020. The Company conducts its business through its wholly-owned, consolidated subsidiaries, primarily ZeroFox, Inc. and Identity Theft Guard Solutions, Inc., and Lookingglass Cyber Solutions, Inc.

On August 3, 2022, L&F, ZeroFox, Inc., and ID Experts Holdings, Inc. (IDX), consummated the Business Combination as contemplated by the Business Combination Agreement, dated as of December 17, 2021. In connection with the finalization of the Business Combination, L&F changed its name to ZeroFox Holdings, Inc. and changed its jurisdiction of incorporation from the Cayman Islands to the state of Delaware and changed its fiscal year end to January 31.

On April 21, 2023, the Company completed the acquisition of Lookingglass Cyber Solutions, Inc. ("LookingGlass"), a privately-held software company.

Our principal executive offices are located at 1834 S. Charles Street, Baltimore, Maryland 21230, and our telephone number is (855) 936-9369. Our website is www.zerofox.com. The information found on or that can be accessed from or that is hyperlinked to our website is not part of this Annual Report on Form 10-K.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports are filed with the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 (the Exchange Act). Such reports and other information filed or furnished by us with the SEC are available free of charge on our website at https://ir.zerofox.com/ as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. The SEC maintains a website that contains the materials we file with or furnish to the SEC at www.sec.gov.

Investors and other interested parties should note that we use our media and investor relations website and our social media channels to publish important information about us, including information that may be deemed material to investors. We encourage investors and other interested parties to review the information we may publish through our media and investor relations website and the social media channels listed on our media and investor relations website, in addition to our SEC filings, press releases, conference calls, and webcasts.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. Before making an investment decision, you should consider carefully the risks and uncertainties described below. Our business, operating results, financial condition, and prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material. If any of the risks actually occur, our business, operating results, financial condition, and prospects could be adversely affected. In that event, the market price of our Common Stock and Warrants could decline, and you could lose part or all of your investment.

Summary of Risk Factors

Our business is subject to numerous risks and uncertainties, including those outside of our control, that could cause our actual results to be harmed. These risks include the following:

- Failure to complete, or delays in completing, the proposed Merger with Parent and Merger Sub announced on February 6, 2024 and disruptions in our business caused by the proposed Merger could materially and adversely affect or results of operations, business, financial results, and stock price.
- We cannot be sure if or when the Merger will completed.
- Lawsuits may be filed against us and the members of our Board arising out of the proposed Merger, which delay or prevent the proposed Merger.
- Defects, errors, or vulnerabilities in our Platform, the failure of our Platform to block malware or prevent a security breach, misuse of our Platform, or risks of product liability claims would harm our reputation and adversely impact our business, operating results, and financial condition.
- If our enterprise platform offerings do not interoperate with our customers' network and security infrastructure, or with third-party products, websites or services, our results of operations may be harmed.
- We may not timely and cost-effectively scale and adapt our existing technology to meet our customers' performance and other requirements.
- Our success depends, in part, on the integrity and scalability of our systems and infrastructure. System interruption and the lack of integration, redundancy and scalability in these systems and infrastructure may adversely affect our business, financial condition, and results of operations.
- We (including the Predecessor and the Successor) have a history of losses and we may not be able to achieve or sustain profitability in the future.
- If organizations do not adopt external cybersecurity solutions that may be based on new and untested security concepts, our ability to grow our business and results of operations may be adversely affected.

- We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition, and results of operations.
- Adverse general and industry-specific economic and market conditions and reductions in customer spending, in either the private or public sector, including as a result of geopolitical uncertainty such as the war in Ukraine and the Israel-Hamas war, may reduce demand for our Platform or products and solutions, which could harm our business, financial condition and results of operations.
- We have previously reported material weaknesses in our internal control over financial reporting that have been remediated, but if we fail to properly manage our internal control over financial reporting on a go forward basis, future material weaknesses could be identified that could result in a material misstatement in our financial statements.
- If we fail to adapt to rapid technological change, evolving industry standards and changing customer needs, requirements or preferences, our ability to remain competitive could be impaired.
- We rely heavily on the services of our senior management team, and if we are not successful in attracting or retaining senior management personnel, we may not be able to successfully implement our business strategy.
- One U.S. government customer accounts for a substantial portion of our revenue. If our relationship with our largest customer is impaired or terminated, our revenue would decline, and our business, financial condition, and results of operations would be adversely affected.
- A delay in the completion of the U.S. Government’s budget and appropriation process could delay procurement of solutions we provide and have an adverse effect on our future revenues.
- Our issued and outstanding notes may impact our financial results, result in the dilution of our stockholders, create downward pressure on the price of our Common Stock, and restrict our ability to raise additional capital or take advantage of future opportunities.
- We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes in cash, repurchase the Convertible Notes upon a fundamental change or repay the Convertible Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion, redemption or repurchase of the Convertible Notes.
- We may need to raise additional capital to maintain and expand our operations and invest in new solutions, which capital may not be available on terms acceptable to us, or at all, and which could reduce our ability to compete and could harm our business.
- The integration of two companies with different organization and compensation structures presents significant management challenges. There can be no assurance that this integration, and the synergies expected to result from that integration, will be achieved as rapidly or to the extent currently anticipated.
- We will incur significant increased expenses and administrative burdens as a public company, which could negatively impact our business, financial condition, and results of operations.
- Our management has limited experience in operating a public company.

Risks Related to the Proposed Merger

Failure to complete, or delays in completing, the proposed Merger with affiliates of Haveli Investments or disruptions in our business caused by the proposed Merger could materially and adversely affect our results of operations, business, financial results, and stock price.

On February 6, 2024, we entered into an Agreement and Plan of Merger (the "Haveli Merger Agreement") with ZI Intermediate II, Inc., a Delaware corporation ("Parent") and HI Optimus Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent ("Merger Sub") pursuant to which, if all of the conditions to closing are satisfied or, if permitted, waived, we will become a wholly-owned subsidiary of Parent (the "Merger"). The completion of the Merger is subject to the satisfaction or waiver of certain customary mutual closing conditions set forth in the Haveli Merger Agreement, including (a) the adoption of the Haveli Merger Agreement by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock (the "Company Stockholder Approval") and (b) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and receipt of approval, clearance or expiration of the applicable review periods under the United Kingdom's National Security and Investment Act 2021, as amended (the "NSI Act"). The obligation of each party to consummate the Merger is also conditioned on, among other things, the other party's representations and warranties being true and correct (subject to certain customary materiality exceptions) and the other party having performed in all material respects its obligations under the Haveli Merger Agreement, and the obligation of Parent to consummate the Merger is additionally conditioned on no material adverse effect on the Company having occurred since the execution of the Haveli Merger Agreement that is continuing. We cannot predict with certainty whether or when the required closing conditions will be satisfied and cannot assure you that we will be able to successfully consummate the proposed Merger as currently contemplated under the Haveli Merger Agreement or at all.

Risks related to the proposed Merger include, but are not limited to, the following:

- under some circumstances, we may be required to pay Parent a termination fee of $5,261,750;
- we will remain liable for significant expenses, including transaction, professional services and other costs relating to the Merger regardless of whether or not the Merger is consummated;
- the attention of our management and employees may have been diverted to the Merger rather than to our own operations and the pursuit of other opportunities that could have been beneficial to us and could continue to be so diverted;
- we could be subject to litigation related to the Merger, including with respect to our entry into the Haveli Merger Agreement;
- the potential loss of key personnel during the pendency of the Merger as employees and other service providers may experience uncertainty about their future roles with us following completion of the Merger; and
- under the Haveli Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Merger, which restrictions could adversely affect our ability to conduct our business as we otherwise would have done if we were not subject to these restrictions.

The occurrence of any of these events individually or in combination could materially and adversely affect our results of operations, business and stock price or market price of our warrants.

We cannot be sure if or when the Merger will be completed.

The consummation of the Merger is subject to the satisfaction or waiver of various conditions, including obtaining the Company Stockholder Approval and the receipt of certain required regulatory approvals. We cannot guarantee that the closing conditions set forth in the Haveli Merger Agreement will be satisfied. If we are unable to satisfy the closing conditions or if other closing conditions are not satisfied, Parent will not be obligated to complete the Merger.

Until the Merger is completed, the Haveli Merger Agreement restricts us from taking specified actions without the consent of the other party and generally requires us to operate in the ordinary course of business consistent with past practice. These restrictions may prevent us from making appropriate changes to our business or pursuing attractive business opportunities that may arise prior to the completion of the Merger.

Uncertainty about the Merger may adversely affect our business and our relationships with employees, customers, suppliers and others with whom we do business, and the Merger may disrupt our current plans and operations or divert management's attention away from ongoing business opportunities and operational matters.

Uncertainty about the completion or effect of the Merger may affect the relationship between us and our employees, clients and suppliers, which may have an adverse effect on our business, financial condition and results of operations. These uncertainties may cause clients, suppliers and others that deal with us to seek to change existing business relationships and to delay or defer decisions concerning us. Changes to existing business relationships, including termination or modification, could negatively affect our revenues, earnings and cash flow, as well as the market price of our common stock or warrants. Parent may terminate the Haveli Merger Agreement under certain circumstances, including if there is a material adverse change in our business. If that were to happen, we may not be entitled to a termination fee under the Haveli Merger Agreement, or the applicable termination fee may be insufficient to compensate us.

In addition, we are dependent on the experience and industry knowledge of our officers, key management personnel and other key employees to operate our business and execute our business plans. Our current and prospective employees may experience uncertainty about their roles following the Merger, which may have an adverse effect on our ability to attract or retain key management personnel and other key employees. Our business could be negatively impacted if key employees depart because of issues related to the uncertainty and difficulty of integration or a desire not to remain with the business if the Merger is not consummated. Adverse effects arising from the pendency of the Merger could be exacerbated by any delays in consummation of the Merger or termination of the Haveli Merger Agreement.

The Haveli Merger Agreement contains provisions that could discourage or deter a potential alternative purchaser that might otherwise have an interest in a business combination with us.

The Haveli Merger Agreement contains provisions that may discourage a third party from submitting an alternative proposal to us during the pendency of the proposed Merger as well as afterward, should the Merger not be consummated, that might result in greater value to our shareholders than the Merger. These provisions include a prohibition on soliciting or entering into discussions with any third party regarding any alternative proposals, subject to limited exceptions. However, our Board of Directors is permitted to take certain actions that it believes in good faith, after consultation with its advisors, the failure of which to take would reasonably be expected to be inconsistent with its fiduciary duties.

In addition, we may be required to pay to Parent a termination fee in cash equal to $5,261,750 in certain circumstances involving acquisition proposals for competing transactions.

If the Haveli Merger Agreement is terminated and we determine to seek another strategic transaction, we may not be able to negotiate a transaction on terms comparable to, or better than, the terms of the proposed Merger.

Lawsuits may be filed against us and the members of our Board arising out of the proposed Merger, which may delay or prevent the proposed Merger.

Putative stockholder complaints, including stockholder class action complaints, and other complaints may be filed against us, or our Board, and others in connection with the transactions contemplated by the Haveli Merger Agreement. The outcome of litigation is uncertain, and we may not be successful in defending against any such future claims. Lawsuits that may be filed against us, our Board, or against Parent or Merger Sub could delay or prevent the Merger, divert the attention of our management and employees from our day-to-day business and otherwise adversely affect us financially.

Risks Related to Our Technology, Products and Solutions

Defects, errors, or vulnerabilities in our Platform, the failure of our Platform to prevent a security incident, misuse of our Platform, or risks of product liability claims would harm our reputation and adversely impact our business, operating results, and financial condition.

Our Platform provides our customers with the ability to customize a multitude of settings and it is possible that a customer could misconfigure our Platform or otherwise fail to configure our products in an optimal manner. Such defects and misconfigurations of our Platform could cause our Platform to operate at suboptimal efficacy and increase the risk of cyberattacks on our customers. In addition, because the techniques used by computer hackers to access or sabotage target computing environments change frequently and generally are not recognized until launched against a target, there is a risk that an advanced attack could emerge that we do not anticipate and that our Platform is unable to detect or prevent.

Our Platform is multi-faceted and may be deployed with material defects, software “bugs” or errors that are not detected until after commercial release and deployment to our customers. Errors or defects may be more likely when a product is first introduced or as new versions are released, or when we introduce an acquired company's products. We have experienced these errors or defects in the past in connection with new products, acquired products and product upgrades and we expect that these errors or defects will be found from time to time in the future in new, acquired or enhanced products after commercial release. Defects may cause our products to be vulnerable to attacks and cause them to fail to detect threats. Any errors, defects, disruptions in service or other performance problems with our products may damage our customers’ businesses and could hurt our reputation. If our Platform fails to detect threats for any reason, we may incur significant costs, the attention of our key personnel could be diverted, our customers may delay or withhold payment to us or elect not to renew or other significant customer relations problems may arise. We may also be subject to liability claims for damages related to errors or defects in our products. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our products may harm our business and operating results. Limitation of liability provisions in our standard terms and conditions and our other agreements may not adequately or effectively protect us from any claims or liabilities related to errors or defects in our solutions.

If our Platform fails to detect threats in our customers’ cybersecurity infrastructure, or if our Platform fails to identify and respond to new and increasingly complex methods of cyber-attacks, our business and reputation may suffer. There is no guarantee that our Platform will detect all cyber threats, especially in light of the rapidly changing security landscape to which we must respond, including the constantly evolving techniques used by attackers to access or sabotage data. If we fail to update our Platform in a timely or effective manner to respond to these threats, our customers could experience security incidents with negative consequences. Many federal, state and foreign governments have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security incident often lead to widespread negative publicity, and any association of us with such publicity may cause our customers to lose confidence in the effectiveness of our Platform. An actual or perceived security breach or theft of sensitive data of one of our customers, regardless of whether the breach is attributable to the failure of our Platform, could adversely affect the market’s perception of our offerings and subject us to legal claims.

As a cybersecurity provider, we have been, and expect to continue to be, a target of cyberattacks. If our or our service providers' internal networks, systems, or data are or are perceived to have been compromised, our reputation may be damaged and our financial results may be negatively affected.

As a well-known provider of external cybersecurity products and solutions, we may in the future be specifically targeted by bad actors for attacks intended to circumvent our security capabilities or to exploit our Platform as an entry point into customers' endpoints, networks, or systems. The risk of cybersecurity attacks related to political and economic conditions, war, and terrorism may increase, including from retaliatory cybersecurity attacks as a result of Russia's invasion of Ukraine, the Israel-Hamas War, and related political, economic and counter-responses. In addition, defects or errors in our Platform could result in a failure to effectively alert customers of potential threats. Our data centers and platform may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing customer base, any of which could temporarily or permanently reduce the efficacy of our solutions and expose our customers to cyber threats. Any of these situations could result in negative publicity to us, damage our reputation, and increase expenses and customer relations issues, which would adversely impact our business, financial condition, and operating results.

Advances in computer capabilities, discoveries of new weaknesses and other developments with software generally used by the internet community may increase the risk we will suffer a security breach. Furthermore, our Platform may fail to detect malware, ransomware, viruses, worms or similar threats for any number of reasons, including our failure to enhance and expand our Platform to reflect industry trends, new technologies and new operating environments, the complexity of the environment of our customers and the sophistication of malware, viruses and other threats. We or our service providers may also suffer security breaches or unauthorized access to personal information, financial account information, and other confidential information due to employee error, rogue employee activity, or unauthorized access by third parties either by mistake or acting with malicious intent. If we experience any breaches of security measures or sabotage or otherwise suffer unauthorized use or disclosure of, or access to, personal information, financial account information or other confidential information, we might be required to expend significant capital and resources to address these problems. We may not be able to remedy any problems caused by hackers or other similar actors in a timely manner, or at all. Any real or perceived defects, errors or vulnerabilities in our Platform, or any other failure of our Platform to detect an advanced threat, could result in:

- a loss of existing or potential customers;
- delayed or lost revenue and adverse impacts to our business, financial condition, and operating results;
- a delay in attaining, or the failure to attain, market acceptance;
- the expenditure of significant financial and research and development resources in efforts to analyze, correct, eliminate, or work around errors or defects, and address and eliminate vulnerabilities;
- an increase in resources devoted to customer service and support, which could adversely affect our gross margin;
- harm to our reputation or brand; and

- claims, litigation, regulatory inquiries, investigations, or enforcement actions, and other claims and liabilities, all of which may result in liabilities to us and be costly and burdensome and further harm our reputation.

If a high-profile cybersecurity incident occurs with respect to another SaaS provider, customers may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing customers or attract new ones. In the last few years there have been many successful advanced external cybersecurity incidents that have damaged several prominent companies in spite of strong information security measures. We expect that the risks associated with cybersecurity incidents and the costs of preventing such external cybersecurity attacks will continue to increase in the future.

We cannot assure you that any limitation of liability provisions in our customer agreements, contracts with third-party vendors and service providers, or other contracts would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim relating to a breach of contract, security breach or other security-related matter as a result of federal, state, or local laws or ordinances, or unfavorable judicial decisions in the U.S. or other countries.

While we maintain insurance policies that may cover certain liabilities in connection with a cybersecurity incident, we cannot be certain that our insurance coverage will be adequate for liabilities actually incurred, that insurance will continue to be available to us on commercially reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, results of operations and reputation. Even claims that ultimately are unsuccessful could result in our expenditure of significant funds in litigation, divert management’s time and other resources, and harm our reputation.

If our enterprise platform offerings do not interoperate with our customers' network and security infrastructure, or with third-party products, websites or services, our results of operations may be harmed.

Our enterprise product offerings must interoperate with our customers' existing network and security infrastructure. These complex systems are developed, delivered, and maintained by the customer, their employees and a myriad of vendors and service providers. As a result, the components of our customers' infrastructure have different specifications, rapidly evolve, utilize multiple protocol standards, include multiple versions and generations of products and may be highly customized. Our Platform must be able to interoperate with highly complex and customized networks, which requires careful planning and execution between our customers, our customer support teams and our channel partners. Further, when our customers add new or updated elements to their infrastructure, when new usage trends emerge (such as remote work), or new industry standards or protocols are introduced, we may have to update or enhance our Platform and our other solutions to allow us to continue to provide service to customers. Our competitors or other vendors may refuse to work with us to allow their products to interoperate with our solutions, which could make it difficult for our Platform to function properly in customer networks that include these third-party products.

We may not deliver or maintain interoperability quickly, cost-effectively, or at all. These efforts require capital investment and engineering resources. If we fail to maintain compatibility of our Platform and solutions with our customers' network and security infrastructures, our customers may not be able to fully utilize our products and solutions, and we may, among other consequences, lose or fail to increase our market share and experience reduced demand for our services, which would materially harm our business, operating results, and financial condition.

We may not timely and cost-effectively scale and adapt our existing technology to meet our customers' performance and other requirements.

Our future growth is dependent upon our ability to continue to meet the needs of new customers and the expanding needs of our existing customers as their use of our products and solutions grow. As our customers gain more experience with our products and solutions, the amount of data transferred, processed and stored by us, the number of locations where our Platform and services are being accessed, have in the past, and may in the future, expand rapidly. In order to meet the performance and other requirements of our customers, we intend to continue to make material investments to increase capacity and to develop and implement new technologies in our service and cloud infrastructure operations. These technologies, which include databases, applications and server optimizations, network and hosting strategies, and automation, are often advanced, complex, new, and untested. We may not be successful in developing or implementing these technologies. In addition, it takes a significant amount of time to plan, develop, and test improvements to our technologies and infrastructure, and we may not be able to accurately forecast demand or predict the results we will realize from such improvements. To the extent that we do not effectively scale our operations to meet the needs of our growing customer base and to maintain performance as our customers expand their use of our products and solutions, we may not be able to grow as quickly as we anticipate, our customers may reduce or cancel use of our solutions and we may be unable to compete as effectively, and our business and results of operations may be harmed.

Our success depends, in part, on the integrity and scalability of our systems and infrastructure. System interruption and the lack of integration, redundancy, and scalability in these systems and infrastructure may adversely affect our business, financial condition, and results of operations.

Our success depends, in part, on our ability to maintain the integrity of our systems and infrastructure, including websites and related systems. System interruption and a lack of integration and redundancy in our information systems and infrastructure may adversely affect our ability to operate our Platform, respond to customer inquiries, and generally maintain cost-efficient operations. We may experience occasional system interruptions that make some or all systems or data unavailable or prevent us from efficiently providing access to our Platform.

Our ability to introduce new products and solutions and features is dependent on adequate research and development resources and our ability to successfully complete acquisitions. If we do not adequately fund our research and development efforts or complete acquisitions successfully, we may not be able to compete effectively and our business, financial condition, and results of operations may be harmed.

To remain competitive, we must continue to offer new products and solutions and enhancements to our existing platform. This is particularly true as we further expand and diversify our capabilities. Maintaining adequate research and development resources, such as the appropriate personnel and development technology, to meet the demands of the market is essential. We may also choose to expand into a certain market or strategy via an acquisition for which we could potentially pay too much or fail to successfully integrate into our operations.

Further, many of our competitors expend a considerably greater amount of funds on their respective research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. Our failure to maintain adequate research and development resources or to compete effectively with the research and development programs of our competitors would give an advantage to such competitors and our business, financial condition, and results of operations could be adversely affected. Moreover, there is no assurance that our research and development or acquisition efforts will successfully anticipate market needs and result in significant new marketable solutions or enhancements to our existing platform and solutions, design improvements, cost savings, revenue, or other expected benefits. If we are unable to generate an adequate return on such investments, we may not be able to compete effectively and our business, financial condition, and results of operations may be materially and adversely affected.

We rely on third-party cloud providers to host and operate our Platform, and any disruption of or interference with our use of these facilities or technologies may negatively affect our ability to maintain the performance and reliability of our Platform which could cause our business to suffer.

Our customers depend on the continuous availability of our Platform. We currently host our Platform and serve our customers using a mix of third-party cloud providers. Consequently, we may be subject to service disruptions as well as failures to provide adequate support for reasons that are outside of our direct control. We have experienced and expect that in the future we may experience interruptions, delays, and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions, and capacity constraints.

The following factors, many of which are beyond our control, can affect the delivery, platform availability, and the performance of our products:

- the development and maintenance of the infrastructure of the internet;
- the performance and availability of third-party providers of cloud infrastructure services, with the necessary speed, data capacity and security for providing reliable internet access and services;
- decisions by the owners and operators of service providers where our cloud infrastructure is deployed to terminate our contracts, discontinue services to us, shut down operations or facilities, increase prices, change service levels, limit bandwidth, declare bankruptcy or prioritize the traffic of other parties;
- physical or electronic break-ins, acts of war or terrorism, human error or interference (including by disgruntled employees, former employees or contractors) and other catastrophic events;
- external cyberattacks, including denial of service attacks, targeted at us or the infrastructure of the internet;
- failure by us to maintain and update our cloud infrastructure to meet our data capacity requirements;
- errors, defects or performance problems in our software, including third-party software incorporated in our software;
- improper deployment or configuration of our solutions;
- the failure of our redundancy systems, in the event of a service disruption at one of our data centers, to provide failover to other data centers in our data center network;
- the failure of our disaster recovery and business continuity arrangements; and
- availability to acquire and source data.

The adverse effects of any service interruptions on our reputation, results of operations, and financial condition may be disproportionately heightened due to the nature of our business and the fact that our customers have a low tolerance for interruptions of any duration. Interruptions or failures in our service delivery could result in a cyberattack or other security threat to our customers during such periods of interruption or failure. Additionally, interruptions or failures in our service could cause customers to terminate their subscriptions with us, adversely affect our renewal rates, and harm our ability to attract new customers. Our business would also be harmed if our customers believe that a cloud-based SaaS-delivered security solution is unreliable. We have experienced, and may in the future experience, service interruptions and other performance problems due to a variety of factors. The occurrence of any of these factors, or if we are unable to rapidly and cost-effectively fix such errors or other problems that may be identified, could damage our reputation, negatively affect our relationship with our customers or otherwise harm our business, results of operations, and financial condition.

In addition, because of the importance of cloud services to our business and our cloud providers' positions in the cloud-based server industry, any renegotiation or renewal of our agreements may be on terms that are significantly less favorable to us than our current agreements. If our cloud-based server costs were to increase, our business, results of operations, and financial condition may be adversely affected. Although we expect that we could receive similar services from other cloud providers, if any of our arrangements with our cloud providers are terminated, we could experience interruptions on our Platform and in our ability to make our products and solutions available to customers, as well as delays and additional expenses in arranging alternative cloud infrastructure services. Ongoing improvements to cloud infrastructure may be more expensive than we anticipate and may not yield the expected savings in operating costs or the expected performance benefits. In addition, we may be required to re-invest any cost savings achieved from prior cloud infrastructure improvements in future infrastructure projects to maintain the levels of service required by our customers. We may not be able to maintain or achieve cost savings from our investments, which could harm our financial results.

We rely on data, software and services from other parties. Defects in or the loss of access to software or services from third parties could increase our costs and adversely affect the quality of our solutions.

We rely on third-party computer systems, broadband and other communications systems and service and data providers to provide customers with access to our Platform. Any interruptions, outages or delays in our systems, infrastructure or business, or the systems, infrastructure, or business of such third parties, or deterioration in the performance of these systems and infrastructure, could impair our ability to provide access to our Platform. Our business would be disrupted if any of the third-party software, data or services we utilize, particularly with respect to third-party software, data or services embedded in our solutions, or functional equivalents thereof, were unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices or at all.

In each case, we would be required to either seek licenses to software, data or services from other parties and redesign our solutions to function with such other parties' software, data or services or develop these components ourselves, which would result in increased costs and could result in delays in our solution and solution package launches and the release of new solution and solution package offerings until equivalent technology can be identified, licensed or developed, and integrated into our solutions. Furthermore, we might be forced to limit the features available in our current or future solutions. If these delays and feature limitations occur, our business, results of operations, and financial condition could be adversely affected.

Risk Factors Related to our Business and Industry

ZeroFox has a history of losses and we may not be able to achieve or sustain profitability in the future.

The Predecessor incurred net losses in all periods since its inception, including net losses of $38.4 million, $22.7 million, and $22.7 million for fiscal 2022, 2021, and 2020, respectively. The Successor experienced a net loss of $720.6 million for the Successor Period and $356.3 million for the year ended January 31, 2024. As of January 31, 2024, ZeroFox had an accumulated deficit of $1.1 billion. Following the Business Combination, we cannot predict when or whether we will reach or maintain profitability. We also expect that our operating expenses will increase over our historical expenses in the future as we continue to invest for future growth, including expanding our research and development activities to enhance our Platform, expanding our sales and marketing activities and reaching customers in new geographic locations, which will negatively affect our operating results if our total revenue does not increase. We cannot assure you that these investments will result in substantial increases in our revenue or improvements in our operating results. In addition to the anticipated costs to grow our business, we also expect to incur significant additional legal, accounting, and other expenses as a newly public operating company. Any failure to increase our revenue as we invest in our business or to manage our costs could prevent us from achieving or maintaining profitability.

If we are not able to maintain and enhance our brand and our reputation as a provider of external cybersecurity products and solutions, our business and results of operations may be adversely affected.

We believe that maintaining and enhancing our brand and our reputation as a provider of external cybersecurity products and solutions is critical to our relationship with existing customers, channel partners, and technology alliance partners and our ability to attract new customers and partners. The successful promotion of our brand will depend on a number of factors, including our marketing efforts, our ability to continue to develop additional features for our Platform and our ability to successfully differentiate our Platform from competitive cloud-based or legacy security solutions. Although we believe it is important for our growth, our brand promotion activities may not be successful or yield increased revenue.

In addition, independent industry or financial analysts and research firms often test our products and solutions and provide reviews of our Platform, as well as the products of our competitors, and the perception of our Platform in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products, our brand may be adversely affected. Our products and solutions may fail to detect or prevent threats in any particular test for a number of reasons that may or may not be related to the efficacy of our products and solutions in real world environments. To the extent potential customers, industry analysts or testing firms believe that the occurrence of a failure to detect or prevent any particular threat is a flaw or indicates that our products and solutions or services do not provide significant value, we may lose customers, and our reputation, financial condition, and business would be harmed. Additionally, the performance of our channel partners and technology alliance partners may affect our brand and reputation if customers do not have a positive experience with these partners. In addition, we have worked and continue to work with high-profile customers as well as assist in analyzing and remediating high profile cyberattacks. Our work with such customers has exposed us to publicity and media coverage. Negative publicity about us, including about our management, the efficacy and reliability of our Platform, our product offerings, our professional services, and the customers we work with, even if inaccurate, could adversely affect our reputation and brand.

If organizations do not adopt external cybersecurity solutions that may be based on new and untested security concepts, our ability to grow our business and results of operations may be adversely affected.

Our future success depends on the growth in the market for cloud and/or SaaS-delivered external cybersecurity products and solutions. The use of SaaS products and solutions to manage and automate security and IT operations is rapidly evolving. As such, it is difficult to predict our potential growth, customer adoption and retention rates, customer demand for our products and solutions, or the success of existing or future competitive products. Any expansion in our market depends on several factors, including the cost, performance and perceived value associated with our products and solutions and those of our competitors. If our solutions do not achieve widespread adoption or there is a reduction in demand for our products and solutions due to a lack of customer acceptance, technological challenges, competing products, privacy or other liability concerns, decreases in corporate spending, weakening economic conditions, or otherwise, it could adversely affect our business, results of operations and financial results, resulting in early terminations, reduced customer retention rates, or decreased sales. We do not know whether the trend in adoption of cloud-enabled and/or SaaS-delivered cybersecurity solutions that we have experienced in the past will continue in the future. Furthermore, if we or other SaaS security providers experience security incidents, loss or disclosure of customer data, disruptions in delivery, or other problems, the market for SaaS solutions as a whole, including our security solutions, could be negatively affected.

Historically, information sharing related to cybersecurity has been a very well accepted concept from a theoretical perspective but very difficult to implement in practice. Companies are generally reluctant to share their sensitive cyber information with other entities, despite knowing the advantages of doing so. Misperceptions may exist, however, about what information gets shared, with whom that information is shared, and the jurisdictions (including foreign countries) of the companies with which the information gets shared. Further, concerns of existing or potential customers may exist related to the ability to completely remove any indicia of the source company, general market rejection of information sharing, or specific market skepticism of our approach, which may further add to a lack of customer acceptance.

In addition to the potential concerns related to sharing sensitive information in a system consisting of commercial or potentially competitive entities, additional concerns can arise when governments become involved as participants in the collective defense ecosystem. From a commercial perspective, companies frequently view information sharing on platforms with governments that are also customers as risky, based on perceptions that the governments might use such shared information to take action against the companies or to otherwise utilize it in a way that will expose such companies to liability. Such perceptions could lead commercial entities to stop sharing, not procure our services in the first place, or terminate their relationship with us altogether. Similarly, governments (as customers) may be unable to properly process such data or utilize it in a meaningful way, or share useful information back into our solutions. Any of these concerns could lead to reduced sales or contribute to a lack of customer acceptance. In addition, the mere involvement of one or more government entities as customers may harm our reputation with certain companies.

We (including the Predecessor and the Successor) have experienced rapid growth in recent periods, and if we do not manage our future growth, our business and results of operations will be adversely affected.

ZeroFox experienced rapid revenue growth in recent periods, and we expect to continue to invest broadly across our organization to support our growth. For example, ZeroFox’s actual employee headcount grew from 158 employees as of January 31, 2019, to 914 employees as of January 31, 2024. Additionally, ZeroFox's revenue grew from $8.9 million in fiscal 2019 to $233.3 million in fiscal year 2024. Although ZeroFox experienced rapid growth historically, we may not sustain these growth rates, nor can we assure you that our investments to support our growth will be successful. The growth and expansion of our business will require us to invest significant financial and operational resources and the continuous dedication of our management team. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in evolving industries, including market acceptance of our Platform, adding new customers, intense competition, and our ability to manage our costs and operating expenses. Our future success will depend in part on our ability to manage our growth effectively, which will require us to, among other things:

- effectively attract, integrate, and retain a large number of new employees, particularly members of our sales and marketing and research and development teams;
- further improve our Platform and cloud infrastructure to support our business needs;
- enhance our information and communication systems to ensure that our employees and offices around the world are well-coordinated and can effectively communicate with each other and our growing base of channel partners and customers; and
- improve our financial, management, and compliance systems and controls.

If we fail to achieve these objectives effectively, our ability to manage our expected growth, ensure uninterrupted operation of our Platform and key business systems, and comply with the rules and regulations applicable to our business could be impaired. Additionally, the quality of our Platform and services could suffer and we may not be able to adequately address competitive challenges. Any of the foregoing could adversely affect our business, results of operations, and financial condition.

We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition, and results of operations.

The market for security solutions is intensely competitive, fragmented, and characterized by rapid changes in technology, customer requirements and industry standards, increasingly sophisticated attackers, and by frequent introductions of new or improved products to combat security threats. We expect to continue to face intense competition from current competitors, as well as from new entrants into the market given the relatively low barriers to entry in the industry. If we are unable to anticipate or react to these challenges, our competitive position could weaken, and we could experience a decline in revenue or reduced revenue growth, and loss of market share that would adversely affect our business, financial condition, and results of operations. Our ability to compete effectively depends upon numerous factors, many of which are beyond our control, including, but not limited to:

- product capabilities, including the performance and reliability of our Platform; including our services and features, compared to those of our competitors;
- our ability versus the ability of our competitors, to improve existing products, services, and features, or to develop new ones to address evolving customer needs;
- our ability to attract, retain, and motivate talented employees;
- our ability to establish and maintain relationships with channel partners;
- our ability to acquire services from third parties at competitive prices;
- the strength of our sales and marketing efforts; and
- acquisitions or consolidation within our industry, which may result in more formidable competitors.

Our competitors include the following, by general category:

- digital risk protection, such as Proofpoint, Rapid7 and Forta;
- threat intelligence providers, such as Mandiant and Recorded Future; and
- breach response providers, such as Experian, Transunion, and Kroll.

Many of these competitors have greater financial, technical, marketing, sales, and other resources, greater name recognition, longer operating histories, and a larger base of customers than we do. They may be able to devote greater resources to the development, promotion, and sale of services than we can, and they may offer lower pricing than we do. Further, they may have greater resources for research and development of new technologies, the provision of customer support, and the pursuit of acquisitions, or they may have other financial, technical, or other resource advantages. Our larger competitors have substantially broader and more diverse product and service offerings as well as routes to market, which allows them to leverage their relationships based on other products and to incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our Platform. Conditions in our market could change rapidly and significantly because of technological advancements, partnering or acquisitions by our competitors or continuing market consolidation. Some of our competitors have recently made acquisitions of businesses or have established cooperative relationships that may allow them to offer more directly competitive and comprehensive solutions than were previously offered and adapt more quickly to new technologies and customer needs. As a result of such acquisitions or arrangements, our current or potential competitors may be able to devote greater resources to bring these solutions and services to market, initiate or withstand substantial price competition or develop and expand their product and service offerings more quickly than we do. These competitive pressures in our market or our failure to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, increased net losses and loss of market share. Further, many competitors that specialize in providing protection from a single type of security threat may be able to deliver these targeted security products to the market quicker than we can or convince organizations that these limited products meet their needs. Even if there is significant demand for cloud-based security solutions like ours, if our competitors include functionality that is, or is perceived to be, equivalent to or better than ours in legacy products that are already generally accepted as necessary components of an organization’s security architecture, we may have difficulty increasing the market penetration of our Platform. Furthermore, even if the functionality offered by other security providers is different and more limited than the functionality of our Platform, organizations may elect to accept such limited functionality in lieu of adding products from additional vendors like us.

For all of these reasons, competition may negatively impact our ability to maintain and grow consumption of our Platform and solutions or put downward pressure on our prices and gross margins, any of which could materially harm our reputation, business, financial condition, and results of operations.

Competitive pricing pressure may reduce revenue, gross profits, and adversely affect our financial results.

If we are unable to maintain our pricing due to competitive pressures or other factors, our revenue and margins may be reduced and our revenue and gross profits, business, results of operations and financial condition may be adversely affected. The prices for our Platform, products and solutions, and professional services may decline for a variety of reasons, including competitive pricing pressures, discounts, anticipation of the introduction of new solutions by competitors, or promotional programs offered by us or our competitors. Competition continues to increase in the market segments in which we operate, and we expect competition to further increase in the future. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions in an effort to leverage their existing market share to make it harder for newer companies, like us, to effectively compete.

Adverse general and industry-specific economic and market conditions and reductions in customer spending, in either the private or public sector, including as a result of geopolitical uncertainty such as the ongoing conflict between Russia and Ukraine, may reduce demand for our Platform or products and solutions, which could harm our business, financial condition and results of operations.

Our business, financial condition, and results of operations depend on the overall demand for our Platform and products and solutions. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from the COVID-19 pandemic, changes in gross domestic product growth, financial and credit market fluctuations, energy costs, international trade relations, geopolitical issues, such as the conflict between Russia and Ukraine, or the availability and cost of credit could lead to increased market volatility, decreased consumer confidence, and diminished growth expectations in the U.S. economy and abroad, which in turn could result in reductions in information technology, software, and security spending by our existing and prospective customers. Negative economic conditions in both the public and private sectors, including macroeconomic, political and market conditions, government shutdowns or reduction in government spending, the availability of short-term and long-term funding and capital, the level and volatility of interest rates, currency exchange rates, and inflation, may cause customers to reduce their spending. Prolonged economic slowdowns may result in customers delaying or canceling projects, choosing to focus on in-house development efforts or seeking to lower their costs by requesting us to renegotiate existing contracts on less advantageous terms or defaulting on payments due on existing contracts or not renewing at the end of the contract term.

We employ multiple and evolving pricing models, which subject us to various pricing challenges that could make it difficult for us to derive value from our customers and may adversely affect our business, financial condition, and results of operations.

We employ multiple and evolving pricing models for our offerings. Our pricing models may ultimately result in a higher total cost to our customers generally as data volumes increase over time, or may cause our customers to limit or decrease usage in order to stay within the limits of their existing licenses or lower their costs, making it more difficult for us to compete in our markets or negatively impacting our business, financial condition, and results of operations. As the amount of data within our customers' organizations grows, we face downward pressure from our customers regarding our pricing, which could adversely affect our revenue and operating margins. In addition, our pricing models may allow competitors with different pricing models to attract customers unfamiliar or uncomfortable with our pricing models, which would cause us to lose business or modify our pricing models, both of which could adversely affect our revenue and operating margins. We have introduced and expect to continue to introduce variations to our pricing models, including but not limited to usage-based, tiered pricing based on number of users, flat upfront fee, fixed price, level of effort, cost plus fee, utility-based pricing and other pricing programs. We also must determine the appropriate price to enable us to compete effectively internationally. Although we believe that these pricing models and variations to these models will drive net new customers, and increase customer adoption, it is possible that they will not and may potentially cause customers to decline to purchase or renew contracts with us or confuse customers and reduce their lifetime value, which could negatively impact our business, financial condition, and results of operations.

If we fail to adapt to rapid technological change, evolving industry standards and changing customer needs, requirements or preferences, our ability to remain competitive could be impaired.

The market for our Platform and solutions is characterized by rapid technological change, evolving industry standards and changing regulations, as well as changing customer needs, requirements, and preferences. The success of our business will depend, in part, on our ability to anticipate, adapt and respond effectively to these changes on a timely and cost-effective basis. In addition, as our customers' data infrastructure needs grow more complex, we expect them to face new and increasing challenges. Our customers require that our Platform and products and solutions effectively identify and respond to these challenges without disrupting the performance of our customers' information technology and data systems or interrupting their operations. As a result, we must continually modify and improve our offerings in response to changes in our customers' data infrastructures and operational needs or end-user preferences. The success of any enhancement to our existing offerings or the deployment of new offerings depends on several factors, including the timely completion and market acceptance of our enhancements or new offerings. Any enhancement to our existing offerings or new offerings that we develop and introduce involves significant commitment of time and resources and is subject to a number of risks and challenges, including, but not limited to:

- ensuring the timely release of new solutions (including products and professional services) and enhancements to our existing solutions;
- adapting to emerging and evolving industry standards, technological developments by our competitors and customers and changing regulatory requirements;

- interoperating effectively with existing or newly-introduced technologies, systems or applications of our existing and prospective customers;
- resolving defects, errors or failures in our Platform or solutions;
- extending our solutions to new and evolving operating systems and hardware products; and
- managing new solutions, product suites, and service strategies for the markets in which we operate.

If we are not successful in managing these risks and challenges, or if our Platform or products and solutions (including any upgrades thereto) are not technologically competitive or do not achieve market acceptance, our business, financial condition, and results of operations could be adversely affected.

If we are unable to maintain successful relationships with our channel partners, or if our channel partners fail to perform, our ability to market, sell, and distribute our Platform will be limited, and our business, financial position, and results of operations will be harmed.

In addition to our direct sales force, we rely on our channel partners to sell our Platform. A substantial amount of sales of our Platform flows through our channel partners and we expect this to continue for the foreseeable future. ZeroFox derived approximately 21% of its revenue for the fiscal year 2024 from subscriptions through channel partners. The loss of a substantial number of our channel partners or the failure to recruit additional channel partners, could adversely affect our operating results. Our ability to increase revenue will depend in part on our success in maintaining successful relationships with our channel partners and in training our channel partners to independently sell and deploy our Platform. If we fail to effectively manage our existing sales channels, or if our channel partners are unsuccessful in fulfilling the orders for our solutions, or if we are unable to enter into arrangements with, and retain a sufficient number of, high quality channel partners in each of the regions in which we sell products and solutions and keep them motivated to sell our products and solutions, our ability to sell our products and solutions and results of operations will be harmed.

We target enterprise customers and government organizations, and sales to these customers involve risks that may not be present or that are present to a lesser extent with sales to smaller entities.

We have a sales team that targets enterprise customers and government organizations. These sales involve risks that may not be present or that are present to a lesser extent with sales to smaller entities, such as longer sales cycles, more complex customer requirements, substantial upfront sales costs, and less predictability in completing sales. For example, enterprise customers may require considerable time to evaluate and test our products and solutions and those of our competitors prior to making a purchase decision and placing an order. A number of factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our products and solutions, the discretionary nature of purchasing and budget cycles, and the competitive nature of evaluation and purchasing approval and/or competitive bidding processes. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, may vary significantly from customer to customer, with sales to enterprise customers and government organizations typically taking longer to complete. Moreover, enterprise customers often begin to deploy our products and solutions on a limited basis, but nevertheless demand configuration, integration services and pricing negotiations, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our products and solutions widely enough across their organization to justify our substantial upfront investment. Further, a significant percentage of our enterprise sales are to customers in the financial services sector. An economic slowdown in that sector could adversely impact our sales.

Our success and ability to grow our business depend on retaining and expanding our customer base. If we fail to add new customers or retain existing customers, our business, financial condition, and results of operations could be harmed.

We may enter into subscription agreements for our Platform and solutions where customers have discretion to renew or terminate services at the end of the term, or stand-alone agreements for the provision of specified software or services. For us to improve our operating results, it is important that we add new customers and that our existing customers renew their subscriptions and upgrade and expand their subscribed services. Our customers have no obligation to renew their subscriptions, to upgrade or expand their subscribed services, or to continue their relationship with us once a stand-alone engagement ends. Our customers’ renewal, upgrade, and expansion rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our offerings, our pricing, the effects of general economic conditions, competitive offerings, or alterations or reductions in our customers’ spending levels. If we are unable to add new customers or if our existing customers do not renew their subscriptions when the term expires or do not upgrade and expand the subscribed services or if customers renew on terms less favorable to us, or do not otherwise continue to use our Platform and solutions for subsequent engagements, our revenue may decline and our business, financial condition, and results of operations could be harmed.

Our customers may merge with other entities who purchase solutions and services from our competitors, and, during weak economic times, there is an increased risk that one or more of our customers will file for bankruptcy protection, either of which may harm our business, financial condition, and results of operations. We also face risks from international customers that file for bankruptcy protection in foreign jurisdictions, particularly given that the application of foreign bankruptcy laws may be more difficult to predict. In addition, we may determine that the cost of pursuing any claim may outweigh the recovery potential of such claim. As a result, broadening or protracted extension of an economic downturn could harm our business, financial condition, and results of operations.

We provide service level commitments under some of our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service and our business could suffer.

Certain of our customer agreements contain service level commitments, which contain specifications regarding the availability and performance of our Platform. Any failure of or disruption to our infrastructure could impact the performance of our Platform and the availability of products and services to customers. If we are unable to meet our stated service level commitments or if we suffer extended periods of poor performance or unavailability of our Platform, we may be contractually obligated to provide affected customers with service credits for future subscriptions, refunds, and in certain cases, the right to cancel their subscription. Our revenue, other results of operations and financial condition could be harmed if we suffer performance issues or downtime that exceeds the service level commitments under our agreements with our customers.

Our business will be subject to the risks of natural catastrophic events and to interruption by man-made problems such as power disruptions or terrorism.

A significant natural disaster, such as an earthquake, a fire, a flood, or significant power outage could have a material adverse impact on our business, results of operations and financial condition. Natural disasters could affect our personnel, supply chain, or logistics providers' ability to provide materials and perform services. In addition, climate change could result in an increase in the frequency or severity of natural disasters. In the event that our infrastructure, or the information technology systems, supply chain or logistics of our service providers, is hindered by any of the events discussed above, the results could be missed financial targets, such as revenue, for a particular quarter. Likewise, we could be subject to other man-made problems, including but not limited to power disruptions and terrorist acts.

We rely heavily on the services of our senior management team, and if we are not successful in attracting or retaining senior management personnel, we may not be able to successfully implement our business strategy.

Our future success is substantially dependent on our ability to attract, retain, and motivate our key employees and the members of our management team. In particular, we are highly dependent on the services of James C. Foster, our chief executive officer, who is critical to our future vision and strategic direction. We also rely on our leadership team in the areas of operations, security, analytics, engineering, product management, research and development, marketing, sales, partnerships, mergers and acquisitions, support, and general and administrative functions. Although we entered into employment agreements with our key personnel, our senior management is employed on an "at-will" basis, which means they may terminate their employment with us at any time. If one or more of our key employees resigns or otherwise ceases to provide us with their service, our business could be harmed.

We rely on the performance of highly skilled personnel, including senior engineering, professional services, sales and technology professionals, and our ability to increase our customer base depends to a significant extent on our ability to expand our sales and marketing operations.

We believe our success has depended, and continues to depend, on the efforts and talents of our highly skilled team members, including our sales personnel, professional services personnel, and software engineers. We do not maintain key person insurance on any of our employees. Our key employees are employed on an "at-will" basis, which means that they could terminate their employment with us at any time. The loss of any of our key employees could adversely affect our ability to execute our business plan, and we may not be able to find adequate replacements. We cannot ensure that we will be able to retain the services of our key employees.

If we do not effectively expand and train our sales force, we may be unable to add new customers or increase sales to our existing customers, and our business will be adversely affected.

We depend on our sales force to obtain new customers and increase sales with existing customers. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel, and our third-party channel partner network of resellers, both domestically and internationally. We have expanded our sales organization in recent periods and expect to continue to add additional sales capabilities in the near term. Significant competition exists for sales personnel with the skills and technical knowledge that we require. New hires require significant training and may take significant time before they achieve full productivity, and this delay may be accentuated by our long sales cycles. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, a significant percentage of our sales force is new to our Company and selling our solutions, and therefore this team may be less effective than our more seasoned sales personnel. Furthermore, hiring sales personnel in new countries, or expanding our existing presence, requires upfront and ongoing expenditures that we may not recover if the sales personnel fail to achieve full productivity. We cannot predict whether, or to what extent, our sales will increase as we expand our sales force or how long it will take for sales personnel to become productive. If we are unable to hire and train a sufficient number of effective sales personnel, or the sales personnel we hire are not successful in obtaining new customers or increasing sales to our existing customer base, our business and results of operations will be adversely affected. All of these efforts will require us to invest significant financial and other resources and our business will be harmed if our efforts do not generate a correspondingly significant increase in revenue.

Our ability to maintain customer satisfaction depends in part on the quality of our customer support.

Once our Platform and solutions are purchased, our customers depend on our maintenance and support teams to resolve technical and operational issues relating to our Platform and solutions. Our ability to provide effective customer maintenance and support is largely dependent on our ability to attract, train, and retain qualified personnel with experience in supporting customers with our Platform and products and solutions such as ours and maintaining the same. The number of our customers has grown significantly and that has and will continue to put additional pressure on our support teams. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for technical support. We may be subject to disruptions in customer support as well as failures to provide adequate support for reasons that are outside of our direct control.

We also may be unable to modify the future, scope, and delivery of our maintenance services and technical support to compete with changes in the technical services provided by our competitors. Increased customer demand for maintenance and support services, without corresponding revenue, could increase costs and negatively affect our operating results. In addition, if we experience increased customer demand for support and maintenance, we may face increased costs that may harm our business, financial condition, or results of operations. Further, as we continue to grow our operations and support our global customer base, we need to be able to continue to provide efficient support and effective maintenance that meet our customers' needs globally at scale. Customers receive additional maintenance and support features, and the number of our customers has grown significantly, which will put additional pressure on our organization. If we are unable to provide efficient customer maintenance and support globally at scale or if we need to hire additional maintenance and support personnel, our business may be harmed. Our ability to attract new customers is highly dependent on our business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality maintenance and support services or a market perception that we do not maintain high-quality maintenance and support services for our customers would harm our business.

If we cannot maintain our company culture as we grow, we could lose the innovation, teamwork, passion, and focus on execution that we believe contribute to our success and our business may be harmed.

We believe that our corporate culture has been a contributor to our success, which we believe promotes innovation, teamwork, passion and focus on building and marketing our products and solutions. Any integration challenges or any failure to preserve our culture could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively and execute on our business strategy. As we grow, we may find it difficult to maintain our corporate culture. Additionally, our productivity and the quality of our products and solutions may be adversely affected if we do not integrate and train our new employees quickly and effectively. If we experience any of these effects in connection with future growth, it could impair our ability to attract new customers, retain existing customers and expand their use of our products and solutions, all of which would adversely affect our business, financial condition and results of operations.

We recognize revenue from subscription to our Platform over the term of the subscription. Consequently, increases or decreases in new sales may not be immediately reflected in our results of operations.

We generally recognize revenue from customers ratably over the terms of their subscriptions, which are generally one to three years. As a result, a substantial portion of the revenue we report in each period is attributable to the recognition of deferred revenue relating to agreements that we entered into during previous periods. Consequently, any increase or decline in new sales or renewals in any one period will not be immediately reflected in our revenue for that period. Any such change, however, would affect our revenue in future periods. Accordingly, the effect of downturns or upturns in new sales and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods. We may also be unable to timely reduce our cost structure in line with a significant deterioration in sales or renewals that would adversely affect our results of operations and financial condition.

Our operating results may fluctuate significantly which could make our future results difficult to predict and could cause our operating results to fall below expectations.

Our operating results may vary significantly in the future, particularly considering the number of enterprise customer contracts and the cyclical nature of our government sales generation, and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our operating results may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. Fluctuations in operating results may negatively impact the value of our securities. Factors that may cause fluctuations in our quarterly operating results include, without limitation:

- our ability to generate significant revenue from new offerings and cross-selling current offerings;
- our ability to expand our number of customers and sales;
- our ability to hire and retain employees, in particular those responsible for our sales and marketing;
- changes in the way we organize and compensate our sales teams;
- the timing of expenses and recognition of revenue;
- the timing and length of our sales cycles;
- increased sales to large organizations;
- the amount and timing of operating expenses related to the maintenance and expansion of our business and operations, as well as international expansion;
- the timing and effectiveness of new sales and marketing initiatives;
- changes in our pricing policies or those of our competitors;
- the timing and success of new platforms, applications, features, and functionality by us or our competitors;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- changes in laws and regulations that impact our business;
- the timing of expenses related to any future acquisitions, including our ability to successfully integrate, and fully realize the expected benefits of, completed acquisitions;
- health epidemics or pandemics, such as the COVID-19 pandemic;
- civil unrest and geopolitical instability, including as a result of the ongoing conflict between Russia and Ukraine; and
- general political, economic, and market conditions.

Our long-term success depends, in part, on our ability to expand the sale of our Platform to customers located outside of the U.S., and our current, and any further, expansion of our international operations exposes us to risks that could have a material adverse effect on our business, operating results, and financial condition.

We are generating a portion of our revenue outside of the U.S., and conduct our business activities in various foreign countries, including some emerging markets, where the challenges of conducting our business can be significantly different from those we have faced in more developed markets and where business practices may create internal control risks. There are certain risks inherent in conducting international business, including:

- fluctuations in foreign currency exchange rates, which could add volatility to our operating results;
- new, or changes in, regulatory requirements;
- uncertainty regarding regulation, currency, tax, and operations resulting from the United Kingdom's, or the U.K., exit from the European Union, or the E.U., and possible disruptions in trade, the sale of our services and commerce, and movement of our people between the U.K., E.U., and other locations;
- tariffs, export and import restrictions, restrictions on foreign investments, sanctions, and other trade barriers or protection measures;
- costs and liabilities related to compliance with foreign privacy, data protection and information security laws and regulations, including the General Data Protection Regulation of the European Union, or the GDPR, and the risks and costs of noncompliance;
- costs of localizing products and services;
- the lack of acceptance of localized products and services;
- the need to make significant investments in people, solutions and infrastructure, typically well in advance of revenue generation;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in maintaining our corporate culture with a dispersed and distant workforce;
- treatment of revenue from international sources, evolving domestic and international tax environments, and other potential tax issues, including with respect to our corporate operating structure and intercompany arrangements;
- different standards for or weaker protection of our intellectual property, including increased risk of theft of our proprietary technology and other intellectual property;
- economic weakness or currency-related crises;
- compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations, including employment, tax, privacy, anti-corruption, import/export, antitrust, data transfer, storage and protection, and industry-specific laws and regulations, including rules related to compliance by our third-party resellers and our ability to identify and respond timely to compliance issues when they occur, and regulations applicable to us and our third-party data providers from whom we purchase and resell data;

- vetting and monitoring our third-party resellers in new and evolving markets to confirm they maintain standards consistent with our brand and reputation;
- generally longer payment cycles and greater difficulty in collecting accounts receivable;
- our ability to adapt to sales practices and customer requirements in different cultures;
- the lack of reference customers and other marketing assets in regional markets that are new or developing for us, as well as other adaptations in our market generation efforts that we may be slow to identify and implement;
- dependence on certain third parties, including resellers with whom we do not have extensive experience;
- natural disasters, acts of war, terrorism, or pandemics, including the ongoing COVID-19 pandemic;
- corporate espionage; and
- political instability and security risks in the countries where we are doing business and changes in the public perception of governments in the countries where we operate or plan to operate.

We might undertake corporate operating restructurings that involve our group of foreign country subsidiaries through which we do business abroad. We consider various factors in evaluating these restructurings, including the alignment of our corporate legal entity structure with our organizational structure and our objectives, the operational and tax efficiency of our group structure, and the long-term cash flows and cash needs of our business. Such restructurings could increase our operating costs, and if ineffectual, could increase our income tax liabilities and our global effective tax rate.

Risks Related to Government Contracting

One U.S. government customer accounts for a substantial portion of our revenue. If our relationship with our largest customer is impaired or terminated, our revenue would decline, and our business, financial condition, and results of operations would be adversely affected.

We have derived a substantial portion of our revenue from one U.S. government customer, the Office of Personnel Management (OPM). Our current contract with OPM has been extended to an optional period ending on June 30, 2024. On December 28, 2023, we were awarded a new contract by OPM (the "new OPM Contract"). The New OPM Contract is structured as a Base Period from July 1, 2024 to June 30, 2025, followed by a series of options as follows: Option Period I from July 1, 2025 to June 30, 2026, Option Period II from July 1, 2026 to September 30, 2026, Option Period, Option Period III from October 1, 2026 to March 31, 2027, Option Period IV from April 1, 2027 to September 30, 2027, Option Period V from October 1, 2027 to March 31, 2028, and Option Period VI from April 1, 2028 to September 30, 2028. OPM has an option to add a six-month transition out period to run concurrently with any option period. OPM accounted for approximately 35% of revenue for the year ended January 31, 2024.

As a result, our revenue could fluctuate materially, and could be materially and disproportionately affected by purchasing decisions by this customer or any other significant future customer. This customer may decide to purchase less than it has in the past, may alter its purchasing patterns at any time with limited notice, or may decide not to continue to license our products at all, any of which could cause our revenue to decline and adversely affect our financial condition and results of operations. If we do not further diversify our customer base, we will continue to be susceptible to risks associated with customer concentration.

Our business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on our business and results of operations.

Our future growth depends, in part, on increasing sales to government organizations. Demand from government organizations is often unpredictable, subject to budgetary uncertainty and typically involves long sales cycles. We have made significant investment to address the government sector, but we cannot assure you that these investments will be successful, or that we will be able to maintain or grow our revenue from the government sector. U.S. federal, state, and local government sales are subject to a number of challenges and risks that may adversely impact our business. Sales to such government entities include the following risks:

- selling to governmental agencies can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that such efforts will generate a sale;
- government certification requirements applicable to our products may change and, in doing so, restrict our ability to sell into the U.S. Federal Government sector until we have attained the revised certification.
- government demand and payment for our Platform may be impacted by public sector budgetary cycles and funding priorities and authorizations, with funding reductions or delays adversely affecting public sector demand for our Platform;
- governments routinely investigate and audit government contractors’ administrative processes, and any unfavorable audit could result in the government refusing to continue buying our Platform, which would adversely impact our revenue and results of operations, or institute fines or civil or criminal liability if the audit were to uncover improper or illegal activities; and
- governments may add new or change existing contractual and/or data security infrastructure requirements that could restrict our ability to sell to government customers.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing our solutions in the future or otherwise have an adverse effect on our business and results of operations.

A decline in the U.S. Government budget, changes in spending or budgetary priorities or delays in contract awards may adversely affect our business, financial condition, and results of operations and limit our growth prospects.

Revenue under contracts with U.S. government agencies represents a substantial amount of our total revenue. Levels of U.S. government spending are difficult to predict and subject to significant risk. Laws and plans adopted by the U.S. Government relating to, along with pressures on and uncertainty surrounding the U.S. federal budget, potential changes in budgetary priorities, sequestration, the appropriations process, and the permissible federal debt limit, could adversely affect the funding for individual programs and delay purchasing or payment decisions by our customers. Considerable uncertainty exists regarding how future budget and program decisions will unfold and what challenges budget reductions will present for us and the industry for our solutions and products.

Current U.S. government spending levels may not be sustained and future spending and program authorizations may not increase or may decrease or shift to programs in areas in which we do not provide services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities may occur as a result of uncertainty surrounding the federal budget, increasing political pressure and legislation, shifts in spending priorities as a result of competing demands for federal funds, or other factors. In the event government funding relating to our contracts with the U.S. Government becomes unavailable, or is reduced or delayed, or planned orders are reduced, our contract or subcontract under such programs may be terminated or adjusted by the U.S. Government or the prime contractor, if applicable. Our operating results could also be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government, as well as delays in program starts or the award of contracts or task orders under contracts.

In addition, changes to the federal acquisition system and contracting models could affect whether and how we pursue certain opportunities and the terms under which we are able to do so. A significant decline in overall U.S. government spending, a significant shift in its spending priorities, significant delays in contract or task order awards for large programs could adversely affect our business, financial condition, and results of operations and limit our growth prospects.

A delay in the completion of the U.S. Government's budget and appropriation process could delay procurement of solutions we provide and have an adverse effect on our future revenue.

The funding of U.S. government programs is subject to an annual congressional budget authorization and appropriations process. In years when the U.S. Government does not complete its appropriations before the beginning of the new fiscal year on October 1, government operations are typically funded pursuant to a "continuing resolution," which allows federal government agencies to operate at spending levels approved in the previous appropriations cycle but does not authorize new spending initiatives. When the U.S. Government operates under a continuing resolution, delays can occur in the procurement of our products and solutions and may result in new initiatives being canceled. Revenue from government customers is often cyclical and based upon delays or change in the appropriation cycle or government shutdowns and thus can impact future performance. When the U.S. Government fails to complete its appropriations process or to provide for a continuing resolution, a full or partial federal government shutdown may result. A federal government shutdown could, in turn, result in our incurrence of substantial labor or other costs without reimbursement under customer contracts, the delay or cancellation of key programs or the delay of contract payments, which could have a negative effect on our cash flows and adversely affect our business, financial condition, and results of operations. For many programs, Congress appropriates funds on an annual fiscal year basis even though the program performance period may extend over several years. Consequently, programs are often partially funded initially, and additional funds are committed only as Congress makes further appropriations. If we incur costs in excess of funds obligated on a contract, we may be at risk for reimbursement of those costs unless or until additional funds are earmarked to the contract. In addition, when supplemental appropriations are required to operate the U.S. Government or fund specific programs and passage of legislation needed to approve any supplemental appropriations bill is delayed, the overall funding environment for our business could be adversely affected.

Due to the competitive process to obtain contracts and the likelihood of bid protests, we may be unable to achieve or sustain revenue growth and our business, financial condition, and results of operations may be adversely affected.

A substantial portion of the business that we seek with respect to our solutions is subject to competitive bidding processes with U.S. government customers. The U.S. Government has increasingly relied on contracts that are subject to a continuing competitive bidding process which has resulted in greater competition and increased pricing pressure. The competitive bidding process involves substantial costs and several risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, may be split among competitors or that may be awarded but for which we do not receive meaningful task orders, and to the risk of inaccurately estimating the resources and costs that will be required to fulfill any contract we win.

Following contract award, we may encounter significant expense, delay, contract modifications or even contract loss because of our competitors challenging (or protesting) the award of contracts to us in competitive bidding. Any resulting loss or delay of start-up and funding of work under protested contract awards may adversely affect our revenue and/or profitability. In addition, multi-award contracts require that we make sustained post-award efforts to obtain task orders under the contract. As a result, we may not be able to obtain these task orders or recognize revenue under these multi-award contracts. We are also experiencing increased competition generally which impacts our ability to obtain contracts. Our failure to compete effectively in this procurement environment would adversely affect our revenue and our business, financial condition, and results of operations may be adversely affected.

The U.S. Government may terminate, cancel, stop, modify or curtail our contracts at any time prior to their completion and, if we do not replace them, this may adversely affect our future revenue and profitability.

Many of the U.S. government programs in which we may participate as a prime contractor or subcontractor extend for several years and include one or more base years and one or more option years. These programs are normally funded on an annual basis. Under our contracts, the U.S. Government generally has the right to not exercise options to extend or expand our contracts and may otherwise terminate, cancel, stop, modify, or curtail our contracts at its convenience. Any decisions by the U.S. Government to not exercise contract options or to terminate, cancel, stop, modify or curtail our major programs or contracts would adversely affect our revenue, revenue growth, and profitability.

We may also experience technological or other performance difficulties under our contracts, which may result in delays, cost overruns, and failures in our performance of these contracts. If a government customer terminates a contract for default, we may be exposed to liability, including for excess costs incurred by the customer in procuring undelivered services and solutions from another source. Depending on the nature and value of the contract, a performance issue or termination for default could cause our actual results to differ from those anticipated and could harm our reputation, and even lead to a suspension or debarment action.

Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for civil or criminal penalties, termination of our U.S. government contracts, disqualification from bidding on future U.S. government contracts, and suspension or debarment from U.S. government contracting.

As a U.S. government contractor, we must comply with laws and regulations relating to the formation, administration, and performance of U.S. government contracts, which affect how we do business with our customers. Such laws and regulations may potentially impose added costs on our business and our failure to comply with them may lead to civil or criminal penalties, termination of our U.S. government contracts, or suspension or debarment from contracting with federal agencies. Some significant laws and regulations that affect us include, but are not limited to the following:

- the Federal Acquisition Regulations (FAR) and FAR supplements, which regulate the formation, administration, and performance of U.S. government contracts;

- Truthful Cost or Pricing Data, formerly known as the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with certain contract negotiations;
- the Procurement Integrity Act, which regulates access to competitor bid and proposal information and government source selection information and our ability to provide compensation to certain former government officials;
- the Civil False Claims Act, which provides for substantial civil penalties for violations, including for the knowing submission of a false or fraudulent claim to the U.S. Government for payment or approval;
- the False Statements Act, which imposes civil and criminal liability for making false statements to the U.S. Government; and
- the U.S. government Cost Accounting Standards, which imposes accounting requirements that govern our right to reimbursement under certain cost-based U.S. government contracts.

The FAR and many of our U.S. government contracts contain organizational conflict of interest clauses that may limit our ability to compete for or perform certain other contracts or other types of services for particular customers. Organizational conflicts of interest (OCI) arise when we engage in activities that may make us unable to render impartial assistance or advice to the U.S. Government, impair our objectivity in performing contract work or provide us with an unfair competitive advantage in winning or performing on a contract. An OCI that precludes our competition for or performance on a significant program or contract could harm our prospects. Conversely, our failure to identify and disclose an OCI can result in civil and/or criminal penalties.

The U.S. Government may adopt new contract rules and regulations or revise its procurement practices in a manner adverse to us at any time without notice and/or compensation, which could adversely affect our profitability, cash position or growth prospects.

Our industry has experienced, and we expect it will continue to experience, significant changes to business practices because of an increased focus on affordability, efficiencies and recovery of costs, among other items. U.S. government agencies may face restrictions or pressure regarding the type and number of services that they may obtain from private contractors. Legislation, regulations, and initiatives dealing with enhanced governance, oversight, and/or security (physical or cyber), procurement reform, mitigation of potential conflicts of interest, and environmental responsibility or sustainability, as well as any resulting shifts in the buying practices of U.S. government agencies, such as increased usage of fixed-price contracts, multiple-award contracts and small business set-aside contracts, could have adverse effects on government contractors. Any of these changes could impair our ability to obtain new contracts or renew our existing contracts when customers recompete those contracts. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our business, financial condition, and results of operations.

As a U.S. government contractor, we are subject to reviews, audits, and cost adjustments by the U.S. Government, which, if resolved unfavorably to us, could adversely affect our profitability, cash position or growth prospects.

U.S. government contractors (including their subcontractors and others with whom they do business) operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies. These agencies review a contractor's performance on government contracts, cost structure, indirect rates, and pricing practices and compliance with applicable contracting and procurement laws, regulations, terms and standards, as well as the adequacy of our systems and processes in meeting government requirements. They also review the adequacy of the contractor's compliance with government standards for its business systems, including a contractor's accounting system, earned value management system, estimating system, materials management and accounting system, property management system, and purchasing system.

Both contractors and the U.S. government agencies conducting these audits and reviews have come under increased scrutiny. As a result, the current audits and reviews have become more rigorous and the standards to which we are held are being more strictly interpreted, increasing the likelihood of an audit or review resulting in an adverse outcome.

A finding of significant control deficiencies in our system audits or other reviews can result in decremented billing rates to our U.S. government customers until the control deficiencies are corrected and our remediations are accepted. Government audits and reviews may conclude that our practices are not consistent with applicable laws and regulations and result in adjustments to contract costs and mandatory customer refunds. Such adjustments can be applied retroactively, which could result in significant customer refunds. Our receipt of adverse audit findings or the failure to obtain an "approved" determination of our various business systems from the responsible U.S. government agency could significantly and adversely affect our business, including our ability to bid on new contracts and our competitive position in the bidding process. A determination of non-compliance with applicable contracting and procurement laws, regulations and standards could also result in the U.S. Government imposing penalties and sanctions against us, including reductions of the value of contracts, contract modifications or termination, withholding of payments, the loss of export/import privileges, administrative or civil judgments and liabilities, criminal judgments or convictions, liabilities and consent or other voluntary decrees or agreements, other sanctions, the assessment of penalties, fines or compensatory, treble or other damages or non-monetary relief or actions, suspension or debarment, suspension of payments, and increased government scrutiny that could negatively impact our reputation, delay or adversely affect our ability to invoice and receive timely payment on contracts, perform contracts or compete for contracts with the U.S. Government and may adversely affect our revenue and profitability.

Risks Relating to Financial, Tax, and Accounting Issues

Our issued and outstanding convertible notes may impact our financial results, result in the dilution of our stockholders, create downward pressure on the price of our Common Stock, and restrict our ability to raise additional capital or take advantage of future opportunities.

In connection with the Business Combination, we issued the Convertible Notes (see Note 10) in an aggregate principal amount of $150,000,000. The Convertible Notes are convertible into shares of our Common Stock at an initial conversion rate of 86.9565 shares of our Common Stock (subject to adjustment as provided in the Indenture) per $1,000 of principal amount of Notes and 86.9565 shares of our Common Stock (subject to adjustment as provided in the Indenture) per $1,000 of accrued and unpaid interest on any Convertible Notes. To the extent we exercise our option to pay interest in kind with respect to the Convertible Notes rather than in cash, the number of shares of our Common Stock into which the Convertible Notes may be converted would increase. The sale of the Convertible Notes may affect our earnings per share, as accounting procedures may require that we include in our calculation of earnings per share the number of shares of our Common Stock into which the Convertible Notes are convertible.

Upon a conversion of the Convertible Notes, we will have the ability to settle by payment of cash, by issuance of our Common Stock, or a combination of both. If shares of our Common Stock are issued to the holders of the Convertible Notes upon conversion, there will be dilution to our stockholders and the market price of our Common Stock may decrease due to the additional selling pressure in the market. Any downward pressure on the price of our Common Stock caused by the sale, or potential sale, of shares issuable upon conversion of the Convertible Notes could also encourage short sales by third parties, creating additional selling pressure on our share price.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes in cash, repurchase the Convertible Notes upon a fundamental change or repay the Convertible Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion, redemption or repurchase of the Convertible Notes.

Holders of the Convertible Notes will have the right under the Indenture to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change before the applicable maturity date at a repurchase price equal to 100% of the principal amount of such notes to be repurchased plus accrued and unpaid interest to, but not including, the repurchase date. Moreover, we will be required to repay the Convertible Notes in cash at their maturity, unless earlier converted, redeemed or repurchased. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of such notes surrendered or pay cash with respect to such notes being converted (which we otherwise may elect to do upon the conversion of notes in lieu of issuing shares).

Upon a conversion of the Convertible Notes, we will have the ability to settle by payment of cash, by issuance of our Common Stock, or a combination of both. Our ability to repurchase, redeem or to pay cash upon conversion of Notes may be limited by law, regulatory authority, or agreements governing our future indebtedness. Our failure to repurchase the Convertible Notes at a time when the repurchase is required by the Indenture would constitute a default under such indenture (provided that upon a conversion, we could settle by issuance of our Common Stock). A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the interest on such indebtedness and repurchase the Convertible Notes or to pay cash upon conversion of the Convertible Notes.

We may still incur substantially more debt or take other actions that would diminish our ability to make payments on the Convertible Notes when due.

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, including, pursuant to the Indenture governing the Convertible Notes. Pursuant to the Indenture, we and our subsidiaries are not permitted to issue any Senior Indebtedness, Disqualified Capital Stock and Preferred Stock (each such term as defined in the Indenture) in an aggregate principal amount in excess of $50,000,000. However, we are not restricted from recapitalizing our debt or taking a number of other actions that are not limited by the terms of the Indenture that could have the effect of diminishing our ability to make payments on the Convertible Notes when due.

We have secured debt outstanding, which may adversely affect our financial condition and future financial results. Our existing debt agreements contain restrictive covenants that may limit our ability to operate our business.

We have outstanding secured indebtedness with Stifel Bank of $22.5 million as of January 31, 2024. Our secured indebtedness contains a number of restrictive covenants that impose significant operating and financial restrictions on us. As a result of these covenants, our ability to respond to changes in business and economic conditions and engage in beneficial transactions, including to obtain additional financing as needed, may be restricted. Furthermore, our failure to comply with our debt covenants could result in a default under our debt agreements, which would cause our indebtedness under such debt agreements to become immediately due and payable. If any of our debt is accelerated, we may not have sufficient funds available to repay it.

Our ability to make scheduled payments of principal and interest and other required repayments depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flows from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flows, we may be required to adopt one or more alternatives, such as selling assets, restructuring operations, restructuring debt or obtaining additional equity capital on terms that may be onerous or dilutive.

We may incur additional indebtedness in the future in the ordinary course of business subject to the restrictions in the Indenture and our secured debt, which could include restrictive covenants. If new debt is added to current debt levels, the risks described above could intensify.

We may need to raise additional capital to maintain and expand our operations and invest in new solutions, which capital may not be available on terms acceptable to us, or at all, and which could reduce our ability to compete and could harm our business.

Retaining or expanding our current levels of personnel and products offerings may require additional funds to respond to business challenges, including the need to develop new products and enhancements to our Platform, improve our operating infrastructure, or acquire complementary businesses and technologies. The failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and solutions could reduce our ability to compete and could harm our business. Accordingly, we may need to engage in additional equity or debt financing to secure additional funds. If we raise additional equity financing, stockholders may experience significant dilution of their ownership interests and the market price of our Common Stock could decline. If we engage in debt financing, the holders of debt would have priority over the holders of our Common Stock, and we may be required to accept terms that restrict our operations or our ability to incur additional indebtedness or to take other actions that would otherwise be in the interests of the debt holders. Any of the above could harm our business, results of operations, and financial condition.

Future acquisitions, strategic investments, partnerships, or alliances could be difficult to identify and integrate, divert the attention of key management personnel, disrupt our business, dilute stockholder value, and adversely affect our results of operations, and financial condition.

As part of our business strategy, we have in the past and expect to continue to make investments in and/or acquire complementary businesses and assets. Our ability as an organization to acquire and integrate other companies, services, or technologies in a successful manner in the future is not guaranteed. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions or strategic investments, we may not ultimately strengthen our competitive position or ability to achieve our business objectives, and any acquisitions or investments we complete could be viewed negatively by our end-customers or investors. In addition, our due diligence may fail to identify all the problems, liabilities or other shortcomings or challenges of an acquired business, product, or technology, including issues related to intellectual property, product quality or product architecture, regulatory compliance practices, revenue recognition or other accounting practices or issues with employees or customers. If we are unsuccessful at integrating such acquisitions, or the technologies associated with such acquisitions, into our Company, our revenue and results of operations could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition and the market price of our Common Stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

Additional risks we may face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of research and development and sales and marketing functions;
- integration of product and service offerings;
- retention of key employees from the acquired company;
- changes in relationships with strategic partners as a result of product acquisitions or strategic positioning resulting from the acquisition;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company’s accounting, management information, human resources, and other administrative systems;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures, and policies;
- additional legal, regulatory or compliance requirements;

- financial reporting, revenue recognition or other financial or control deficiencies of the acquired company that we do not adequately address and that cause our reported results to be incorrect;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities;
- unanticipated write-offs or charges; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties.

Our failure to address these risks or other problems encountered in connection with acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally.

We have previously reported material weaknesses in our internal control over financial reporting that have been remediated, but if we fail to properly manage our internal control over financial reporting on a go forward basis, future material weaknesses could be identified that could result in a material misstatement in our financial statements.

A material weakness is a deficiency, or a 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. We rely upon internal processes and information systems to support key business functions, including our assessment of internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act.

We cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to ensure that our internal controls will remain effective and eliminate the possibility that other material weakness or deficiencies may develop or be identified in the future. If we identify future material weaknesses in our internal controls, even if quickly remediated once disclosed, investors may lose confidence in our financial statements and our stock price may decline. Implementing changes to our internal controls in connection with the remediation of any material weakness may distract our management and could require us to incur significant expenses. If we fail to remediate any material weakness, our financial statements may be inaccurate, we may be required to restate our financial statements, our ability to report our financial results in a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, our stock price may decline, and we may be subject to sanctions or investigation by regulatory authorities, which could materially and adversely affect our business and results of operations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of January 31, 2024, ZeroFox had U.S. federal and state net operating loss carryforwards, or NOLs, available to offset future federal and state taxable income of approximately $226.4 million and $105.7 million, respectively, and portions of which expire in various years. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the Tax Cuts and Jobs Act of 2017 (the Tax Act), as modified by the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), federal NOLs incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely, but the deductibility of such federal NOLs in tax years beginning after December 31, 2020 is limited to 80% of taxable income. It is uncertain if and to what extent various states will conform to the Tax Act or the CARES Act.

In addition, under Section 382 of the Code, a corporation that undergoes an "ownership change" (as defined under Sections 382 and 383 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOLs and certain other tax attributes to offset post-change taxable income or taxes. In connection with the Business Combination, we conducted a Section 382 review which determined the Business Combination constituted an ownership change. However, this will not affect our ability to realize the NOL carryforwards on a going forward basis provided we have sufficient taxable income, subject to the annual limitation. In addition, we may experience future ownership changes under Section 382 of the Code that could further affect our ability to utilize our NOLs to offset our income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. 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. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our operating results and financial condition.

Finally, beginning in 2022 Tax Act eliminated the option to deduct research and development expenditures immediately in the year incurred pursuant to Section 174 of the Code. The Tax Act requires taxpayers to capitalize and amortize such expenditures over five years. The actual impact on cash from operations will depend on whether and when these provisions are deferred, modified, or repealed by Congress, including any retroactive application to 2022, among other factors

IDX failed to collect sales and use tax prior to January 1, 2022, and we have been working to mitigate such failure.

Prior to January 1, 2022, IDX did not collect U.S. sales and use tax from its customers for its services. During 2020, IDX engaged an external tax consultant to perform a full U.S. sales tax nexus study and analysis. IDX accrued and reflected historical liabilities in its financial statements and was filing Voluntary Disclosure Agreements (VDA) in relevant U.S. jurisdictions, and we will be remitting liabilities accordingly. Beginning January 1, 2022, IDX began collecting, reporting, and remitting appropriate U.S. sales tax from its customers in all applicable jurisdictions. As of January 31, 2024, the Company recorded an accrual $1.3 million for IDX sales and use taxes that were not remitted prior to January 1, 2022.

Our goodwill and identifiable intangible assets have been impaired and could become further impaired, which could reduce the value of our assets and reduce our net income in the year in which the write-off occurs.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. We also ascribe value to certain identifiable intangible assets, which consist primarily of customer relationships, developed technology, and trade names, among others, as a result of acquisitions. We may incur impairment charges on goodwill or identifiable intangible assets if we determine that the fair values of goodwill or identifiable intangible assets are less than their current carrying values. We evaluate, on a regular basis, whether events or circumstances have occurred that indicate all, or a portion, of the carrying amount of goodwill may no longer be recoverable, in which case an impairment charge to earnings would become necessary.

A decline in general economic conditions or global equity valuations could impact the judgments and assumptions about the fair value of our business and we could be required to record impairment charges on our goodwill or other identifiable intangible assets in the future, which could impact our consolidated balance sheet, as well as our consolidated statement of comprehensive loss.

The Company recorded goodwill impairment charges of $284.2 million during the year ended January 31, 2024. The Company recorded a $72.1 million impairment charge as result of its annual test of goodwill as of October 31, 2023, and a $212.1 million impairment charge as result of the interim test of goodwill as of January 31, 2024.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect or financial reporting standards or interpretations change, our results of operations could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We have historically based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances as discussed in the sections titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of ZeroFox*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations of IDX*." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in our consolidated financial statements include, and may include in the future, those related to revenue recognition; valuation of intangibles in purchase accounting; allowance for doubtful accounts; costs to obtain or fulfill a contract; valuation of common stock; carrying value and useful lives of long-lived assets; loss contingencies; and the provision for income taxes and related deferred taxes. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of industry or financial analysts and investors, resulting in a decline in the market price of our Common Stock.

Additionally, we will regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we might be required to change our accounting policies, alter our operational policies and implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or we may be required to restate our published financial statements. Such changes to existing standards or changes in their interpretation may have an adverse effect on our reputation, business, financial position, and profit, or cause an adverse deviation from our revenue and operating profit targets, which may negatively impact our financial results.

Risks Related to the Business Combination, Being a Public Company, and Integration of the Predecessor and IDX

The integration of two companies with different organization and compensation structures presents significant management challenges. There can be no assurance that this integration, and the synergies expected to result from that integration, will be achieved as rapidly or to the extent currently anticipated.

The Business Combination involves the integration of two businesses that currently operate as independent businesses. We are devoting significant management attention and resources to integrating business practices and operations following the Closing. We may encounter potential difficulties in the integration process including the following:

- the inability to successfully integrate our businesses, including operations, technologies, products and services, in a manner that permits us to achieve the cost savings and operating synergies anticipated to result from the Business Combination, which could result in the anticipated benefits of the Business Combination not being realized partly or wholly in the time frame currently anticipated or at all;
- the loss of customers as a result of certain customers of either or both of the two businesses deciding not to continue to do business with us, or deciding to decrease their amount of business in order to reduce their reliance on a single company;
- the necessity of coordinating geographically separated organizations, systems, and facilities;
- the integration of personnel, including sales teams, with diverse business backgrounds and business cultures, while maintaining focus on providing consistent, high-quality products and services;
- the consolidation and rationalization of information technology platforms and administrative infrastructures as well as accounting systems and related financial reporting activities; and
- the challenge of preserving important relationships of both companies and resolving potential conflicts that may arise.

Furthermore, it is possible that the integration process could result in the loss of talented employees or skilled workers of the companies. The loss of talented employees and skilled workers could adversely affect our ability to successfully conduct our business because of such employees' experience and knowledge of the respective business. In addition, we could be adversely affected by the diversion of management's attention and any delays or difficulties encountered in connection with the integration of the companies. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the businesses. If we experience difficulties with the integration process, the anticipated benefits of the Business Combination may not be realized fully or at all, or may take longer to realize than expected. These integration matters could have an adverse effect on our business, results of operations, financial condition or prospects during this transition period and for an undetermined period after completion of the Business Combination.

We will incur significant increased expenses and administrative burdens as a public company, which could negatively impact our business, financial condition, and results of operations.

We face increased legal, accounting, administrative, and other costs and expenses as a public company that we have not historically incurred. The Sarbanes-Oxley Act, including the requirements of Section 404(a) relating to disclosing (i) management's responsibility for establishing and maintaining internal control over financial reporting and (ii) annually assessing the effectiveness of the internal control over financial reporting, as well as rules and regulations subsequently implemented by the SEC, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations promulgated and to be promulgated thereunder, the Public Company Accounting Oversight Board (PCAOB) and the securities exchanges, impose additional reporting and other obligations on public companies. Compliance with public company requirements will increase costs and make certain activities more time-consuming. Our management and other personnel are required to devote a substantial amount of time to compliance with these requirements.

We have made, and will continue to make, changes to our internal control over financial reporting, including IT controls, procedures for financial reporting, and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. If we do not continue to develop and implement the right processes and tools to manage our changing enterprise and maintain our culture, our ability to compete successfully and achieve our business objectives could be impaired, which could negatively impact our business, financial condition, and results of operations. In addition, we cannot predict or estimate the amount of additional costs we may incur to comply with these requirements. We anticipate that these costs will materially increase our general and administrative expenses.

These rules and regulations result in our incurring legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified people to serve on our Board, on our Board committees or as executive officers.

Our management has limited experience in operating a public company.

Our executive officers have limited experience in the management of a publicly traded company. Our management team may not successfully or effectively manage our transition to a public company that is subject to significant regulatory oversight and reporting obligations under federal securities laws. Their limited experience in dealing with the increasingly complex laws pertaining to public companies could be a significant disadvantage in that it is likely that an increasing amount of their time may be devoted to these activities, which results in less time being devoted to our management and growth. We may not have adequate personnel with the appropriate level of knowledge, experience, and training in the accounting policies, practices or internal control over financial reporting required of public companies in the United States. The development and implementation of the standards and controls necessary for us to achieve the level of accounting standards required of a public company in the United States may require costs greater than expected. It is possible that we will be required to expand our employee base and hire additional employees to support our operations as a public company, which will increase our operating costs in future periods.

We qualify as an "emerging growth company." The reduced public company reporting requirements applicable to emerging growth companies may make our Common Stock less attractive to investors.

We qualify as an "emerging growth company" under SEC rules. As an emerging growth company, we are permitted and plan to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These provisions include, but are not limited to: (1) an exemption from compliance with the auditor attestation requirement in the assessment of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, (2) not being required to comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, (3) reduced disclosure obligations regarding executive compensation arrangements in periodic reports, registration statements, and proxy statements, and (4) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. As a result, the information we provide is different than the information that is available with respect to other public companies that are not emerging growth companies. If some investors find our Common Stock less attractive as a result, there may be a less active trading market for our Common Stock, and the market price of our Common Stock may be more volatile.

Uncertainty about the effects of the Business Combination may affect our ability to retain key employees and integrate management structures and may materially impact the management, strategy, and results of our operation as a combined company.

Uncertainty about the effects of the Business Combination on our business, employees, customers, third parties with whom we have relationships, and other third parties may adversely affect us. These uncertainties may impair our ability to attract, retain, and motivate key personnel for a period of time after the Business Combination. If key employees depart because of issues related to the uncertainty and difficulty of integration or a desire not to remain with our Company, our business could be harmed.

Some of our existing agreements contain change in control or early termination rights that may have been implicated by the Business Combination.

Parties with which we have been doing business, including customers and suppliers, may experience uncertainty associated with the Business Combination, including with respect to current or future business relationships with us. As a result, our business relationships may be subject to disruptions if customers, suppliers or others attempt to negotiate or renegotiate changes in existing business relationships or consider entering into business relationships with parties other than us. For example, certain customers, suppliers, and third-party providers may assert contractual consent rights or termination rights that may have been triggered by a change of control. These disruptions could harm our relationships with existing third parties with whom we have relationships, all of which could have a material adverse effect on our business, financial condition, and results of operations, cash flows, and/or share price of our Common Stock.

Risks Related to Legal and Regulatory Matters

Failure to adequately obtain, maintain, protect, and enforce our intellectual property and other proprietary rights could adversely affect our business.

Our success and ability to compete depends in part on our ability to protect the proprietary information, methods, software, and technologies that we develop, hold, or claim under a combination of intellectual property and proprietary rights in and outside the U.S. Despite our efforts, third parties may still attempt to disclose, obtain, copy, use or otherwise exploit our intellectual property or other proprietary information, methods or technologies without our authorization, and our efforts to protect our intellectual property and other proprietary rights may not prevent such unauthorized disclosure, use, exploitation, misappropriation, infringement, reverse engineering or other violation of our intellectual property or other proprietary rights. Further, effective protection of our rights may not be available to us in every country in which our Platform or products and solutions are available. The laws of some countries also may not be as protective of intellectual property and other proprietary rights as those in the U.S., and mechanisms for enforcement of intellectual property and other proprietary rights may be inadequate. In addition, we may need to license our intellectual property in order to participate in patent pools or industry standard setting activities or to receive third-party grants as a part of stand-alone licensing arrangements. Accordingly, despite our efforts, we may be unable to prevent third parties from using our intellectual property or other proprietary information or technology.

While we hold a number of issued patents and have a number of pending patent applications, we may be unable to obtain patent protection for the technology covered in our patent applications or such patent protection may not be obtained quickly enough to meet our business needs. Furthermore, the patent prosecution process is expensive, time-consuming, and complex, and we may not be able to prepare, file, prosecute, maintain, and enforce all necessary or desirable patent applications at a reasonable cost or in a timely manner. The scope of patent protection also can be reinterpreted after issuance and issued patents may be invalidated. Even if our patent applications do issue as patents, they may not issue in a form that is sufficiently broad to protect our technology, prevent competitors or other third parties from competing with us, or otherwise provide us with any competitive advantage. In addition, any of our patents, copyrights, trademarks, or other proprietary rights may be challenged, narrowed, invalidated, held unenforceable, or circumvented in litigation or other proceedings, including, where applicable, opposition, re-examination, inter partes review, post-grant review, interference, nullification and derivation proceedings, and equivalent proceedings in foreign jurisdictions, and such intellectual property or other proprietary rights may be lost or no longer provide us meaningful competitive advantages. Such proceedings may result in substantial cost and require significant time from our management, even if the eventual outcome is favorable to us. Third parties also may legitimately and independently develop solutions, services, and technology similar or duplicative of our Platform.

Besides protection under intellectual property laws, we enforce and protect our rights through confidentiality or license agreements that we generally enter into with our corporate partners, employees, consultants, advisors, vendors, and customers. We generally limit access to our intellectual property and control access to our proprietary information. However, we cannot guarantee protection of our intellectual property or proprietary information with all of the parties who may have or have had access, and we cannot guarantee that such agreements we have entered into will not be breached or challenged, or that such breaches will be detected. Furthermore, non-disclosure provisions within such agreements can be difficult to enforce, and even if successfully enforced, may not be entirely effective.

Despite our efforts, we cannot guarantee that any of the measures we have taken will limit the unauthorized use of our proprietary information or prevent infringement, misappropriation, or other violation of our technology or other intellectual property or proprietary rights. We may be an attractive target for cyberattacks or other unauthorized intrusion or access, and we may also have a heightened risk of unauthorized access to, and misappropriation of, our proprietary and competitively sensitive information. We therefore may be required to spend significant resources to monitor and protect our intellectual property and other proprietary rights, and we may conclude that in at least some instances the benefits of protecting our intellectual property or other proprietary rights may be outweighed by the expense or distraction to our management. We may initiate claims or litigation against third parties for infringement, misappropriation, or other violation of our intellectual property or other proprietary rights or to establish the validity of our intellectual property or other proprietary rights. Any such claims or litigation, whether or not it is resolved in our favor, could be time-consuming, result in significant expense to us and divert the efforts of our technical and management personnel. Furthermore, attempts to enforce our intellectual property rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against us, or result in a holding that invalidates or narrows the scope of our intellectual property rights, in whole or in part.

Claims by others that we infringe their proprietary technology or other intellectual property rights could result in significant costs and substantially harm our business, financial condition, results of operations, and prospects.

Claims by others that we infringe their intellectual property rights or violate other rights in their proprietary technology could harm our business. Companies in our industry hold a large number of patents and also protect their copyright, trade secret, and other intellectual property rights, and companies in the security industry frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. As we face increasing competition and grow, the possibility of intellectual property rights claims against us also grows. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that such personnel have divulged proprietary or other confidential information to us.

Third parties may in the future also assert claims against our customers or channel partners, whom our standard license and other agreements obligate us to indemnify against third-party claims that our products and solutions infringe the intellectual property rights of third parties. As the number of products and competitors in the security and IT operations market increases and overlaps occur, third-party claims of infringement, misappropriation, and other violations of intellectual property rights may also increase. While we intend to increase the size of our patent portfolio, many of our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. In addition, future litigation may involve non-practicing entities, companies or other patent owners who have no relevant product offerings or revenue and against whom our own patents may therefore provide little or no deterrence or protection. Any claim of intellectual property infringement by a third party, even a claim without merit, could cause us to incur substantial costs defending against such claim, could distract our management from our business and could require us to cease use of such intellectual property.

Additionally, our insurance policies may not cover intellectual property infringement claims. In the event that we fail to successfully defend ourselves against an infringement claim, a successful claimant could secure a judgment or otherwise require payment of legal fees, settlement payments, ongoing royalties or other costs or damages; we may agree to a settlement that prevents us from offering certain services or features; or we may be required to obtain a license, which may not be available on reasonable terms, or at all, to use the relevant technology. If we are prevented from using certain technology or intellectual property, we may be required to develop alternative, non-infringing technology, which could require significant time and costs, during which we could be unable to continue to offer our affected products and services or features, and may ultimately not be successful. Any of these events could harm our business, financial condition, and results of operations.

Although third parties may alternatively offer a license to their technology or other intellectual property, the terms of any such license may not be acceptable, and the failure to obtain a license or the costs associated with any license could cause our business, financial condition, and results of operations to be adversely affected. In addition, some licenses may be nonexclusive, and therefore our competitors may have access to the same technology licensed to us.

Some of our technologies incorporate "open-source" software, which could negatively affect our ability to sell our Platform and subject us to possible litigation.

Our platform and subscriptions contain third-party open-source software components, and failure to comply with the terms of the underlying open-source software licenses could restrict our ability to sell our Platform and services. The use and distribution of open-source software may also entail greater risks than the use of third-party commercial software, as open-source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Many of the risks associated with use of open-source software cannot be eliminated and could negatively affect our business. In addition, the wide availability of open code used in our solutions could expose us to security vulnerabilities.

Certain open-source licenses may contain requirements that we make available source code for the modifications or derivative works we create based upon the type of open-source software used. If we combine our proprietary software with such open-source software, under such open-source licenses, we may be required to release the source code of our proprietary software to the public, including authorizing further modification and redistribution, or otherwise be limited in the licensing of our services, each of which could provide an advantage to our competitors or other entrants to the market, create security vulnerabilities in our solutions, require us to re-engineer all or a portion of our Platform, and could reduce or eliminate the value of our services. This would allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of sales for us.

The terms of many open-source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in ways that could impose unanticipated conditions or restrictions on our ability to commercialize products, solutions, and subscriptions incorporating such software. Moreover, we cannot assure you that our processes for controlling our use of open-source software in our products, solutions, and subscriptions have been or will be effective. From time to time, we may face claims from third parties asserting ownership of, or demanding release of, the open-source software or derivative works that we developed using such software (which could include our proprietary source code), or otherwise seeking to enforce the terms of the applicable open-source license. These claims could result in litigation that could be costly to defend, have a negative effect on our operating results and financial condition or require us to devote additional research and development resources to change our solutions. Responding to any infringement or noncompliance claim by an open-source vendor, regardless of its validity, discovering certain open-source software code in our Platform, or a finding that we have breached the terms of an open-source software license, could harm our business, results of operations and financial condition, by, among other things:

- resulting in time-consuming and costly litigation;
- diverting management's time and attention from developing our business;
- requiring us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;
- causing delays in the deployment of our Platform or service offerings to our customers;
- requiring us to stop offering certain services or features of our Platform;

- requiring us to redesign certain components of our Platform using alternative non-infringing or non-open-source technology, which could require significant effort and expense;
- requiring us to disclose our proprietary software source code and the detailed program commands for our software;
- prohibiting us from charging license fees for the proprietary software that uses certain open source; and
- requiring us to satisfy indemnification obligations to our customers.

We may become involved in litigation that may adversely affect us.

We may become subject to claims, suits, and government investigations and other proceedings including patent, product liability, class action, whistleblower, personal injury, property damage, labor and employment (including all allegations of wage and hour violations), commercial disputes, compliance with laws and regulatory requirements and other matters, and we may become subject to additional types of claims, suits, investigations, and proceedings as our business develops. Such claims, suits, and government investigations and proceedings are inherently uncertain, and their results cannot be predicted. Regardless of the outcome, any of these types of legal proceedings can have an adverse impact on us because of legal costs and diversion of management attention and resources and could cause us to incur significant expenses or liability, adversely affect our brand recognition, and/or require us to change our business practices. The expense of litigation and the timing of this expense from period to period are difficult to estimate, subject to change and could adversely affect our results of operations. It is possible that a resolution of one or more such proceedings could result in substantial damages, settlement costs, fines and penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, sanctions, consent decrees, or orders requiring a change in our business practices. Because of the potential risks, expenses, and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by agreeing to settlement agreements. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our business, financial condition, results of operations, and prospects. Any of these consequences could adversely affect our business and results of operations.

If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements or regulations, our business, results of operations, and financial condition could be harmed.

Personal privacy, data protection, information security regulations, and other laws applicable to specific categories of information raise significant issues in the U.S., Europe and in other jurisdictions where we offer our products and solutions. The data that we collect, analyze, and store is subject to a variety of laws and regulations, including regulation by various government agencies. The U.S. federal government, and various state and foreign governments, have adopted or proposed limitations on the collection, distribution, use, retention, protection, transfer, processing, and storage of certain categories of information, such as the personal information of individuals. These laws and regulations include, but are not limited to, the Federal Trade Commission Act, the Computer Fraud and Abuse Act, the Health Insurance Portability and Accountability Act and the Gramm-Leach-Bliley Act.

The nature of cybersecurity product and service offerings requires the collection of various types of data. In the operation of our business we may collect the types of data covered by these laws and regulations including personally identifiable information, such as information about an individual's health and financial information about individuals. To the extent we are in possession of such data and these various laws and regulations are determined to apply to us, this could require us to adopt additional operational, technological, and security measures to protect and manage such information which could increase our costs of operations. Our failure to comply with such laws and regulations could also result in monetary fines and reputational damage which would have a negative impact on our business. Laws and regulations outside the U.S., and particularly in Europe, often are more restrictive than those in the U.S. Applicable laws and regulations may require us to implement privacy and security policies, permit customers to access, correct, and delete personal information stored or maintained by us, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consents to use personal information for certain purposes. In addition, some foreign governments require that personal information collected in a country not be disseminated outside of that country without consent or other implemented safeguards.

We may find it necessary or desirable to join industry or other self-regulatory bodies or other information security or data protection-related organizations that require compliance with their rules pertaining to information security and data protection. We also may be bound by additional, more stringent contractual obligations with our customers and partners relating to our collection, use and disclosure of personal, financial, and other data. We expect that there will continue to be new proposed laws, regulations, and industry standards concerning privacy, data protection, information security, specific categories of data, and electronic services in the U.S., the E.U. and other jurisdictions in which we operate or may operate, and we cannot yet determine the impact such future laws, regulations, standards, or perception of their requirements may have on our business.

For example, the GDPR applies to the processing (which includes the collection and use) of certain personal data of data subjects in the European Economic Area (EEA). As compared to previously effective data protection law in the European Union, the GDPR imposes additional obligations and resulting risk upon our business and increases substantially the penalties to which we could be subject in the event of any non-compliance. Administrative fines under the GDPR can amount to 20,000,000 Euros or four percent of our worldwide annual revenue for the prior fiscal year, whichever is higher. We may be required to incur, in the future, substantial expense in complying with the obligations imposed by the GDPR, potentially making significant changes in our business operations, which may adversely affect our revenue and our business overall. Additionally, because there have been very few GDPR actions enforced against companies similar to ours, we are unable to predict how they will be applied to us or our customers. Despite our efforts to comply with the GDPR, a regulator may determine that we have not done so and subject us to fines and public censure, which could harm our Company financially and negatively affect our reputation. Among other requirements, the GDPR regulates transfers of personal data subject to the GDPR to third countries that have been found to not provide adequate protection to such personal data, including the U.S. We have undertaken certain efforts to conform transfers of personal data from the EEA to the U.S. and other jurisdictions based on our understanding of current regulatory obligations and the guidance of data protection authorities. Despite this, we may be unsuccessful in establishing or maintaining conforming means of transferring such data from the EEA, in particular because of continued legal and legislative activity within the European Union that has challenged or called into question the legal basis for existing means of data transfers to countries (including the U.S.) that have been found to not provide adequate protection for personal data.

The implementation of the GDPR has led other jurisdictions to either amend existing laws or propose new data privacy and cybersecurity laws to resemble all or a portion of the requirements of the GDPR (e.g., for purposes of having an adequate level of data protection to facilitate data transfers from the E.U.). Accordingly, the challenges we face in the E.U. will likely also apply to other jurisdictions outside the E.U. that adopt laws similar to the GDPR or regulatory frameworks of equivalent complexity. For example, the California Consumer Privacy Act of 2018, or CCPA, became enforceable on July 1, 2020. The CCPA has been characterized as the first "GDPR-like" privacy statute to be enacted in the U.S. because it contains several provisions similar to certain provisions of the GDPR. In addition, the California Privacy Rights Act of 2020, or the CPRA, was passed by California voters in November 2020. The CPRA amends the CCPA by creating additional privacy rights for California consumers and additional obligations on businesses, which could subject us to additional compliance costs as well as potential fines, individual claims, and commercial liabilities. The majority of the CPRA provisions took effect on January 1, 2023. The CCPA and CPRA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., as other states or the federal government may follow California's lead and increase protections for U.S. residents. For example, the Virginia Consumer Data Protection Act and the CCPA have already prompted several proposals for new federal and state privacy legislation that, if passed, could increase our potential liability, add layers of complexity to compliance in the U.S. market, increase our compliance costs and adversely affect our business.

Evolving and changing definitions of personal data and personal information within the E.U., the U.S. and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting technology alliance partnerships with other security vendors that may involve the sharing of data. Even the perception of privacy concerns, whether or not valid, may harm our reputation, inhibit adoption of our products by current and future customers, or adversely impact our ability to attract and retain workforce talent. In addition, changes in laws or regulations that adversely affect the use of the internet, including laws impacting net neutrality, could impact our business. We expect that existing laws, regulations and standards may be interpreted in new manners in the future. Future laws, regulations, standards, and other obligations, and changes in the interpretation of existing laws, regulations, standards, and other obligations could require us to modify our products and solutions, restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Beyond broader data processing regulations affecting our business, the overall cybersecurity industry may face direct regulation. For example, in 2018, Singapore introduced what is believed to be the world's first cybersecurity licensing requirement, mandating that providers of specific types of incident response services receive a government license before providing such services. License requirements such as these may impose upon us significant organizational costs and high barriers of entry into new markets.

Although we have worked and will continue to work to comply with applicable laws and regulations, applicable industry standards with which we represent compliance, and our contractual obligations, such laws, regulations, standards, and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another. In addition, they may conflict with other requirements or legal obligations that apply to our business or the security features and services that our customers expect from our solutions. As such, we cannot assure ongoing compliance with all such laws, regulations, standards, and obligations which may change in the future. Any failure or perceived failure by us or our employees, representatives, contractors, channel partners, agents, intermediaries, or other third parties to comply with applicable laws and regulations, or applicable industry standards that we represent compliance with or that may be asserted to apply to us, or to comply with employee, customer, partner, and other data privacy and data security requirements pursuant to contract and our stated notices or policies, could result in enforcement actions against us, including fines, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on our operations, financial performance and business. Any inability of us or our employees, representatives, contractors, channel partners, agents, intermediaries, or other third parties to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, standards, and obligations, could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and results of operations.

We are subject to laws and regulations, including governmental export and import controls, sanctions, foreign investment screening, and anti-corruption laws, that could impair our ability to compete in our markets and subject us to liability if we are not in full compliance with applicable laws.

We are subject to laws and regulations, including governmental export controls, that could subject us to liability or impair our ability to compete in our markets. Our products and solutions are subject to U.S. export controls, including the U.S. Department of Commerce’s Export Administration Regulations, and we and our employees, representatives, contractors, agents, intermediaries, and other third parties are also subject to various economic and trade sanctions regulations administered by the U.S. Treasury Department’s Office of Foreign Assets Control. We incorporate standard encryption algorithms into our products, which, along with the underlying technology, may be exported outside of the U.S. only with the required export authorizations, including by license, license exception or other appropriate government authorizations, which may require the filing of an encryption registration and classification request. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain cloud-based solutions to countries, governments, and persons targeted by U.S. sanctions. We also collect information about cyber threats from internet-accessible, and non-internet routable sources, intermediaries, and third parties that we make available to our customers in our threat industry publications. While we have implemented certain procedures to facilitate compliance with applicable laws and regulations in connection with the collection of this information, we cannot assure you that these procedures have been effective or that we, or third parties, many of whom we do not control, have complied with all laws or regulations in this regard. Failure by our employees, representatives, contractors, channel partners, agents, intermediaries, or other third parties to comply with applicable laws and regulations in the collection of this information also could have negative consequences to us, including reputational harm, government investigations and penalties.

Although we take precautions to prevent our information collection practices and services from being provided in violation of such laws, our information collection practices and services may have been in the past, and could in the future be, provided in violation of such laws. If we or our employees, representatives, contractors, channel partners, agents, intermediaries, or other third parties fail to comply with these laws and regulations, we could be subject to civil or criminal penalties, including the possible loss of export privileges and fines. We may also be adversely affected through reputational harm, loss of access to certain markets, or otherwise. Obtaining the necessary authorizations, including any required license, for a particular transaction may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities.

Various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products and solutions or changes in export and import regulations may create delays in the introduction of our products and solutions into international markets, prevent our customers with international operations from deploying our products and solutions globally or, in some cases, prevent the export or import of our products and solutions to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our products and solutions by, or in our decreased ability to export or sell our products and solutions to, existing or potential customers with international operations. Any decreased use of our products and solutions or limitation on our ability to export or sell our products and solutions would likely adversely affect our business, results of operations, and financial condition.

We may be subject to review and enforcement under domestic and foreign laws that screen investment and to other national-security-related laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States and may impact cybersecurity providers more specifically. As a result of these laws, investments by certain investors may impose added costs on our business, impact our operations, and/or limit our ability to engage in strategic transactions that might otherwise be beneficial to us and our investors.

We are also subject to the Foreign Corrupt Practices Act (FCPA), the U.K. Anti-Bribery Act, and other anti-corruption, sanctions, anti-bribery, anti-money laundering, and similar laws in the U.S. and other countries in which we conduct activities. Anti-corruption and anti-bribery laws, which have been enforced aggressively and are interpreted broadly, prohibit companies and their employees, agents, intermediaries, and other third parties from promising, authorizing, making or offering improper payments or other benefits to government officials and others in the private sector. We leverage third parties, including intermediaries, agents, and channel partners, to conduct our business in the U.S. and abroad, to sell subscriptions to our Platform and to collect information about cyber threats. We and these third parties may have direct or indirect interactions with officials and employees of government agencies, or state-owned or affiliated entities and we may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, agents, intermediaries, and other third parties, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with the FCPA, the U.K. Anti-Bribery Act and other anti-corruption, sanctions, anti-bribery, anti-money laundering and similar laws, we cannot assure you that they will be effective, or that all of our employees, representatives, contractors, channel partners, agents, intermediaries, or other third parties have not taken, or will not take actions, in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, our risks under these laws may increase. Noncompliance with these laws could subject us to investigations, severe criminal or civil sanctions, settlements, prosecution, loss of export privileges, suspension or debarment from U.S. government contracts, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, whistleblower complaints, adverse media coverage, and other consequences. Any investigations, actions or sanctions could harm our reputation, business, results of operations, and financial condition.

Risks Related to Ownership of our Common Stock and Public Warrants

There can be no assurance that we will be able to comply with the continued listing standards of Nasdaq.

If we fail to satisfy the continued listing requirements of Nasdaq such as the corporate governance requirements or the minimum share price requirement, Nasdaq may take steps to delist our securities. Such a delisting would likely have a negative effect on the price of the securities and would impair your ability to sell or purchase the securities when you wish to do so. In the event of a delisting, we can provide no assurance that any action taken by us to restore compliance with listing requirements would allow our securities to become listed again, stabilize the market price or improve the liquidity of our securities, prevent our securities from dropping below the Nasdaq minimum share price requirement or prevent future non-compliance with Nasdaq's listing requirements. Additionally, if our securities are not listed on, or become delisted from, Nasdaq for any reason, and are quoted on the OTC Bulletin Board, an inter-dealer automated quotation system for equity securities that is not a national securities exchange, the liquidity and price of our securities may be more limited than if we were quoted or listed on Nasdaq or another national securities exchange. You may be unable to sell your securities unless a market can be established or sustained.

Our business and operations could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of our business and growth strategy, and impact our stock price.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing recently. Volatility in the stock price of our Common Stock or other reasons may in the future cause it to become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and divert management's and our Board's attention and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to any securities litigation and activist shareholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation and shareholder activism.

The market price of shares of our Common Stock may be volatile, which could cause the value of stockholder investments to decline.

The market price of our Common Stock may be highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. Market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our Common Stock regardless of our operating performance.

In addition, our operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including:

- variations in operating results or dividends, if any, to stockholders;
- additions or departures of key management personnel;
- publication of research reports about our industry;
- litigation and government investigations;
- changes or proposed changes in laws or regulations or differing interpretations or enforcement of laws or regulations affecting our business;
- adverse market reaction to any indebtedness incurred or securities issued in the future;
- changes in market valuations of similar companies;
- adverse publicity or speculation in the press or investment community;
- the development and sustainability of an active trading market for our Common Stock;
- announcements by competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures, or capital commitments; and
- the impact of the COVID-19 pandemic (or future pandemics) on our management, employees, partners, customers, and operating results.

In response to any of the foregoing developments, the market price of shares of our Common Stock could decrease significantly. You may be unable to resell your shares at or above your purchase price.

If our operating and financial performance in any given period does not meet the guidance provided to the public or the expectations of investment analysts, the market price of our Common Stock may decline.

We may, but are not obligated to, provide public guidance on our expected operating and financial results for future periods. Any such guidance will consist of forward-looking statements, subject to the risks and uncertainties described in this Annual Report and in our other public filings and public statements. Our actual results may not always be in line with or exceed any guidance we have provided, especially in times of economic uncertainty. If, in the future, our operating or financial results for a particular period do not meet any guidance provided or the expectations of investment analysts, or if we reduce our guidance for future periods, the market price of our Common Stock may decline as well. Even if we do issue public guidance, there can be no assurance that we will continue to do so in the future.

If securities or industry analysts do not publish research or reports about our business or publish negative reports, the market price of our Common Stock could decline.

The trading market for our Common Stock is influenced by the research and reports that industry or securities analysts publish about us and our business. If regular publication of research reports ceases, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume of our Common Stock to decline. Moreover, if one or more of the analysts who cover us downgrade our Common Stock or if reporting results do not meet their expectations, the market price of our Common Stock could decline.

We may issue additional shares of our Common Stock (including upon the exercise of warrants), which would increase the number of shares eligible for future resale in the public market and result in dilution to Company stockholders.

The Warrants became exercisable on September 2, 2022, provided in each case that we have an effective registration statement under the Securities Act covering the shares of our Common Stock issuable upon exercise of our Warrants and a current prospectus relating to them is available and such shares are registered, qualified or exempt from registration under the securities, or blue sky, laws of the state of residence of the holder (or holders exercise their warrants on a cashless basis under the circumstances specified in the Warrant Agreement). Each Warrant entitles the holder thereof to purchase one share of our Common Stock at a price of $11.50 per whole share, subject to adjustment. In addition, the Convertible Notes initially will be convertible into approximately 13,043,473 shares of our Common Stock, subject to increase to the extent that we exercise our option to pay interest in kind with respect to the Convertible Notes rather than in cash (please see "*Risk Factors—Risks Related to Ownership of our Common Stock—Our issued and outstanding notes may impact our financial results, result in the dilution of our stockholders, create downward pressure on the price of our Common Stock, and restrict our ability to raise additional capital or take advantage of future opportunities*.") The issuance of additional shares of our Common Stock as a result of any of the aforementioned transactions may result in dilution to the then-existing holders of our Common Stock and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our Common Stock.

We may issue additional shares of our Common Stock or other equity securities without stockholder approval, which would dilute stockholder ownership interests and may depress the market price of our Common Stock.

Pursuant to the Incentive Equity Plan, we may issue an aggregate of up to 23,887,536 shares of Common Stock as of January 1, 2024, which amount will be subject to increase from time to time. We may also issue additional shares of our Common Stock or other equity securities of equal or senior rank in the future in connection with, among other things, future acquisitions or repayment of outstanding indebtedness, without stockholder approval, in a number of circumstances.

The issuance of additional shares or other equity securities of equal or senior rank would have the following effects:

- existing stockholders' proportionate ownership interest in us will decrease;
- the amount of cash available per share, including for payment of dividends in the future, may decrease;
- the relative voting strength of each share of previously outstanding common stock may be diminished; and
- the market price of our Common Stock may decline.

There is no guarantee that our Warrants will ever be in the money, and they may expire worthless.

The exercise price for our Warrants is $11.50 per-share (subject to adjustment as described herein). We do not expect warrant holders to exercise their Warrants and, therefore, we do not expect to receive cash proceeds from any such exercise, for so long as Warrants are out-of-the money. There can be no assurance that Warrants will ever be in-the-money prior to their expiration and, as such, the Warrants may expire worthless. The last reported sales price for our Common Stock on March 13, 2024 was $1.11 per share.

We may amend the terms of our Public Warrants in a manner that may be adverse to holders of such warrants with the approval by the holders of at least 50% of the then outstanding our Public Warrants. As a result, the exercise price of our Public Warrants could be increased, the exercise period could be shortened and the number of shares of our Common Stock purchasable upon exercise of our Public Warrants could be decreased, all without any particular public warrant holder's approval.

Our Public Warrants were issued in registered form under the Warrant Agreement. The Warrant Agreement provides that the terms of the Public Warrants may be amended without the consent of any holder to cure any ambiguity, mistake or correct any defective provision, but requires the approval by the holders of at least 50% of the then outstanding Public Warrants to make any change that adversely affects the interests of the registered holders of such Public Warrants. Accordingly, we may amend the terms of our Public Warrants in a manner adverse to a holder if holders of at least 50% of the then outstanding Public Warrants approve of such amendment and, solely with respect to any amendment to the terms of our Private Placement Warrants or any provision of the Warrant Agreement with respect to our Private Placement Warrants, 50% of the number of the then outstanding Private Placement Warrants. Although our ability to amend the terms of our Public Warrants with the consent of at least 50% of the then outstanding Public Warrants is unlimited, examples of such amendments could be amendments to, among other things, increase the exercise price of the Public Warrants, convert the Public Warrants into cash, shorten the exercise period or decrease the number of shares of our Common Stock purchasable upon exercise of a Public Warrant.

We may redeem unexpired Public Warrants prior to their exercise at a time that is disadvantageous to holders of Public Warrants, thereby making such warrants worthless.

We have the ability to redeem all, but not less than all, of the outstanding Public Warrants at any time after they become exercisable and prior to their expiration, at a price of $0.01 per warrant, provided that the closing price of our Common Stock equals or exceeds $18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which we give proper notice of such redemption to the warrants holders and provided certain other conditions are met. We may not redeem the warrants unless an effective registration statement under the Securities Act covering the shares of our Common Stock issuable upon exercise of the warrants is effective and a current prospectus relating to those shares is available throughout the minimum 30-day notice period discussed below. If and when our Public Warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding warrants could force warrant holders to (i) exercise their warrants and pay the exercise price therefor at a time when it may be disadvantageous for them to do so, (ii) sell their warrants at the then-current market price when they might otherwise wish to hold their warrants or (iii) accept the nominal redemption price which, at the time the outstanding warrants are called for redemption, is likely to be substantially less than the market value of their warrants. None of our Private Warrants will be redeemable by us in accordance with these provisions so long as they are held by the Sponsor, Jefferies LLC or their permitted transferees.

In addition, we have the ability to redeem all, but not less than all, of the outstanding Public Warrants at any time after they become exercisable and prior to their expiration, at a price of $0.10 per warrant, provided that the closing price of our Common Stock equals or exceeds $10.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which we give proper notice of such redemption to the warrants holders and provided certain other conditions are met, including that holders will be able to exercise their warrants on a “cashless basis” prior to redemption for a number of shares of our Common Stock determined based on the period of time to expiration of the warrants and the redemption fair market value of our Common Stock, both as set forth in a table in the Warrant Agreement. If and when our Public Warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. The value received upon exercise of the warrants (1) may be less than the value the holders would have received if they had been able to exercise their warrants at a later time at which the underlying share price is higher and (2) may not compensate the holders for the value of the warrants, including because the number of shares received on a cashless exercise basis is capped at 0.361 of a share of our Common Stock per warrant (subject to adjustment) irrespective of the remaining life of our Public Warrants. If the closing price of our Common Stock is less than $18.00 per share (as adjusted for share sub-divisions, share capitalizations, reorganizations, recapitalizations and the like) for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date on which we give proper notice of such redemption to the warrants holders, we may only redeem our Public Warrants in accordance with these provisions if we concurrently redeem the outstanding Private Warrants (other than Private Warrants held by the Sponsor, Jefferies LLC and their permitted transferees) on the same terms.

In the event that we elect to redeem our Public Warrants in either of the scenarios described above we would only be required to have the notice of redemption mailed by first class mail, postage prepaid, by us not less than thirty (30) days prior to the redemption date to the registered holders of the outstanding warrants to be redeemed at their last addresses as they shall appear on the registration books. Any notice mailed in the manner provided above will be conclusively presumed to have been duly given whether or not the registered holder of the warrants received such notice. We are not contractually obligated to notify investors when our Public Warrants become eligible for redemption, and we do not intend to so notify investors upon eligibility of the warrants for redemption.

The Warrant Agreement designates the courts of the State of New York or the United States District Court for the Southern District of New York as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by holders of our Warrants, which could limit the ability of warrant holders to obtain a favorable judicial forum for disputes with us.

The Warrant Agreement provides that, subject to applicable law, (i) any action, proceeding or claim against us arising out of or relating in any way to the Warrant Agreement, including under the Securities Act, will be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and (ii) that we irrevocably submit to such jurisdiction, which jurisdiction shall be the exclusive forum for any such action, proceeding or claim. We will waive any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum. However, Section 22 of the Securities Act provides that federal and state courts have concurrent jurisdiction over lawsuits brought under the Securities Act or the rules and regulations thereunder. To the extent the exclusive forum provision restricts the courts in which claims arising under the Securities Act may be brought, there is uncertainty as to whether a court would enforce such a provision. We note that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

Notwithstanding the foregoing, these provisions of the Warrant Agreement do not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal district courts of the United States of America are the sole and exclusive forum. Any person or entity purchasing or otherwise acquiring any interest in any our Warrants shall be deemed to have notice of and to have consented to the forum provisions in the Warrant Agreement. If any action, the subject matter of which is within the scope the forum provisions of the Warrant Agreement, is filed in a court other than a court of the State of New York or the United States District Court for the Southern District of New York (a foreign action) in the name of any holder of our Warrants, such holder shall be deemed to have consented to: (x) the personal jurisdiction of the state and federal courts located in the State of New York in connection with any action brought in any such court to enforce the forum provisions (an enforcement action), and (y) having service of process made upon such warrant holder in any such enforcement action by service upon such warrant holder’s counsel in the foreign action as agent for such warrant holder.

This choice-of-forum provision may limit a warrant holder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us, which may discourage such lawsuits. Alternatively, if a court were to find this provision of the Warrant Agreement inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially and adversely affect our business, financial condition and results of operations and result in a diversion of the time and resources of our management and Board.

Provisions in our organizational documents and provisions of Delaware General Corporation Law (DGCL) may delay or prevent an acquisition by a third party that could otherwise be in the interests of stockholders.

Our organizational documents contain several provisions that may make it more difficult or expensive for a third party to acquire control of us without the approval of our Board. These provisions, which may delay, prevent or deter a merger, acquisition, tender offer, proxy contest, or other transaction that stockholders may consider favorable, include the following:

- the division of our Board into three classes and the election of each class for three-year terms;
- advance notice requirements for stockholder proposals and director nominations;
- provisions limiting stockholders’ ability to call special meetings of stockholders and to take action by written consent;
- restrictions on business combinations with interested stockholders;
- in certain cases, the approval of holders representing at least two-thirds of the total voting power of the shares entitled to vote will be required for stockholders to adopt, amend or repeal certain provisions of the Bylaws, or amend or repeal certain provisions of the Certificate of Incorporation;
- no cumulative voting; and
- the ability of the Board to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used, among other things, to institute a rights plan that would have the effect of significantly diluting the stock ownership of a potential hostile acquirer, likely preventing acquisitions by such acquirer.

These provisions of our organizational documents could discourage potential takeover attempts and reduce the price that investors might be willing to pay for the shares of our Common Stock in the future, which could reduce the market price of the common stock. For more information, see the “Description of Securities” included as an exhibit to this Annual Report.

The provision of our Certificate of Incorporation requiring exclusive venue in the Court of Chancery in the State of Delaware and the federal district courts of the United States for certain types of lawsuits may have the effect of discouraging lawsuits against directors and officers.

Our Certificate of Incorporation provides that, unless otherwise consented to by us in writing, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another State court in Delaware or the federal district court for the District of Delaware) will, to the fullest extent permitted by law, be the sole and exclusive forum for the following types of actions or proceedings: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a duty (including any fiduciary duty) owed by any of our current or former director, officer, stockholder, employee or agent to us or our stockholders; (iii) any action asserting a claim against us or any of our current or former director, officer, stockholder, employee or agent relating to any provision of the DGCL or the Certificate of Incorporation or the Bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware; and (iv) any action asserting a claim against us or any of our current or former director, officer, stockholder, employee or agent governed by the internal affairs doctrine of the State of Delaware, in each such case unless the Court of Chancery (or such other state or federal court located within the State of Delaware, as applicable) has dismissed a prior action by the same plaintiff asserting the same claims because such court lacked personal jurisdiction over an indispensable party named as a defendant therein. Our Certificate of Incorporation further provides that, unless otherwise consented to by us in writing to the selection of an alternative forum, the federal district courts of the United States will, to the fullest extent permitted by law, be the sole and exclusive forum for the resolution of any complaint against any person in connection with any offering of our securities, asserting a cause of action arising under the Securities Act. Any person or entity purchasing or otherwise acquiring any interest in our securities will be deemed to have notice of and consented to this provision.

Although our Certificate of Incorporation contains the choice of forum provisions described above, it is possible that a court could rule that such provisions are inapplicable for a particular claim or action or that such provisions are unenforceable. For example, under the Securities Act, federal courts have concurrent jurisdiction over all suits brought to enforce any duty or liability created by the Securities Act, and investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. In addition, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and, therefore, the exclusive forum provisions described above do not apply to any actions brought under the Exchange Act.

Although we believe these provisions will benefit us by limiting costly and time-consuming litigation in multiple forums and by providing increased consistency in the application of applicable law, these exclusive forum provisions may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers, and other employees.

We have no current plans to pay cash dividends on our Common Stock. As a result, stockholders may not receive any return on investment unless they sell their Common Stock for a price greater than the purchase price.

We have no current plans to pay dividends on our Common Stock. Any future determination to pay dividends will be made at the discretion of our Board, subject to applicable laws. It will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual, legal, tax, and regulatory restrictions, general business conditions, and other factors that our Board may deem relevant. In addition, the ability to pay cash dividends may be restricted by the terms of debt financing arrangements, as any future debt financing arrangement likely will contain terms restricting or limiting the amount of dividends that may be declared or paid on our Common Stock. As a result, stockholders may not receive any return on an investment in our Common Stock unless they sell their shares for a price greater than that which they paid for them.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 1C. CYBERSECURITY

We are committed to protecting information and the underlying information systems involved in the operation of our business. We face a multitude of cybersecurity threats that range from attacks common to most industries such as phishing and denial-of-service attempts, to more-sophisticated malware and ransomware attacks, in addition to threats designed to penetrate our Platform. Our customers, suppliers, subcontractors, and third-party business partners also face similar cybersecurity threats. A cybersecurity incident impacting us or any of these entities could have a materially adverse impact on our operations, performance, our brand, and our competitive position. We rely on technical safeguards that are designed to protect our information systems from cybersecurity threats, including firewalls, intrusion prevention and detection systems, anti-malware functionality, and access controls. We must maintain a robust cybersecurity stance in the rapidly evolving security environment to uphold our market leadership position.

The Board of Directors assesses the Company’s overall risk assessment and risk management policies. The Board discharges this responsibility through its committees, each of which examines various components of enterprise risk. The Audit Committee reviews the Company's management of cybersecurity risk, including our policies and processes to monitor and mitigate potential exposure.

Our Chief Information Security Officer ("CISO") leads a Security & Compliance team that is responsible for information security, including cyber threat detection and response. Our CISO has extensive information technology and program management experience, including a background in corporate information security across a wide range of industries. The Security & Compliance team oversees and works to improve our enterprise security framework through its identification, assessment, and response to potential threats in order to mitigate risk and reduce the impact of a cyber incident. These efforts include daily internal and external vulnerability scans, web application scans, and vendor risk assessments. The assessment of a cyber incident includes both quantitative and qualitative factors to determine if there is a material impact. Quantitative factors include the potential or actual financial loss and cost of remediation efforts. Qualitative factors include damages to our brand and/or competitive standing, disruptions to our operations, and the potential for litigation. Regardless of whether we consider an incident to be material, the Security & Compliance team will monitor the situation. This ongoing monitoring aims to contain, mitigate, and remediate the circumstances that contributed to the incident and any potential losses arising from the incident. The Security & Compliance team also monitors evolving factors that might later elevate an incident above a materiality threshold which would require us to make public disclosure of the incident.

We engage third parties to conduct evaluations of our information security controls and compliance such as penetration testing and HIPAA ("Health Insurance Portability and Accountability Act") risk assessment. Since we provide services to certain government agencies, we are subject to various compliance assessments including the Cybersecurity Maturity Model Certification developed by the United States Department of Defense. We also receive an annual System & Organizational Control (SOC 2) audit which assesses our key compliance controls and objectives which helps us identify gaps that may require enhancements to our enterprise security framework.

We also consider our risks from cybersecurity threats as part of a broader overall enterprise risk management (ERM) program. The ERM program is managed by a cross-functional team that is comprised of our CTO, CFO, COO, and General Counsel. Our risk assessment approach is to evaluate the likelihood and potential negative impact of each threat or risk using a quantitative scoring methodology. To the extent our ERM program identifies a severe cybersecurity related risk, we will develop a response plan, assign owners to each planned action, and track progress of solution implementation. The Board of Directors reviews our ERM program on an annual basis.

Despite the extensive approach we take to cybersecurity, we may not be successful in preventing or mitigating a cybersecurity incident that could have a material adverse effect on us. While we maintain cybersecurity insurance policies, the costs related to a cybersecurity incident may not be fully insured. See Item 1A. "Risk Factors" for a discussion of cybersecurity risks.DDD

ITEM 2. PROPERTIES

Our corporate headquarters in Baltimore, Maryland consist of office space that is currently leased until February 2026. We lease and maintain additional offices in the United States, including Portland, Oregon, and internationally in the United Kingdom, Chile, and India. We believe that our current facilities are adequate to meet our ongoing needs and that suitable additional alternative spaces will be available in the future on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition or cash flows. We have received, and may in the future continue to receive, claims from third parties asserting, among other things, infringement of their intellectual property rights. Future litigation may be necessary to defend ourselves, our partners and our customers by determining the scope, enforceability, and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

Our Common Stock trades on the Nasdaq Global Market under the ticker symbol "ZFOX." Prior to the consummation of the Business Combination, L&F’s Class A Ordinary Shares were listed on the NYSE American under the symbol “LNFA.”

Public Warrants

Our Public Warrants trade on the Nasdaq Capital Market under the ticker symbol "ZFOXW." Prior to the consummation of the Business Combination, L&F’s warrants were listed on the NYSE American under the symbol “LNFA WS.”

Holders of Record

On January 31, 2024, there were 144 holders of record of our Common Stock and 2 holders of record of our Public Warrants. We believe the actual number of beneficial owners of our Common Stock and Public Warrants is greater than this number of record holders and includes beneficial owners whose shares are held in street name by brokers, banks, and other nominees.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not expect to pay any dividends on our capital stock in the foreseeable future. Additionally, our ability to pay dividends is limited by restrictions on our ability to pay dividends or make distributions under the terms of our loan and security agreement with Stifel Bank. Any future determination to declare dividends will be made at the discretion of our Board of Directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our Board of Directors may deem relevant.

Issuer Purchases of Equity Securities

None.

ITEM 6. [RESERVED]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk Factors" for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by these forward-looking statements. Unless otherwise indicated or the context otherwise requires, references in this Management's Discussion and Analysis of Financial Condition and Results of Operations of ZeroFox Holdings, Inc. section to ''ZeroFox,'' ''we,'' ''us,'' ''our,'' and other similar terms refer to ZeroFox Holdings, Inc. and its consolidated subsidiaries after the Business Combination.

Overview

ZeroFox was formed through the merger of ZeroFox, Inc., ID Experts Holdings, Inc., and L&F Acquisition Corp. ("L&F") on August 3, 2022. ZeroFox, Inc. was founded in 2013 with the vision that the emergence and adoption of social media, mobile applications, and cloud computing by enterprises would fundamentally change the cybersecurity paradigm. Social media represents much more than a platform where individuals connect online. The adoption of social media revolutionized the way people communicate with each other and, subsequently, how enterprises and organizations enable communication among employees, customers, partners, and prospects. Mobile applications accelerated the digital transformation in which earlier versions of the web would need to become interactive and persist across multiple modern mediums. Furthermore, cloud computing's continued evolution and adoption demonstrate how organizations are more comfortable with data residing beyond their traditional security perimeter outside of the historical boundaries of IT governance and control.

We provide customers with an innovative and comprehensive platform for external cybersecurity that protects organizations from threats outside the traditional corporate perimeter (our Platform). Our Platform protects our customers from threats to their organizations, brands, digital assets, and people. These threats include targeted phishing attacks, account takeovers, credential theft, data leakage, domain spoofing, and impersonations.

Our cloud-native platform combines protection, intelligence, adversary disruption, and response services into an integrated solution.

Our protection capabilities continuously monitor social, mobile, surface web, deep and dark web, email, and collaboration platforms and use artificial intelligence-powered analytics to identify threats. Our Platform processes millions of pieces of content, rich media, posts, messages, global intelligence, and threat actor activity across the digital landscape, including mobile app stores, social media sites, dark web forums, and discrete content sources. With the data we collect and process, we identify targeted phishing attacks, credential compromise, data exfiltration, brand hijacking, and executive and location threats across the public-facing surface web as well as the deep and dark web.

Our intelligence capabilities provide access to threat intelligence data as well as analysis and investigations provided by our threat intelligence experts.

Our adversary disruption capabilities enable the remediation of threats through automated takedowns of domains, impersonations, and malicious content, and facilitate the blocking of adversary infrastructure across various networks.

Our response services include breach response (notification, call center support, and identity protection) and incident response.

We sell subscriptions to our Platform to organizations of all sizes across multiple industries. We primarily sell subscriptions through our direct sales teams that leverage our global network of channel partners. A majority of our customers purchase subscription agreements with a term of one year. Our subscription agreements are generally priced on the number of assets protected and the desired levels of services. We generally recognize our subscription agreements ratably over the term of the agreement.

We also generate revenue from breach response services, incident response, investigative services, and training. Our breach response services can be priced on either a fixed price or variable price arrangement. A typical breach response arrangement includes breach notification services and a period of identity protection services. We recognize revenue for the breach notification services on completion of the notification and the identity protection on a ratable basis over the contract term, typically 15 months. Our incident response, investigative, and training services are generally priced on a fixed-fee basis and revenue is recognized as the services are performed.

Russian Invasion of Ukraine and Israel-Hamas War

We continue to monitor and respond to the war in Ukraine and the associated sanctions and other restrictions. We are also monitoring and responding to the Israel-Hamas war. The full impact of the conflicts on our business operations and financial performance remains uncertain and will depend on future developments, including the severity and duration of the conflicts and their impact on regional and global economic conditions. We will continue to monitor these conflicts and assess the related restrictions and other effects and pursue prudent decisions for our team members, customers, and business. As of the date of this report, these conflicts have not resulted in a material impact to our business operations and financial performance.

Recent Acquisitions

On April 21, 2023, we completed the acquisition of Lookingglass Cyber Solutions, Inc. (LookingGlass). The successful completion of the acquisition combined the innovative platforms of ZeroFox and LookingGlass, enabling our customers to build a robust security posture by providing world-class visibility into external attack surface assets and vulnerabilities.

Proposed Merger

On February 6, 2024, the Company entered into the Haveli Merger Agreement with Parent and Merger Sub. Parent and Merger Sub are each affiliates of the Haveli Funds, managed by Haveli.

The Haveli Merger Agreement provides that, among other things and on the terms and subject to the conditions of the Haveli Merger Agreement, (a) Merger Sub will merge with and into the Company, with the Company surviving the Merger as a wholly-owned subsidiary of Parent (the "Merger"), and (b) at the effective time of the Merger (the "Effective Time"), each issued and outstanding share (immediately prior to the Effective Date) of Company Common Stock (except as otherwise provided in the Haveli Merger Agreement) will be cancelled and converted into the right to receive an amount in cash equal to $1.14 per share, without interest and subject to any applicable withholding taxes.

The completion of the Merger is subject to the satisfaction or, if permitted, waiver of certain customary mutual closing conditions set forth in the Haveli Merger Agreement, including (a) obtaining Company Stockholder Approval and (b) the expiration or termination of the applicable waiting period under the HSR Act, and the receipt of approval, clearance or expiration of the applicable review periods under the NSI Act. The obligation of each party to consummate the Merger is also conditioned on the other party's representations and warranties being true and correct (subject to certain customary materiality exceptions) and the other party having performed in all material respects its obligations under the Merger Agreement, and the obligation of Parent to consummate the Merger is additionally conditioned on no material adverse effect on the Company having occurred since the execution of the Merger Agreement. The consummation of the Merger is not subject to any financing condition.

The Merger is expected to close in the first half of 2024. Upon consummation of the Merger, the Company will cease to be a publicly traded company (see Note 18 to the consolidated financial statement included in Part II, Item 8 of this Annual Report).

Key Factors Affecting Performance

New Customer Acquisition

Our future growth depends in large part on our ability to acquire new customers. To attract new customers, we have invested, and will continue to invest, in our sales and marketing efforts. Many organizations have not yet adopted external cybersecurity solutions and our business and operating results will be affected by the rate at which organizations adopt our solutions. We believe our Platform addresses the evolving needs of organizations of all sizes and industries and coupled with our go-to-market strategy, presents significant opportunities for growth.

Investing in Growth

We intend to continue to invest in our business so that we can capitalize on our market opportunity. We intend to continue to invest in sales and marketing to grow our sales team, expand our brand recognition and optimize our channel partner network. We also intend to continue to invest in our research and development team to build additional functionality and enhance existing functionality in our Platform to extend our capabilities as our success is dependent on our ability to further our technological leadership. Additionally, we plan to evaluate strategic acquisitions of businesses and technologies to expand and enhance the functionality of our Platform.

Our investments in growth may adversely affect our operating results in the near term. However, we expect that these investments will contribute to our long-term growth and success.

If these investments do not lead to expected revenue growth, our operating losses may increase, we may not achieve profitability, and our growth rates may slow.

Retention and Expansion of Customers

Our ability to increase revenue depends in large part on our ability to retain our existing customers and grow the value of their subscriptions. We focus on increasing sales to our existing customers by increasing the number of protected assets and corresponding intelligence services delivered on and through our External Cybersecurity Platform. We intend to expand existing capabilities and launch new features which we believe will contribute to increased adoption by our growing base of customers. Our ability to expand within our customer base, particularly large enterprise and government customers, will depend on a number of factors, including platform performance, competitive offerings, pricing, overall changes in our customers' spending levels, and the effectiveness of our efforts to help our customers realize the benefits of our Platform.

Key Business Metrics

We monitor the following key metrics to help us evaluate our business, identify trends affecting our business, formulate business plans, and make strategic directions.

Subscription Customers

We believe that the size of our customer base is an indicator of our market adoption and that our net new customer additions are an indicator of the growth of our business. We focus our sales and marketing efforts on large enterprises and medium-sized businesses. We define a subscription customer as any entity that has entered into a distinct agreement for access to our Platform for which the term has not ended or with which we are continuing to provide service and negotiating a renewal contract that expired within 90 days of the applicable measurement date. We do not consider our channel partners as subscription customers, and we treat managed service security providers, who may purchase our products on behalf of multiple companies, as a single subscription customer. As of January 31, 2024, the Company had over 1,300 subscription customers.

Annual Recurring Revenue ("ARR")

We believe that ARR is a key operating metric to measure our business as changes in ARR reflect our ability to acquire net new customers and to maintain, retain, and expand our relationships with our existing customers. We define ARR as the annualized contract value of all recurring revenue related to contracts in place at the end of the reporting date assuming any contract is renewed on its existing terms. We continue to include ARR from customers whose term has expired within 90 days of the applicable measurement date for which we are actively negotiating renewal. As of January 31, 2024, the Company had an ARR of $188.4 million.

Components of Our Results of Operations

Revenue

We generate revenue from subscription agreements and from services, which includes breach response services.

Subscription revenue includes access to our hosted platform for protection, intelligence, disruption, and response capabilities along with credit and identity protection services. The majority of our customers are invoiced annually in advance of their subscription term. Our subscription agreements are "stand ready" to permit platform access and provide our protection services over the contractual term. We recognize subscription revenue ratably over the term of the agreement.

Services revenue includes breach response, training, and investigative services. Our breach response services can be priced on either a fixed price or variable price arrangement. A typical breach response arrangement includes breach notification services and a period of identity protection services. We recognize revenue for the breach notification services on completion of the notification and the identity protection services on a ratable basis over the contract term, which is typically 15 months. Our training and investigative services are generally priced on a fixed-fee basis and revenue is recognized as the services are performed.

Cost of Revenue

Costs of subscription revenue consist primarily of third-party cloud infrastructure expenses; fees paid to data providers; personnel-related costs such as salaries, bonuses, benefits, and stock-based compensation associated with customer support; software and subscription services used to support our customers; amortization of our capitalized internal-use software; travel and related expenses; amortization of acquired technology; and allocated overhead costs. Our allocated overhead costs include depreciation and information technology expenses.

Cost of services revenue consist primarily of fees to outsourced service providers for credit monitoring; call center operation; notification mailing; insurance; personnel-related costs such as salaries, bonuses, benefits, and stock-based compensation associated with breach project management and delivery, intelligence services, and other services; travel and related expenses; amortization of acquired technology; and allocated overhead costs. Our allocated overhead costs include depreciation and information technology expenses.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel-related expenses, including salaries, bonuses, commissions, benefits, and stock-based compensation are the most significant components of each of these categories. Operating expenses also include allocated overhead costs.

Research and Development

Research and development expenses consist primarily of personnel costs for our research, product and engineering teams, including salaries, bonuses, benefits, and stock-based compensation. Research and development expenses also include software, subscription services, and third-party cloud infrastructure incurred in the design and development of our hosted platform as well as allocated overhead costs.

We expect research and development expenses to increase in absolute dollars as we continue to invest in our Platform and services. However, we anticipate research and development expenses to decrease as a percentage of our revenue over time. Our research and development expenses may fluctuate as a percentage of our revenue from period-to-period depending on the timing of these expenses and the capitalization of expenses that qualify as internal-use software.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel costs for our sales and marketing teams, including salaries, commissions, bonuses, benefits, and stock-based compensation. Sales and marketing expenses also include conferences, branding and other marketing events, software services, subscription services, travel and related expenses, amortization of acquired customer relationships, and allocated overhead costs. We capitalize and amortize sales commissions from the initial acquisition of a customer subscription agreement to sales and marketing expense over the estimated customer life. We capitalize and amortize sales commissions from breach service arrangements to sales and marketing expense over the service period. We capitalize and amortize commissions paid for the renewal of a customer's subscription over the term of the renewal.

We expect sales and marketing expenses to increase in absolute dollars as we continue to invest in our sales and marketing organization to drive additional revenue, further penetrate our market, and expand our global customer base. However, we anticipate sales and marketing expenses to decrease as a percentage of our revenue over time. Our sales and marketing expenses may fluctuate as a percentage of our revenue from period to period depending on the timing of these expenses.

General and Administrative

General and administrative expenses consist primarily of personnel costs for our executive, finance, legal, human resources, and information technology teams, including salaries, bonuses, benefits, and stock-based compensation. General and administrative expenses also include professional fees for external accounting, legal, and other advisory services, insurance, software and subscription services, travel and related expenses, facilities-related expenses, amortization of acquired trade names, and allocated overhead costs.

We expect to incur additional expenses as the result of operating as a public company, including costs related to additional reporting and compliance requirements applicable to a listed company and increased expenses for insurance, accounting, legal, and other services. We expect general and administrative expenses to increase in absolute dollars; however, we anticipate general and administrative expenses to decrease as a percentage of our revenue over time.

Goodwill Impairment

We record a goodwill impairment loss when, as a result of our annual test or interim test (if factors are present that require an interim test), the fair value of the Company's single reporting unit is below the carrying value of the Company's single reporting unit.

Interest Expense

Interest expense consists primarily of contractual interest expense, as well as amortization of debt discount and issuance costs related to our term loans and our Convertible Notes issued on August 3, 2022.

Change in Fair Value of Purchase Consideration Liability

The Purchase consideration liability consists of the fair value of the purchase consideration not yet finalized in the acquisition of LookingGlass. The change in the fair value of the purchase consideration liability is primarily driven by changes in the price of the Company's Common Stock.

Change in Fair Value of Warrant Liabilities

Warrant liabilities consists of the fair value of the Company's outstanding warrants issued to various holders. The change in the fair value of the warrant liabilities is primarily driven by changes in the price of the Company's warrants traded on Nasdaq.

Change in Fair Value of Sponsor Earnout Shares Liability

Sponsor earnout shares liability consists of the fair value of the potentially issuable sponsor earnout shares. The change in the fair value of the sponsor earnout shares liability is primarily driven by changes in the price of the Company's Common Stock.

Other Income (Expense), Net

Other income (expense), net consists primarily of unrealized and realized gains and losses related to changes in foreign currency exchange rates.

(Benefit from) Provision for Income Taxes

(Benefit from) provision for income taxes consists primarily of pre-tax losses and the reduction of deferred tax liabilities associated with the amortization of intangible assets with no tax basis acquired through the Business Combination. The provision also includes income taxes in foreign jurisdictions in which the Company operates.

Results of Operations

Results for the Year ended January 31, 2024, Compared to the Period August 4, 2022, to January 31, 2023 (Successor) and February 1, 2022 to August 3, 2022 (Predecessor)

This section describes the results of the Company for the year ended January 31, 2024, and the period August 4, 2022, to January 31, 2023 (the "Successor Period") and the results of the Predecessor for the period February 1, 2022, to August 3, 2022 (the "Predecessor Period"). There are no comparative analysis between the year ended January 31, 2024, versus the Successor Period and the Predecessor Period, as there is a lack of comparability between the periods presented.

The following table sets forth our results of operations:

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Revenue			
Subscription	$ 89,308	$ 31,679	$ 27,946
Services	143,992	56,707	1,291
Total revenue	233,300	88,386	29,237
Cost of revenue			
Subscription (1)	44,137	18,225	8,349
Services (1)	114,199	43,600	457
Total cost of revenue	158,336	61,825	8,806
Gross profit	74,964	26,561	20,431
Operating expenses			
Research and development (1)	31,190	12,134	8,092
Sales and marketing (1)	73,790	35,859	18,516
General and administrative (1)	38,758	18,218	10,093
Goodwill impairment	284,240	698,650	—
Total operating expenses	427,978	764,861	36,701
Loss from operations	(353,014)	(738,300)	(16,270)
Interest expense, net	(15,202)	(7,867)	(2,965)
Change in purchase consideration liability	2,456	—	—
Change in fair value of warrant liability	(349)	5,364	(2,059)
Change in fair value of sponsor earnout shares	2,053	9,634	—
Loss before income taxes	(364,056)	(731,169)	(21,294)
(Benefit from) provision for income taxes	(7,746)	(10,522)	111
Net loss after tax	$ (356,310)	$ (720,647)	$ (21,405)

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

(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Cost of revenue - subscription	$ 219	$ 97	$ 18
Cost of revenue - services	111	36	2
Research and development	1,637	452	114
Sales and marketing	1,612	518	218
General and administrative	3,946	1,397	510
Total stock-based compensation expense	$ 7,525	$ 2,500	$ 862

The following tables disclose the components of the Consolidated Statements of Comprehensive Loss as a percentage of revenue:

(as a percentage of total revenue)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Revenue			
Subscription	38 %	36 %	96 %
Services	62 %	64 %	4 %
Total revenue	100 %	100 %	100 %
Cost of revenue			
Subscription (1)	19 %	20 %	29 %
Services (1)	49 %	50 %	2 %
Total cost of revenue	68 %	70 %	31 %
Gross profit	32 %	30 %	69 %
Operating expenses			
Research and development (1)	13 %	14 %	28 %
Sales and marketing (1)	32 %	41 %	63 %
General and administrative (1)	17 %	21 %	35 %
Goodwill impairment	122 %	790 %	—
Total operating expenses	184 %	866 %	126 %
Loss from operations	-152 %	-836 %	-57 %
Interest expense, net	-7 %	-9 %	-10 %
Change in purchase consideration liability	1 %	—	—
Change in fair value of warrant liability	0 %	6 %	-7 %
Change in fair value of sponsor earnout shares	1 %	11 %	0 %
Loss before income taxes	-157 %	-828 %	-74 %
(Benefit from) provision for income taxes	-3 %	-12 %	0 %
Net loss after tax	-154 %	-816 %	-74 %

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

(as a percentage of total revenue)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Cost of revenue - subscription	0 %	0 %	0 %
Cost of revenue - services	0 %	0 %	0 %
Research and development	1 %	1 %	0 %
Sales and marketing	1 %	1 %	1 %
General and administrative	1 %	2 %	2 %
Total stock-based compensation expense	3 %	4 %	3 %

Revenue

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Subscription revenue	$ 89,308	$ 31,679	$ 27,946
Services revenue			
Breach	138,782	54,791	—
Other services	5,210	1,916	1,291
Total services revenue	143,992	56,707	1,291
Total	$ 233,300	$ 88,386	$ 29,237

Revenue was $233.3 million for the year ended January 31, 2024, consisting of:

- $89.3 million for subscription; and
- $144.0 million for services, primarily made up of breach response services of $138.8 million.

Revenue was $88.4 million for the Successor Period, consisting of:

- $31.7 million for subscription; and
- $56.7 million for services, primarily made up of breach response services of $54.8 million.

Revenue was $29.2 million for the period February 1, 2022, to August 3, 2022, consisting of:

- $27.9 million for subscription; and
- $1.3 million for services.

Cost of Revenue, Gross Profit, and Gross Margin

	Successor		Predecessor
(dollars in thousands)	**Year Ended January 31, 2024**	**August 4, 2022 through January 31, 2023**	**February 1, 2022 through August 3, 2022**
Subscription cost of revenue	$ 44,137	$ 18,225	$ 8,349
Services cost of revenue	114,199	43,600	457
Total cost of revenue	158,336	61,825	8,806
Subscription gross profit	45,171	13,454	19,597
Services gross profit	29,793	13,107	834
Total gross profit	$ 74,964	$ 26,561	$ 20,431
Subscription gross margin	51 %	42 %	70 %
Services gross margin	21 %	23 %	65 %
Total gross margin	32 %	30 %	69 %

Cost of revenue was $158.3 million for the year ended January 31, 2024, consisting of:

- $44.1 million for subscription, primarily consisting of:
  - $19.6 million for amortization of acquired technology intangible assets;
  - $15.6 million for salaries, benefits, and other compensation related costs for employees that support the subscription platform, including $0.2 million of stock-based compensation;
  - $4.3 million for cloud infrastructure costs; and
  - $2.5 million for acquired data.
- $114.2 million for services, primarily consisting of:
  - $67.4 million for acquired data;
  - $39.4 million for postage and notifications related expenses for breach response services;
  - $6.1 million for salaries, benefits and other compensation related costs for employees that deliver the Company's professional service offerings, including $0.1 million of stock-based compensation; and

Gross profit and gross profit margin for the year ended January 31, 2024, were $75.0 million and 32%, respectively. Gross profit and gross profit margin for subscription for the year ended January 31, 2024, were $45.2 million and 51%, respectively. Gross profit and gross profit margin for services for the year ended January 31, 2024, were $29.8 million and 21%, respectively.

Cost of revenue was $61.8 million for the Successor Period, consisting of:

- $18.2 million for subscription, primarily consisting of:
  - $5.8 million for salaries, benefits, and other compensation related costs for employees that support the subscription platforms, including $0.1 million of stock based compensation;
  - $9.4 million for amortization of acquired technology intangible assets; and
  - $2.0 million for acquired data and software.
- $43.6 million for services, primarily consisting of:
  - $32.7 million for acquired data;
  - $5.4 million for postage and notifications related expenses for breach response services; and

- $2.1 million for salaries, benefits and other compensation related costs for employees that deliver the Company's professional service offerings.

Gross profit and gross profit margin for the Successor Period were $26.6 million and 30%, respectively. Gross profit and gross profit margin for subscription for the Successor Period were $13.5 million and 42%, respectively. Gross profit and gross profit margin for services for the Successor Period were $13.1 million and 23%, respectively.

Cost of revenue was $8.8 million for the Predecessor Period, consisting of:

- $8.3 million for subscription, primarily consisting of:
  - $5.5 million for salaries, benefits, and other compensation related costs for employees that support the subscription platforms; and
  - $1.7 million for acquired data and software.
- $0.5 million for services, primarily consisting of:
  - $0.5 million for salaries, benefits and other compensation related costs for employees that deliver the Company's service offerings.

Gross profit and gross profit margin for the period February 1, 2022, to August 3, 2022, were $20.4 million and 69%, respectively. Gross profit and gross profit margin for subscription for the period February 1, 2022, to August 3, 2022, were $19.6 million and 70%, respectively. Gross profit and gross profit margin for services for the period February 1, 2022, to August 3, 2022, were $0.8 million and 65%, respectively.

Research and Development

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Research and development	$ 31,190	$ 12,134	$ 8,092

Research and Development cost was $31.2 million for the year ended January 31, 2024, primarily consisting of:

- $26.4 million for salaries, benefits, and other compensation related costs for employees in software engineering and product development functions, including $1.6 million of stock-based compensation; and
- $1.9 million for contractors to provide supplemental research and development efforts;
- $1.7 million for acquired software and productivity tools; and
- $0.8 million for cloud infrastructure costs.

Research and Development cost was $12.1 million for the Successor Period, primarily consisting of:

- $10.0 million for salaries, benefits, and other compensation related costs for employees in software engineering and product development functions, including $0.5 million of stock-based compensation;
- $0.9 million for contractors to provide supplemental research and development efforts;
- $0.5 million for acquired software; and
- $0.5 million for cloud infrastructure costs.

Research and Development cost was $8.1 million for the Predecessor Period, primarily consisting of:

- $7.4 million for salaries, benefits, and other compensation related costs for employees in software engineering and product development functions, including $0.1 million of stock-based compensation;
- $0.4 million for acquired software and productivity tools; and
- $0.2 million for cloud infrastructure costs.

Sales and Marketing

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Sales and marketing	$ 73,790	$ 35,859	$ 18,516

Sales and marketing costs was $73.8 million for the year ended January 31, 2024, primarily consisting of:

- $45.2 million for salaries, benefits, and other compensation related costs for employees in sales and marketing functions, including $1.6 million of stock-based compensation;
- $23.3 million for amortization of acquired customer relationships intangibles assets;
- $4.8 million for marketing programs including field events and online advertising;
- $1.6 million for acquired software and productivity tools;
- $1.4 million for travel expenses; and
- $1.3 million for fees paid to third-party sellers;
- partially offset by $(6.8) million in net capitalized deferred contract acquisition costs.

Sales and Marketing cost was $35.9 million for the Successor Period, primarily consisting of:

- $19.1 million for salaries, benefits, and other compensation related costs for employees in sales and marketing functions, including $0.5 million of stock-based compensation;
- $11.9 million for amortization of acquired customer relationships intangible assets;
- $2.2 million for marketing programs including field events and online advertising;
- $0.9 million for contractors to provide supplemental sales and marketing efforts; and
- $0.8 million for fees paid to third party sellers

Sales and Marketing cost was $18.5 million for the Predecessor Period, primarily consisting of:

- $13.2 million for salaries, benefits, and other compensation related costs for employees in sales and marketing functions, including $0.2 million of stock-based compensation;
- $1.9 million for marketing programs including field events and online advertising;
- $1.3 million for amortization of acquired customer relationships intangible assets;
- $0.6 million for travel expenses; and
- $0.6 million for acquired software and productivity tools.

General and Administrative

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
General and administrative	$ 38,758	$ 18,218	$ 10,093

General and administrative costs was $38.8 million for the year ended January 31, 2024, primarily consisting of:

- $16.2 million for salaries, benefits, and other compensation related costs for employees primarily in executive leadership, finance, accounting human resources, legal, and corporate IT, including $3.9 million of stock-based compensation;
- $7.4 million for professional service fees, primarily legal, merger and acquisition, accounting, and audit services;
- $3.6 million for amortization of acquired trade names intangible assets;
- $3.6 million for insurance;
- $2.9 million for rent and utilities costs primarily related to the Company's office leases; and
- $1.7 million for depreciation of the Company's property and equipment.

General and Administrative cost was $18.2 million for the Successor Period, primarily consisting of:

- $6.9 million for salaries, benefits, and other compensation related costs for employees primarily in executive leadership, finance, accounting human resources, legal, and corporate IT, including $1.4 million of stock-based compensation;
- $5.0 million for professional service fees, primarily legal and audit services;
- $1.9 million for amortization of acquired trade names intangible assets;
- $1.7 million for insurance; and
- $1.0 million for rent and utilities costs primarily related to the Company's office leases.

General and Administrative cost was $10.1 million for the period Predecessor Period, primarily consisting of:

- $4.1 million for salaries, benefits, and other compensation related costs for employees primarily in executive leadership, finance, accounting human resources, legal, and corporate IT, including $0.5 million of stock-based compensation;
- $3.4 million for professional service fees, primarily legal and audit services;
- $0.8 million for rent and utilities costs primarily related to the Company's office leases; and
- $0.4 million for amortization of acquired trade names intangible assets.

Goodwill Impairment

	Successor		Predecessor
(dollars in thousands)	**Year Ended January 31, 2024**	**August 4, 2022 to January 31, 2023**	**February 1, 2022 to August 3, 2022**
Goodwill impairment	$ 284,240	$ 698,650	$ —

The Company recorded an impairment charges totaling $284.2 million for the year ended January 31, 2024. The Company recorded $72.1 million as part of its annual test of goodwill as of October 31, 2023. The Company's estimate of the fair value of its single reporting unit of $572.7 million was below the carrying value of the reporting unit of $644.8 million as of October 31, 2023. The remaining $212.1 million was recorded as part of an interim test of goodwill. The Company's estimate of the fair value of its single reporting unit of $348.1 million was below the carrying value of the reporting unit of $560.2 million as of January 31, 2024.

The goodwill impairment charge was $698.7 million for the Successor Period. The Company completed an interim goodwill impairment assessment, which resulted in an estimated fair value of the Company's single reporting unit of $675.0 million. The estimated fair value of the reporting unit was below its carrying value of $1,373.7 million.

The Predecessor recognized no goodwill impairment charges for the period Predecessor Period.

Interest Expense, Net

	Successor		Predecessor
(dollars in thousands)	**Year Ended January 31, 2024**	**August 4, 2022 to January 31, 2023**	**February 1, 2022 to August 3, 2022**
Interest expense, net	$ 15,202	$ 7,867	$ 2,965

Interest expense was $15.2 million for the year ended January 31, 2024. Interest expense was primarily consisted of $14.2 million for payment-in-kind interest at an annual rate of 8.75% on the Company's Convertible Notes, $2.1 million for variable and fixed rate interest on the Company's term loans, partially offset by $(1.2) million of interest income earned on the Company's cash balances.

Interest expense was $7.9 million for the Successor Period. Interest expense was primarily consisted of $6.6 million for payment-in-kind interest at an annual rate of 8.75% on the Company's Convertible Notes and $1.1 million for a prepayment penalty associated with the repayment of the Predecessor's notes payable to Orix Growth Capital, LLC.

Interest expense was $3.0 million for the period February 1, 2022, to August 3, 2022. Interest expense was primarily consisted of interest payments for the Predecessor's credit agreements with Stifel Bank and Orix Growth Capital, LLC.

Change in the Fair Market Value of Purchase Consideration Liability

	Successor		Predecessor
(dollars in thousands)	**Year Ended January 31, 2024**	**August 4, 2022 to January 31, 2023**	**February 1, 2022 to August 3, 2022**
Change in fair value of purchase consideration liability	$ 2,456	$ —	$ —

The change in the fair market value of the Purchase Consideration Liability was a gain of $2.5 million for the year ended January 31, 2024. The decrease in the fair market value of the Purchase Consideration liability was primarily driven by the decrease in the public trading price of the Company's Common Stock from April 21, 2023, to January 31, 2024.

There was no gain or loss recognized for change in fair market value of the Purchase Consideration liability for the Successor period or the Predecessor Period, as the liability was initially recognized as part of the completion of the LookingGlass Acquisition on April 21, 2023.

Change in the Fair Market Value of Sponsor Earnout Shares

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Change in fair value of sponsor earnout shares	$ 2,053	$ 9,634	$ —

The change in the fair market value of the Sponsor Earnout Shares was a gain of $2.1 million. The reduction in the fair market value of the Sponsor Earnout Shares liability was primarily driven by the reduction in the public trading price of the Company's Common Stock from February 1, 2023, to January 31, 2024.

The change in the fair market value of the Sponsor Earnout Shares was a gain of $9.6 million. The gain was due to the recognition of the initial Sponsor Earnout Shares liability of $12.1 million as part of the Business Combination and thus, no recognition of loss in the Company's Successor Period and the mark-to-market adjustment of $(9.6) million, reducing the liability to its January 31, 2023, fair value of $2.5 million. The reduction in the fair market value of the Sponsor Earnout Shares liability was primarily driven by the reduction in the public trading price of the Company's Common Stock from August 3, 2022, to January 31, 2023.

There was no gain or loss recognized for change in fair market value of the Sponsor Earnout Shares for the Predecessor Period, as the liability for the Sponsor Earnout Shares was only recognized as part of the completion of the Business Combination on August 3, 2022.

Change in the Fair Market Value of Warrants

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Change in fair value of warrant liability	$ (349)	$ 5,364	$ (2,059)

The change in fair market value of warrants was a loss of $(0.3) million for the year ended January 31, 2024. The loss was due to a $(2.8) million loss on fair value of warrants that was recorded to adjust the settlement of warrants, partially offset by the change in fair value of the Company's Public Warrants and Private Warrants. The warrant liabilities were recorded at a fair value of $2.6 million as of January 31, 2023. The Company recorded a mark to market gain of $2.5 million reducing the liability to a fair value of $0.2 million as of January 31, 2024. The reduction in the fair value of the Company's warrant liabilities was driven by the reduction in the price of the Company's Public Warrants from February 1, 2023, to January 31, 2024. The Company's Private Warrants are economically similar to the Public Warrants and as such, use the price of the Company's Public Warrants as an indicator of fair value.

The change in fair market value of warrants was a gain of $5.4 million for the Successor Period. The gain was due to the change in fair value of the Company's Public Warrants and Private Warrants. The liability for the Company's Public Warrants and Private Warrants was recorded at fair value as of August 3, 2022, a balance of $7.9 million. The Company recorded a mark to market adjustment of $(5.4) million reducing the liability to its January 31, 2023, fair value of $2.6 million. The reduction in the fair value of the Company's warrant liability was driven by the reduction in the public trading price for the Company's Publicly Warrants from August 3, 2022, to January 31, 2023. The Company's Private Warrants are economically similar to the Public Warrants and as such, use the price of the Company's Publicly Warrants price as an indicator of fair value.

The change in fair market value of warrants was a loss of $(2.1) million for the Predecessor Period. The loss recognized during the Predecessor Period, reflected the increase in the estimated fair value of the Predecessor's common stock.

Provision for Income Taxes

	Successor		Predecessor
(dollars in thousands)	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
(Benefit from) provision for income taxes	$ (7,746)	$ (10,522)	$ 111

The benefit from income taxes was $7.7 million for the year ended January 31, 2024. The benefit was primarily due to the impact of pre-tax losses and the reduction of deferred tax liabilities associated with the amortization of intangible assets with no tax basis acquired through the Business Combination, partially offset by the impairment of non-deductible goodwill.

The benefit from income taxes was $10.5 million for the Successor Period. The benefit was primarily due to the impact of pre-tax losses and the reduction of deferred tax liabilities associated with the amortization of intangible assets with no tax basis acquired through the Business Combination, partially offset by the impairment of non-deductible goodwill.

Due to the sustained net losses, the Predecessor had recorded a full valuation allowance against all its deferred tax assets during the Predecessor Period. The provision for income taxes during the period Predecessor Period was related to income taxes of our foreign subsidiaries.

Critical Accounting Estimates

Our management's discussion and analysis of financial condition and results of operations is based upon our financial statements and notes to our financial statements, which were prepared in accordance with US GAAP. The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our management evaluates our estimates on an ongoing basis, including those related to the allowance for doubtful accounts, the carrying value and useful lives of long-lived assets, the fair value of financial instruments, the recognition and disclosure of contingent liabilities, income taxes, and stock-based compensation. We base our estimates and judgments on our historical experience, knowledge of factors affecting our business and our belief as to what could occur in the future considering available information and assumptions that are believed to be reasonable under the circumstances.

The accounting estimates we use in the preparation of our financial statements will change as new events occur, more experience is acquired, additional information is obtained, and our operating environment changes. Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in our reported results of operations and, if material, the effects of changes in estimates are disclosed in the notes to our financial statements. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results could differ materially from the amounts reported based on these estimates.

The critical accounting estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

Description

We recognize revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. Revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration we expect to be entitled to receive in exchange for those services. In recognizing revenue, we apply the following five steps:

- Identify contracts with customers,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to performance obligations in the contract, and
- Recognize revenue when or as performance obligations are satisfied.

Judgments and Uncertainties

We apply judgment in determining the customer's ability and intent to pay, including the customer's historical payment experience or credit and financial information pertaining to the customer.

Our contracts may contain multiple performance obligations which are accounted for separately if they are capable of being distinct or are distinct in the context of the contract. Contracts with multiple performance obligations require an allocation of the transaction price to each performance obligation based on the stand-alone selling price (SSP) of each performance obligation, using the relative selling price method of allocation. We apply judgment in determining SSP for our performance obligations utilizing our observable standalone sales, sales of bundled items when standalone sales are not available, and our overall pricing methodology. Relative changes in SSP estimates between performance obligations which have different patterns of recognition, point-in-time versus over time, can impact the amount of revenue we recognize in a period.

Subscription revenue: Subscription revenue consists of revenue from subscriptions to access our Platform together with related data and support service offerings. Revenue is recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Customers have the option to purchase additional subscription and support services at a stated price. These options do not represent an additional performance obligation that would require an allocation of the transaction price.

Services revenue, breach services: The typical breach services arrangement includes two performance obligations: notification and combined call center and identity protection services. The notification and combined call center and identity protection services are considered distinct performance obligations. Revenue is allocated to each performance obligation based on the SSP of each, using the relative selling price method of allocation. We apply judgment in determining SSP for our performance obligations utilizing our observable standalone sales, sales of bundled items when standalone sales are not available, and our overall pricing methodology. Revenue for the notification performance obligation is recognized when the notifications are sent and the identity protection service is recognized over the service period, which is typically 15 months. At inception of the contract, there is an element of variable consideration related to our estimate of the enrollment in the identify protection services call center as the actual amount is unknown until completion of the call center term.

Services revenue, all other: All of our services are considered distinct performance obligations when sold on a stand-alone basis. Revenue is generally recognized at the point in time when the professional service is delivered.

Sensitivity of Estimate to Change

We do not expect relative SSP estimates to change materially period to period.

Services revenue accounted for 62% of total revenue for the year ended January 31, 2024. Most breach services arrangements include performance obligations satisfied at both a point-in-time and over time. An assumed 10% relative shift in SSP estimates to point-in-time performance obligations versus over time would not cause a material increase in revenue for the year ended January 31, 2024.

Subscription revenue accounted for 38% of total revenue for the year ended January 31, 2024. Some customer arrangements include both subscription performance obligations that are satisfied over time and service-related performance obligations that are satisfied at a point-in-time. An assumed 10% relative shift in SSP estimates to point-in-time performance obligations versus over time would cause revenue to increase by less than $5.0 million for the year ended January 31, 2024.

Deferred Contract Acquisition Costs

Description

Contract acquisition costs are related to sales commissions earned, which represent incremental costs to obtain a contract. We amortize the initial commissions over the longer of the customer relationship or over the same period as the initial revenue arrangement to which these costs relate.

Judgments and Uncertainties

The critical accounting estimate for deferred contract acquisition costs is the amortizable life of the asset. We have estimated the period of benefit for new customer relationships to be 3 years. Management monitors trends in customer attrition and the typical term of service arrangements to determine if the estimated amortizable life estimate should be updated.

Sensitivity of Estimate to Change

We do not expect the useful life estimate to deviate materially period to period. The decrease to amortization expense for the change of one year to the estimated life of our customer relationships would be approximately $3.8 million year ended January 31, 2024.

Stock-Based Compensation

Description

We account for stock-based compensation in accordance with ASC 718, *Compensation—Stock Compensation*. ASC 718 requires that the cost of awards of equity instruments offered in exchange for employee services, including employee stock options and restricted stock unit awards (RSUs), be measured based on the grant-date fair value of the award. We determine the fair value of options granted using the Black-Scholes model, which requires the input of subjective assumptions. We recognize the fair value of stock option awards, net of estimated forfeitures, over the period which an employee is required to provide service in exchange for the award, generally the vesting period. The fair value of restricted stock unit awards is based on the closing price of our Common Stock on the date of grant. We recognize the fair value of restricted stock unit awards, net of estimated forfeitures, as expense over the requisite service period of the awards.

Judgments and Uncertainties

The critical accounting estimates related to stock-based compensation are the assumptions utilized in the Black-Scholes valuation model and our estimate of award forfeitures.

The assumptions used by management in the Black-Scholes model are as follows:

- Fair value of common stock. Our Common Stock is publicly traded under the ticker "ZFOX". We use the closing price of our Common Stock on the date of grant.

- Expected term. The expected term represents the period of time that options granted are expected to remain unexercised. We calculate the expected term using the simplified method, which equals the midpoint of the options’ vesting term and contractual period.

- Expected Volatility. As our Common Stock has been publicly traded only for a short time, we estimate the expected volatility based on historical volatilities of comparable public traded companies. The Company expects to continue to use this methodology until such time as the Company’s Common Stock has a sufficient amount of historical data to reasonably calculate the volatility of the Company’s Stock.

- Risk-free interest rate. We use the U.S. Treasury yield for a period that corresponds to the expected term of the award.

- Dividend yield. We do not currently issue dividends and do not expect to issue dividends in the foreseeable future. Accordingly, our dividend yield is zero.
- The Company estimates the rate of option forfeiture by monitoring the rate of employee turnover and average tenure at separation of employment.

Sensitivity of Estimate to Change

These estimates involve inherent uncertainties and the application of management’s judgment. If the Company had made different assumptions, the Company’s stock-based compensation expense and its net loss could have been materially different.

An increase in risk-free interest rate will reduce the estimated fair value of a stock option grant, while a decrease in these factors will have an opposite effect.

A decrease in volatility and expected term will decrease the estimated fair value of a stock option grant, while an increase in these factors will have an opposite effect. The Company utilizes a consistent group of peer companies unless one or more of those companies cease to be publicly traded or are no longer similar to the Company’s business. In cases where a peer group company is no longer able to be used, the Company identifies a replacement peer company for its volatility calculation. Once the Company's Common Stock has a sufficient, representative trading history on which to base a volatility factor estimate, we will change to an estimate based on the Company's Common Stock. We do not expect to change the volatility estimation methodology in the next twelve months. When we do change the method, it will apply to new stock-based awards on a prospective basis.

The Company does not expect to change the dividend yield assumption in the near future.
A decrease in the Company’s estimate of option forfeiture will increase the amount of stock option expense recognized in a period while an increase will have the opposite effect.

Business Combinations

Description

We account for the acquisition of a business using the acquisition method of accounting, which requires us to estimate the fair values of the tangible and intangible assets acquired and liabilities assumed. When determining the fair value of assets acquired and liabilities assumed, we make estimates and assumptions, especially with respect to intangible assets such as identified acquired technology and customer relationships. We generally determine the fair value of acquired technology using the relief from royalty method. We determine the fair value of customer relationships using the multi-period excess earnings method, a form of the income approach.

Significant changes in assumptions and estimates subsequent to completing the allocation of the purchase price to the assets and liabilities acquired, as well as differences in actual and estimated results, could result in material impacts to our financial results. Additional information related to the acquisition date fair value of acquired assets and liabilities obtained during the allocation period, not to exceed one year, may result in changes to the recorded values of acquired assets and liabilities, resulting in an offsetting adjustment to the goodwill associated with the business acquired.

Judgments and Uncertainties

Estimates in valuing identifiable intangible assets include, but are not limited to, the selection of valuation methodologies, future expected cash flows, discount rates, and useful lives. Our estimate of fair value is based on assumptions we believe to be reasonable, but which are inherently uncertain and, as a result, actual results may differ from estimates.

Sensitivity of Estimate to Change

Additional information related to the acquisition date fair value of acquired assets and liabilities obtained during the measurement period, not to exceed one year, may result in changes to the recorded values of acquired assets and liabilities. Offsetting adjustments are recorded to goodwill. Any adjustments made after the measurement period will be reflected in the Consolidated Statements of Operations.

The impact to our financial statements for a change of one year to the estimated lives our acquired intangible assets would be approximately $8.1 million for the year ended January 31, 2024.

Goodwill

The excess of the fair value of purchase consideration over the values of the identifiable assets acquired and liabilities assumed is recorded as goodwill. We perform our annual goodwill impairment assessment on November 1, or when an assessment of qualitative factors indicates an impairment may have occurred. The qualitative assessment includes an evaluation of events and circumstances including long-term growth projections, profitability, industry, market and macroeconomic conditions. The quantitative assessment includes an analysis that compares the fair value of a reporting unit to its carrying value including goodwill recorded by the reporting unit.

Judgments and Uncertainties

Management applies judgment to determine the number of reporting units and if circumstances or events indicate if an impairment may exist. We have determined that the Company operates as a single reporting unit. As such, we perform the impairment assessment for goodwill at the enterprise level.

We determine the fair value of our reporting unit using a combination of the income and market approaches. The results from each of these approaches are weighted appropriately taking into account the relevance and availability of data at the time we perform the valuation. The estimate of the fair value of the related reporting unit includes several judgments, each with inherent uncertainties such as projections of revenue growth rates, gross margin, and projected future cash flows of the reporting unit and the discount rate applied to those projected future cash flows.

The discount rate used in the income approach is based on our weighted-average cost of capital and may be adjusted for the relevant risks associated with business-specific characteristics and any uncertainty related to the reporting unit's ability to execute on the projected future cash flows. Under the market approach, the fair value is determined using certain financial metrics of publicly traded companies and historically completed transactions of comparable businesses. The selection of comparable businesses requires judgment and is based on the markets in which we operate giving consideration to, among other things, risk profiles, size, and geography. The market approach may also be limited in instances where there is a lack of recently executed transactions of comparable businesses.

Determining the fair value of our reporting unit requires judgment and the use of significant estimates and assumptions. Given the current competitive and macroeconomic environment and the uncertainties regarding the related impact on the business, there can be no assurance that the estimates and assumptions made for purposes of the Company’s interim and annual goodwill impairment tests will prove to be accurate predictions of the future. If the Company’s assumptions are not realized, the Company may record additional goodwill impairment charges in the future. It is not possible at this time to determine if any such future impairment charge would result or whether such charge would be material.

Sensitivity of Estimate to Change

As of October 31, 2023, the Company concluded that it was more likely than not that the estimated fair value of its reporting unit was less than its carrying value. Accordingly, in connection with its annual test as of November 1, 2023, the Company completed an annual goodwill impairment assessment. Based on our quantitative assessment the Company determined the fair value of the Company's single reporting unit as of October 31, 2023, was $572.7 million. As this amount was less than the reporting unit's carrying value of $644.8 million, we recorded a goodwill impairment charge of $72.1 million. The Company performed an interim goodwill impairment assessment as of January 31, 2024. The Company's estimate of the fair value of its single reporting unit of $348.1 million that was based on the enterprise value implied by Haveli Merger Agreement (see Note 18), was below the carrying value of the reporting unit of $560.2 million as of January 31, 2024. Accordingly, we recorded a goodwill impairment charge of $212.1 million.

Liquidity and Capital Resources

We have financed operations primarily through the sale of equity securities, borrowings under various security and loan agreements, and payments from customers. Our operating losses have been significant, as reflected in our accumulated deficit of $1,111.0 million as of January 31, 2024.

We believe that our cash on hand and the expected future cash flows from operations will be sufficient to meet our cash requirements for at least the twelve months following the date of this annual report. We began generating positive cash flows from operations during the second quarter of fiscal year 2024 and we expect this momentum to continue through fiscal year 2025.

Additional future sources of liquidity may come from the issuance of additional debt, exercise of warrants, and/or the issuance of new shares of Common Stock. In the case of additional debt, we are permitted by the indenture governing the Convertible Notes to issue no more than $50.0 million of senior debt. If we raise funds by issuing debt securities, such debt securities would have rights, preferences and privileges senior to those of holders of our Common Stock. The terms of debt securities or borrowings could impose significant restrictions on our operations. For warrants, the Company will receive the proceeds from the cash exercise of any warrants. The aggregate proceeds of the exercise of all outstanding warrants, assuming cash exercise, would be $186.6 million. We believe the likelihood that warrant holders will exercise their warrants, and therefore the amount of cash proceeds that we would receive, is dependent upon the market price of our Common Stock. On March 13, 2024, the last reported sales price of our Common Stock on the Nasdaq Global Market was $1.11 per share. If the market price for our Common Stock is less than $11.50 per share, we believe the warrant holders will be unlikely to exercise their warrants. We may issue additional shares of our Common Stock or other equity securities of equal or senior rank in the future for investment or operational purposes. If we issue additional shares of Common Stock, dilution to our public shareholders may occur and the market price for our Common Stock may decrease and/or become more volatile. The amount, timing, and mix (be it debt or equity) of future amounts of liquidity will depend upon the judgment of management, the market price of our Common Stock, and prevailing interest rates, among other factors.

Future capital requirements will depend on many factors including, but not limited to, cash collected from customers, additional borrowing, acceleration of sales and marketing costs to facilitate revenue expansion, and the continued adoption of our subscription products. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, financial condition and results of operations would be harmed. To support the growth of our business, we may need to incur additional indebtedness under our existing loan agreement or seek capital through new equity or debt financing, which sources of additional capital may not be available to us on acceptable terms or at all.

Cash Flows

The following table presents a summary of our cash flows for the year ended January 31, 2024:

(dollars in thousands)	Year Ended January 31, 2024
Cash, cash equivalents, and restricted cash at beginning of period	$ 47,649
Net cash used in operating activities	(12,041)
Net cash used in investing activities	(8,709)
Net cash used in financing activities	6,785
Foreign exchange translation adjustments	(219)
Cash, cash equivalents, and restricted cash at end of period	$ 33,465

Operating Activities

Our largest source of cash is payments from customers. Our primary uses of cash stem from personnel-related expense, third-party hosting expense, data source expense, and overhead expense, which is primarily comprised of IT support, facilities, and insurance expense. Cash used in operating activities primarily consists of our net losses from operations adjusted for non-cash expenses, including stock-based compensation expense, depreciation and amortization expense, goodwill impairment charges, and changes in period operating assets and liabilities.

Cash used in operating activities was $(12.0) million for the year ended January 31, 2024. The cash used in operating activities consisted of our net loss of $(356.3) million adjusted by non-cash reconciling items of $343.2 million and net cash outflows from changes in operating assets and liabilities of $0.5 million, primarily due to an increase in deferred revenue of $22.0 million, partially offset by an increase in deferred contract acquisition costs of $(6.9) million, an increase in accounts receivable of $(6.2) million, a decrease in accounts payable, accrued compensation, accrued expenses and other current liabilities of $(3.9) million, an increase in prepaid expense and other assets of $(2.0) million, and a decrease in operating lease liabilities of $(1.9) million.

Investing Activities

Cash used in investing activities was $(8.7) million for the year ended January 31, 2024. The cash used in investing activities primarily consisted of the net purchase price paid to complete the acquisition of LookingGlass of $(7.9) million, purchases of property and equipment of $(0.6) million, and $(0.2) million of capitalized software development costs.

Financing Activities

Cash provided by financing activities was $6.8 million for the year ended January 31, 2024. The cash provided by financing activities primarily consisted of the net proceeds from the amendment of the Stifel Note of $7.4 million, proceeds from the exercises of stock options of $0.3 million, partially offset by payments on the InfoArmor notes of $(0.9) million.

Debt Obligations

The following table presents a summary of our debt obligations as of January 31, 2024:

	As of January 31, 2024				
(dollars in thousands)	Stated Interest Rate	Gross Balance	Unamortized Debt Discount	Unamortized Deferred Debt Issuance Costs	Net Carrying Value
Stifel Bank	9.50%	$ 22,500	$ (83)	$ (52)	$ 22,365
InfoArmor	5.50%	1,406	—	—	1,406
Convertible notes	7.00% Cash / 8.75% PIK	170,738	—	(77)	170,661
Alsop Louie Convertible Note	6.00%	3,333	—	—	3,333
		$ 197,977	$ (83)	$ (129)	$ 197,765
				Current portion of long-term debt	$ 938
				Long-term debt	196,827
					$ 197,765

Material Cash Requirements

Our material cash requirements are associated with repayment of debt and obligations associated with non-cancelable contracts for the purchase of goods and third-party services and operating leases. We expect to satisfy these cash requirements through the cash available on our balance sheet.

The following table summarizes current and long-term material cash requirements as of January 31, 2024:

	As of January 31, 2024				
(dollars in thousands)	Thereafter	Less than 1 year	1-3 years	3-5 years	Total
Operating leases (1)	$ —	$ 1,919	$ 2,180	$ 82	$ 4,181
Purchase commitments (2)	—	74,529	198	—	74,727
Debt repayments	—	938	196,977	—	197,915
Total	$ —	$ 77,386	$ 199,355	$ 82	$ 276,823

(1) Relates to our office facilities.
(2) Relates to our non-cancelable purchase commitments to purchase products and services entered into in the normal course of business.

Non-GAAP Financial Measures

In addition to our results determined in accordance with US GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance by excluding certain items that may not be indicative of our business, results of operations, or outlook. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with US GAAP.

Other companies, including companies in our industry, may calculate similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. In particular, free cash flow is not a substitute for cash used in operating activities. Additionally, the utility of free cash flow as a measure of our liquidity is limited as it does not represent the total increase or decrease in our cash balance for a given period.

Below, we have provided a reconciliation for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures and not rely on any single financial measure to evaluate our business.

Non-GAAP Gross Profit and Non-GAAP Gross Margin

We believe non-GAAP gross profit and non-GAAP gross margin provide our management and investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of operations, as these measures eliminate the effects of certain variables unrelated to our overall operating performance.

Non-GAAP Gross Profit and Non-GAAP Gross Margin

We define non-GAAP gross profit and non-GAAP gross margin as US GAAP gross profit and US GAAP gross margin, respectively, excluding stock-based compensation expense and amortization of acquired intangible assets.

The following table provides a reconciliation of our US GAAP gross profit to our non-GAAP gross profit and of our US GAAP gross margin to our non-GAAP gross margin, for the year ended January 31, 2024:

(dollars in thousands)	**Year ended January 31, 2024**
Revenue	$ 233,300
Gross profit	74,964
Add: Stock-based compensation expense	330
Add: Amortization of acquired intangible assets	19,603
Non-GAAP gross profit	$ 94,897
Gross margin	32 %
Non-GAAP gross margin	41 %

Subscription Non-GAAP Gross Profit and Non-GAAP Gross Margin

We define subscription non-GAAP gross profit and subscription non-GAAP gross margin as US GAAP subscription gross profit and US GAAP subscription gross margin, respectively, excluding stock-based compensation expense and amortization of acquired intangible assets.

The following table provides a reconciliation of our US GAAP subscription gross profit to our non-GAAP subscription gross profit and of our US GAAP subscription gross margin to our non-GAAP subscription gross margin, for the year ended January 31, 2024:

(dollars in thousands)	**Year ended January 31, 2024**	
Subscription revenue	$	89,308
Subscription gross profit		45,171
Add: Stock-based compensation expense		219
Add: Amortization of acquired intangible assets		19,603
Non-GAAP subscription gross profit	$	64,993
Subscription gross margin		51 %
Non-GAAP subscription gross margin		73 %

Services Non-GAAP Gross Profit and Non-GAAP Gross Margin

We define services non-GAAP gross profit and services non-GAAP gross margin as US GAAP services gross profit and US GAAP services gross margin, respectively, excluding stock-based compensation expense. There is no amortization of intangible assets expenses recorded in services US GAAP gross profit and therefore, no exclusion is necessary.

The following table provides a reconciliation of our US GAAP services gross profit to our non-GAAP services gross profit and of our US GAAP services gross margin to our non-GAAP services gross margin, for the year ended January 31, 2024:

(dollars in thousands)	**Year ended January 31, 2024**	
Services revenue	$	143,992
Services gross profit		29,793
Add: Stock-based compensation expense		111
Non-GAAP services gross profit	$	29,904
Services gross margin		21 %
Non-GAAP services gross margin		21 %

Non-GAAP Loss from Operations

We define non-GAAP loss from operations as US GAAP net loss from operations, excluding stock-based compensation expense, amortization of acquired intangible assets, costs incurred for the Business Combination, purchase accounting adjustments from the Business Combination, and goodwill impairment charges. We believe non-GAAP loss from operations provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations as these measures eliminate the effects of certain variables unrelated to our overall operating performance.

The following table provides a reconciliation of our US GAAP net loss from operations to our non-GAAP loss from operations, for the year ended January 31, 2024:

(dollars in thousands)		Year ended January 31, 2024
Loss from operations	$	(353,014)
Add: Stock-based compensation expense		7,525
Add: Amortization of acquired intangible assets		46,490
Add: De-Spac adjustment		(3,147)
Add: Goodwill impairment		284,240
Non-GAAP loss from operations	$	(17,906)

Free Cash Flow

We define free cash flow as net cash used in operating activities less purchases of property and equipment and capitalized internal-use software. We believe that free cash flow is a useful indicator of liquidity that provides meaningful information to management and investors about the amount of cash provided by our operating activities that is available to be used for other strategic initiatives or consumed by our operating activities. Free cash flow does not represent the total increase or decrease in our cash balance for a given period and does not reflect our future contractual commitments. In addition, other companies may calculate free cash flow differently or not at all, which reduces the usefulness of free cash flow as a tool for comparison.

The following table presents a reconciliation of net cash used in operating activities to free cash flow for the year ended January 31, 2024:

(dollars in thousands)		Year ended January 31, 2024
Net cash used in operating activities	$	(12,041)
Less: Purchases of property and equipment		(600)
Less: Capitalized software		(217)
Free cash flow	$	(12,858)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ID EXPERTS HOLDINGS, INC.

The following discussion and analysis of ID Experts Holdings, Inc. (IDX) financial condition and results of operations should be read in conjunction with its Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

Overview

IDX was founded in 2003 with a mission to address the growing threat from data breaches and resulting identity theft and fraud. IDX created a software and services platform to help protect individuals from data breaches and resulting identity crime and to remediate the negative effects of such breaches.

As organizations began to experience cybersecurity breaches of growing frequency and severity, IDX expanded its offerings by providing organizations with data breach response services that leveraged IDX's identity protection offerings for individuals. As new laws and regulations were passed that required breach notification and protections for affected individuals, the IDX business grew to serve both governmental and commercial entities of varied sizes.

The Business

IDX believes it has a leading position in the United States by revenue as a provider of data breach response services, and associated identity and privacy protection services, to both government and commercial entities. IDX acquires new customers for its data breach services through cyber insurers and their approved privacy attorneys. IDX services are often pre-approved through direct relationships with organizations that have entered into master services agreements (MSA) for current and future services, as well as through government channels as a result of approved listings with the General Services Administration (GSA) for federal agencies and the National Association of State Procurement Officials (NASPO) for state and local agencies.

IDX provides identity and privacy protection services through its proprietary, cloud-native platform for the protection of individuals impacted by data breaches, as well as through other channels, for proactively addressing the risks associated with privacy and identity risks to the affected individuals and the breached organization. The IDX platform was designed to improve scalability and usability, while concurrently supporting rapid development of new capabilities, and compliance with increasingly rigorous security standards based on the National Institute of Standards and Technology (NIST) Special Publication 800-53 Rev 4. Typically, IDX evaluates its own security controls, and in some cases contracts testing to third parties as part of yearly FISMA security risk assessments, HIPAA security risk analysis for business associates, and SOC 2 type 2 certifications.

IDX has a substantial customer base for data breach services in the public sector. The largest component of revenue from the public sector results from a multiyear contract with the U.S. Office of Personnel Management (OPM), described below.

In 2015, OPM and the Department of Defense (DoD) awarded IDX a three-year, $330 million contract to provide identity protection and breach response services covering approximately 21.5 million current and former federal employees and contractors that were affected by the OPM data breach of background investigation records (OPM Contract). IDX believes winning this award resulted in further market validation, increased visibility, and enhanced reputation for IDX as a leading data breach response provider in the United States by revenue. Earning this award required IDX to comply with rigorous government security standards. IDX’s compliance performance combined with receiving “very good” and “excellent” Contractor Performance Assessment Reports (CPAR) ratings leave the IDX data breach response business well positioned to address large-scale data breaches.

IDX won a rebid of the contract with OPM and the DoD in 2018. The new contract is worth at least $460 million, assuming all option periods and the extension period are exercised, for the period ending June 30, 2024. The scope of the new contract is for IDX to provide identity protection services for certain employees and prospective employees of the U.S. Government affected by a breach of OPM systems. IDX believes the OPM Contract was and remains as of August 3, 2022, the largest data breach response arrangement in the history of such contracts in the United States. The award of this contract to IDX cemented it as a leading provider in the United States by revenue of data breach response services to both governmental and commercial entities. In addition, IDX is listed on the General Services Administration (GSA) SIN 520.20 for Data Breach Response and Identity Protection Services facilitating data breach response contracts with numerous other government agencies. A SIN is a Special Item Number that identifies products and services that GSA contract holders offer to government buyers. IDX benefits from having a SIN with GSA as it allows IDX to participate in more bid opportunities for providing Data Breach Response and Identity Protection Services.

The OPM Contract is structured as a Base Period from July 1, 2019, to June 30, 2020, followed by a series of options as follows: Option Period I from July 1, 2020, to June 30, 2021; Option Period II from July 1, 2021, to June 30, 2022; Option Period III from July 1, 2022, to June 30, 2023; and Option Period IV from July 1, 2023, to December 31, 2023. OPM has an option to extend the OPM Contract from January 1, 2024, to June 30, 2024, as well as an option to add a transition-out period beyond June 30, 2024. OPM has exercised Option Period I, Option Period II, and Option Period III. IDX plans to pursue the rebid of the OPM Contract in 2024 for an extension through 2027.

IDX generates the largest component of its commercial revenue from organizations that require response services for data breach incidents. The response services typically include notifications to individuals impacted by the breach; call center support; a customized webpage for providing information, privacy and identity protection software, and additional services to the affected population. In addition to revenue from data breach incident response services, IDX also provides identity and privacy services on a subscription basis to organizations, which they can offer as a benefit for their employees or customers.

Impact of COVID-19 On the Business

IDX operates in geographic locations that have been impacted by COVID-19. The pandemic has affected, and could further affect, IDX’s operations and the operations of its customers as a result of various factors, including but not limited to quarantines, local, state, and federal government public health orders, facility and business closures, and travel and logistics restrictions. IDX anticipates governments and businesses will likely take additional actions or extend existing actions to respond to the risks of the COVID-19 pandemic. IDX continues to actively monitor the impacts and potential impacts of the COVID-19 pandemic on IDX’s customers, supply chain, and operations. For further information, please see “Risk Factors—The COVID-19 pandemic could adversely affect our business, operating results, and financial condition” in this Annual Report.

IDX instituted a global work-from-home policy in March 2020 and to-date have not experienced significant disruptions as a result. IDX has not requested relief under the Coronavirus Aid, Relief, and Economic Security Act, and it therefore had no effect on its financial statements.

Key Factors Affecting Performance

New customer acquisition

IDX believes that its future growth depends in part on its ability to acquire new customers for its data breach services and identity protection membership services to its strategic partners' members, employer groups' employees, and individual customers. IDX has sourced a significant proportion of new data breach services customers as a result of relationships with cyber insurers. IDX makes on-going investments in developing and maintaining these relationships, as well as relationships with privacy attorneys that represent many of their cyber insurers. Additionally, IDX invests in direct marketing to prospective customers for data breach services, as well as IDX's identity and privacy membership services for employee benefits and strategic partner customer protection.

Customer Retention

IDX's revenue growth is fostered by its ability to retain customers that have an ongoing need for data breach response services. IDX maintains its relationship with its customers after the conclusion of the data breach response by cross-selling membership services to its customers affected stakeholders, which are typically our customers' employees or their own customers. IDX has multi-year contracts with some government entities, including the OPM Contract. The possible retention and renewal of the OPM Contract may also be a factor in maintaining revenue growth.

Investing in Business Growth

IDX also invests in initiatives to support the growth of its business. IDX's research and development organization, composed of employees and contractors, uses an agile development philosophy in an effort to enhance its existing identity and privacy platform while adding new features and products, usability enhancements, customer integrations and APIs, and security certifications. IDX's sales and marketing teams invest in business growth through channel expansion with dedicated sales teams and associated marketing demand generation programs.

IDX also invests in the growth of its business with government entities by building relationships with consultants experienced in the government procurement process and maintenance of its listings on relevant GSA schedules, as well as by investing in relationships with key government agency stakeholders and congressional representatives. IDX from time to time will work with consultants who specialize in government contract bidding strategies, provide advice on optimal maintenance and use of the U.S. Government GSA schedule, and provide strategic, relationship-building, and legislative affairs services with members of Congress and their staffs.

Key Business Metrics

IDX monitors the following key metrics to measure performance, identify trends, formulate business plans, and make strategic decisions.

Breach Revenue, Membership Services, and Total Revenue

The tables below present IDX's key performance indicators for the periods indicated (in thousands):

		January 1, 2022, to August 3, 2022
Breach revenue [1]	$	64,078
Membership services [1]		2,680
Total revenue	$	66,758
Breach customers [2]		1,443
Membership customers [2]		197

[1] IDX defines breach revenue as revenue related to breach contracts, which typically have a term of 15 months (three-month call center period followed by 12 months of identity protection services) and are non-recurring. IDX defines membership services as recurring monthly and yearly ongoing identity and privacy services provided to strategic partners' members and employer groups' employees and retail customers.

[2] IDX defines a breach customer as an agency or organization from which it has recognized breach revenue in a reporting period. IDX defines membership customers, in this instance, as strategic partners and employer groups receiving membership services (non-breach and non-retail customers).

Components of Results from Operations

Revenue

IDX recognizes revenue when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration IDX expects to be entitled to in exchange for its goods or services. For arrangements with multiple performance obligations, IDX allocates revenue to each performance obligation on a relative fair value basis based on management's estimate of Stand-Alone Selling Price (SSP).

IDX's breach services revenue consists of contracts with various combinations of notification, project management, communication services, and ongoing identity protection services. Performance periods generally range from one to three years. Payment terms are generally either thirty or sixty days throughout the term. Contracts do not contain significant financing components. IDX's breach services contracts are structured as either fixed price or variable price. In fixed price contracts, IDX charges customers a fixed total price or fixed per-impacted individual price for the total package of services. For variable price breach services contracts, IDX charges the breach communications component, which includes notifications and call center support, at a fixed total fee and charges for ongoing identity protection services as incurred using a fixed price per enrollment. Refunds and related reserves have been insignificant historically.

IDX provides identity and privacy protection services memberships through its employer groups and strategic partners as well as directly to individual end-users through its website. Membership services consist of multiple bundled identity and privacy product offerings which provide members with ongoing identity protection services. For membership services, IDX recognizes revenue ratably over the service period, which is typically one year. Payments from employer groups and strategic partners are generally collected monthly and payments from end-users are collected up front.

IDX evaluates arrangements with governmental entities containing "fiscal funding" or "termination for convenience" provisions, when such provisions are required by law, to determine the probability of possible cancellation. IDX considers multiple factors including its history with the government entity in similar transactions and the budgeting and approval processes undertaken by the governmental entity. If IDX determines upon execution of these arrangements that the likelihood of cancellation is remote, it recognizes revenue for such arrangements once all relevant criteria have been met. If IDX cannot make such a determination, it recognizes revenue upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity for such arrangements.

Cost of Revenue

Cost of revenue consists of fees to outsourced service providers for credit monitoring, call center operation, notification mailing, insurance, other miscellaneous services, and internal labor costs. IDX expenses notification costs as fulfillment costs and recognizes those notification costs at a point in time. IDX capitalizes call center costs and amortizes the call center costs over time. IDX generally recognizes sales commissions, which are incremental costs to obtain contracts, ratably over the contractual period of the applicable agreement. IDX presents notification and call center costs within capitalized contract costs and recognizes the costs over the combined service and membership terms. IDX expenses the remainder of cost of services as incurred.

Gross Profit

Gross profit, calculated as total revenue less total cost of services, is affected by several factors including the timing of breach incidents; renewals from existing customers; costs associated with fulfilling contracts such as notification, call center, and monitoring costs; the extent to which IDX expands its customer support organization; and the extent to which IDX can negotiate any preferential pricing from its vendors. IDX's services revenue and gross profit may fluctuate over time because of these factors.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of employee compensation and related expenses, including salaries, bonuses, and benefits for IDX's sales and marketing employees; sales commissions that are recognized as expenses over the period of benefit; marketing programs; travel and entertainment expenses; and allocated overhead costs. IDX capitalizes its sales commissions and recognizes them as expenses over the estimated period of benefit.

General and Administrative

General and administrative costs consist primarily of salaries, stock-based compensation expenses, and benefits for personnel involved in IDX's executive, finance, legal, human resources, and administrative functions; third-party services and fees; and overhead expenses. IDX expects that general and administrative expenses will increase in absolute dollars as IDX hires additional personnel and enhances its systems, processes, and controls to support the growth in IDX's business as well as increased compliance and reporting requirements as a public company.

Research and Development

Research and development expenses consist primarily of personnel costs and contractor fees related to the bundling of other third-party software products that are offered as one combined package within IDX's product offerings. Personnel costs include salaries, bonuses, stock-based compensation, and related employer-paid payroll taxes, as well as an allocation of facilities, benefits, and information technology costs. IDX expenses research and development costs as incurred.

Interest and Other Expense

Interest and other expense consist primarily of term loan interest expense and the amortization of warrant and loan fees, which are recorded as a reduction to debt.

Income Tax Expense (Benefit)

Income tax expense (benefit) consists of federal and state income taxes in the United States. IDX maintains a partial valuation allowance on its state net operating losses.

Results of Operations

Results for the Period January 1, 2022, to August 3, 2022

This section describes the results of IDX for the period January 1, 2022, to August 3, 2022.

The following table sets forth the Consolidated Statements of Income in dollar amounts and as a percentage of total revenue (dollars in thousands):

	January 1, 2022, to August 3, 2022	
		Percentage of Revenue
Revenue	$ 66,758	100 %
Cost of revenue	52,254	78 %
Gross profit	14,504	22 %
Operating expenses:		
Research and development	3,325	5 %
Sales and marketing	4,594	7 %
General and administrative	5,758	9 %
Total operating expenses	13,677	21 %
Income from operations	827	1 %
Total other expense	(1,032)	1 %
Loss before income taxes	(205)	0 %
Income tax expense	652	1 %
Net loss after tax	$ (857)	-1 %

Revenue

Revenue was $66.8 million for the six months ended period January 1, 2022, to August 3, 2022.

Cost of Revenue

Cost of revenue was $52.3 million for the period January 1, 2022, to August 3, 2022.

Gross Profit

Gross profit and gross profit margin for the period January 1, 2022, to August 3, 2022, were $14.5 million and 22%, respectively.

Operating Expenses

(in thousands)	July 1, 2022, to August 3, 2022
Research and development	$ 3,325
Sales and marketing	4,594
General and administrative	5,758
Total operating expenses	$ 13,677

Research and Development

Research and development expense was $3.3 million for the period January 1, 2022, to August 3, 2022.

Sales and Marketing

Sales and marketing expense was $4.6 million for the period January 1, 2022, to August 3, 2022.

General and Administrative

General and administrative expense was $5.8 million for the period January 1, 2022, to August 3, 2022.

Total Other Expense

Total other expense was $1.0 million for the period January 1, 2022, to August 3, 2022.

Provision for Income Taxes

Income tax benefit was $0.7 million for the period January 1, 2022, to August 3, 2022.

Cash Flows

The following table summarizes IDX's cash flows:

(in thousands)		January 1, 2022, to August 3, 2022
Net cash used in operating activities	$	(1,293)
Net cash used in investing activities		(44)
Net cash used in financing activities	$	(365)

Operating Activities

Net cash used in operating activities during the period January 1, 2022, to August 3, 2022, was $(1.3) million. IDX's net loss of $0.9 million for the period January 1, 2022, to August 3, 2022, was adjusted for net non-cash charges of $(0.7) million and net cash inflows of $0.3 million from changes in operating assets and liabilities. Changes in working capital amounts resulted primarily from an increase in accounts receivable of $1.8 million an increase in capitalized contract costs of $(0.9) million, partially offset by an increase in accrued expenses and other liabilities of $1.8 million and an increase in deferred revenue of $1.2 million.

Investing Activities

Net cash used in investing activities for the period January 1, 2022, to August 3, 2022, was insignificant. These cash outflows were for purchases of property and equipment.

Financing Activities

Net cash used in financing activities for the period January 1, 2022, to August 3, 2022, was $(0.4) million. Net cash used in financing activities was comprised of principal payments in the amount of $(0.6) million, partially offset by cash provided by warrant and option exercises of $0.2 million.

Contractual Obligations

IDX has entered into a non-cancelable purchase commitment of $59.0 million related to twelve months of outsourced credit and other monitoring services provided to IDX's largest customer as of August 3, 2022.

The following table summarizes IDX's contractual obligations and commitments as of August 3, 2022, (in thousands):

	Total	Less than 1 year	1-3 years
Operating leases	$ 375	$ 315	$ 60
Purchase commitments	59,450	59,450	—
Total	$ 59,825	$ 59,765	$ 60

Off-Balance Sheet Arrangements

Leases

Rental payments under operating leases are recognized on a straight-line basis over the term of the lease, which includes any periods of free rent. Rental expense for operating leases was $0.2 million for the period January 1, 2022, to August 3, 2022.

IDX executed the Fifth Amendment to its office lease on October 9, 2020. This amendment was for two years and two months commencing on January 1, 2021, and ending February 28, 2023. IDX's landlord provided an abatement for January 1, 2021, through February 28, 2021, as part of its lease renewal.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of August 3, 2022, are (in thousands):

	Operating Leases
Fiscal Year:	
2022 (remaining quarters)	$ 178
2023	149
2024	48
Total minimum lease payments	$ 375

Critical Accounting Policies and Estimates

IDX's financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires IDX to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, as well as related disclosures. IDX evaluates its estimates and assumptions on an ongoing basis. Estimates are based on historical experience and various other assumptions that IDX believes to be reasonable under the circumstances. Actual results could differ from these estimates. The critical accounting policies, assumptions, and judgments that IDX believes have the most significant impact on the IDX Consolidated Financial Statements are described below.

Revenue Recognition

Revenue is derived from sales of breach response services and identity and privacy protection services. IDX satisfies performance obligations to recognize revenue for two performance obligations, one at a point in time and the other ratably over the expected term with the customer.

Revenue is recognized when all of the following criteria are met:

Identification of the contract, or contracts, with a customer—A contract with a customer to account for exists when (i) IDX enters into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and the parties are committed to perform, and (iii) IDX determines that collection of substantially all consideration to which it will be entitled in exchange for goods or services that will be transferred is probable based on the customer's intent and ability to pay the promised consideration.

Identification of the performance obligations in the contract—Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, IDX applies judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.

Determination of the transaction price—The transaction price is determined based on the consideration to which IDX will be entitled in exchange for transferring goods or services to the customer.

Allocation of the transaction price to the performance obligations in the contract—IDX allocates the transaction price to each performance obligation based on the amount of consideration expected to be received in exchange for transferring goods and services to the customer. IDX allocates the transaction price by using an estimated selling price for services provided to determine which portion of its contracts' total transaction price should be recognized at a point-in-time and which portion should be recognized over-time. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation on a relative standalone selling price based on the observable selling price of products and services.

Recognition of revenue when, or as, IDX satisfies performance obligations—IDX satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Significant Judgments

Significant judgments and estimates are required under ASC 606. Due to the complexity of certain contracts, the actual revenue recognition treatment required under ASC 606 for IDX's arrangements may be dependent on contract-specific terms and may vary in some instances. IDX's contracts with customers often include promises to transfer multiple services, including project management services, notification services, call center services, and identity protection services. Determining whether services are distinct performance obligations that should be accounted for separately requires significant judgment.

IDX is required to estimate the total consideration expected to be received from contracts with customers, including any variable consideration. Once the estimated transaction price is established, amounts are allocated to performance obligations on a relative SSP basis. IDX's breach business derives revenue from two main performance obligations: (i) notification and (ii) combined call center and identity protection services, as described further in Note 2 to the IDX Consolidated Financial Statements included in this Annual Report.

At contract inception, IDX assesses the products and services promised in the contract to identify each performance obligation and evaluate whether the performance obligations are capable of being distinct and are distinct within the context of the contract. Performance obligations that are not both capable of being distinct and distinct within the context of the contract are combined and treated as a single performance obligation in determining the allocation and recognition of revenue. Determining whether products and services are considered distinct performance obligations requires significant judgment. In determining whether products and services are considered distinct performance obligations, IDX assesses whether the customer can benefit from the products and services on their own or together with other readily available resources and whether our promise to transfer the product or service to the customer is separately identifiable from other promises in the contract.

Judgment is required to determine the SSP for each distinct performance obligation. IDX rarely sells its individual breach services on a standalone basis, and accordingly, IDX is required to estimate the range of SSPs for each performance obligation. In instances where the SSP is not directly observable because IDX does not sell the service separately, IDX reviews information that includes historical discounting practices, market conditions, cost-plus analyses, and other observable inputs to determine an appropriate SSP. IDX typically has more than one SSP for individual performance obligations due to the stratification of those items by classes of customers, size of breach, and other circumstances. In these instances, IDX may use other available information such as service inclusions or exclusions, customizations to notifications, or varying lengths of call center or identity protection services in determining the SSP.

If a group of agreements are so closely related to each other that they are, in effect, part of a single arrangement, such agreements are deemed to be one arrangement for revenue recognition purposes. IDX exercises judgment to evaluate the relevant facts and circumstances in determining whether the separate agreements should be accounted for separately or as, in substance, a single arrangement. IDX’s judgments about whether a group of contracts comprises a single arrangement can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of IDX’s operations.

Generally, IDX has not experienced significant returns or refunds to customers. IDX’s estimates related to revenue recognition may require significant judgment and the change in these estimates could have an effect on IDX’s results of operations during the periods involved.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets, or contract liabilities (deferred revenue) on the Consolidated Balance Sheets. IDX records a contract asset when revenue is recognized prior to invoicing and records a deferred revenue liability when revenue is expected to be recognized subsequent to invoicing. For IDX’s breach services agreements, customers are typically invoiced at the beginning of the arrangement for the entire contract amount. When the breach agreement includes variable components related to as-incurred identity protection services, customers are invoiced monthly for the duration of the enrollment or call center period. Large contracts are typically billed 50% upfront and due upon receipt with the remaining 50% invoiced subsequently with net 30 terms.

Contract assets are presented as other receivables within the Consolidated Balance Sheets and primarily relate to IDX’s rights to consideration for work completed but not billed on service contracts. Contract assets are transferred to receivables when IDX invoices the customer. Contract liabilities are presented as deferred revenue and relate to payments received for services that are yet to be recognized in revenue.

During the one month three day period ended August 3, 2022, IDX recognized $0.6 million of revenue that was included in deferred revenue at the end of the preceding year. All other deferred revenue activity is due to the timing of invoices in relation to the timing of revenue, as described above. IDX expects to recognize as revenue approximately 56% of its August 3, 2022, deferred revenue balance in the remaining quarters of 2022, 29% for the period January 1, 2023, to August 3, 2023, and the remainder thereafter.

In instances where the timing of revenue recognition differs from the timing of invoicing, IDX has determined that its contracts do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing IDX's services, not to facilitate financing arrangements.

Government Contracts

IDX evaluates arrangements with governmental entities containing "fiscal funding" or "termination for convenience" provisions, when such provisions are required by law, to determine the probability of possible cancellation. IDX considers multiple factors, including the history with the customer in similar transactions and budgeting and approval processes undertaken by the governmental entity. If IDX determines upon execution of these arrangements that the likelihood of cancellation is remote, it then recognizes revenue for such arrangements once all relevant criteria have been met. If such a determination cannot be made, revenue is recognized upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity for such arrangements.

Contract Costs

IDX capitalizes costs to obtain a contract or fulfill a contract. These costs are recorded as capitalized contract costs on the Consolidated Balance Sheets. Costs to obtain a contract for a new customer are amortized on a straight-line basis over the estimated period of benefit. IDX determines the estimated period of benefit by taking into consideration the contractual term. IDX periodically reviews the carrying amount of the capitalized contract costs to determine whether events or changes in circumstances have occurred that could affect the period of benefit. Amortization expense associated with costs to fulfill a contract is recorded to cost of services on the Consolidated Statements of Income, and amortization expense associated with costs to obtain a contract (sales commissions) is recorded to sales and marketing expense.

All notification costs are expensed as fulfillment costs and recognized at a point in time. Call center costs are capitalized and amortized over time. Sales commissions, which are incremental costs to obtain contracts, are recognized ratably over the contractual period of the applicable agreement.

Income Taxes

IDX provides for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax effect of differences between recorded assets and liabilities and their respective tax basis along with operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective.

IDX recognizes the effect of income tax positions only if those positions are more likely than not of being sustained in the event of a tax audit. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense. Penalties and interest of $0.1 million have been accrued to expense as of August 3, 2022, and are discussed further in Note 6 in the notes to the consolidated financial statements.

Deferred tax assets are reduced by a valuation allowance when, in management’s opinion, it is more likely than not that some portion or all the deferred tax assets will not be realized. IDX considers the future reversal of existing taxable temporary differences, taxable income in prior carryback years, projected future taxable income, and tax planning strategies in making this assessment. IDX’s valuation allowance is based on all available positive and negative evidence, including its recent financial operations, evaluation of positive and negative evidence with respect to certain specific deferred tax assets (including evaluating sources of future taxable income) to support the realization of the deferred tax assets.

The Company’s income tax returns are generally subject to examination by taxing authorities for a period of three years from the date they are filed. Tax authorities may have the ability to review and adjust net operating loss or tax credit carryforwards that were generated prior to these periods if utilized in an open tax year. As of August 3, 2022, the Company’s income tax returns for the years ended December 31, 2016, through 2021 are subject to examination by the Internal Revenue Service and applicable state and local taxing authorities.

Quantitative and Qualitative Disclosures about Market Risk

IDX’s operations are in the United States, and it is exposed to market risk in the ordinary course of its business.

Interest Rate Risk

As of August 3, 2022, IDX had no short or long-term investments.

Foreign Currency Exchange Risk

To date, all of IDX’s sales contracts have been denominated in U.S. Dollars, and therefore its revenue is not subject to foreign currency risk. Operating expenses are incurred within the United States and denominated in U.S. Dollars.

Emerging Growth Company Status

IDX is an "emerging growth company" (EGC), as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"). Under the JOBS Act, EGCs can delay adopting new or revised accounting standards applicable to public companies issued after the enactment of the JOBS Act until those standards apply to private companies. IDX has elected to use this extended transition period for complying with certain new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date IDX (i) is no longer an EGC or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, the IDX Consolidated Financial Statements may or may not be comparable to the financial statements of issuers who comply with public company standards' effective dates.

Recent Accounting Pronouncements

See Notes 2r. Standards Issued and Adopted and 2s. Standards Issued but Not Yet Effective to the consolidated financial statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of August 3, 2022.

Liquidity and Capital Resources

Sources and Uses of Funds

As of August 3, 2022, IDX had $16.3 million of cash and cash equivalents. IDX believes that existing cash and cash equivalents will be sufficient to support working capital and capital expenditure requirements for at least the next twelve months. Since inception, IDX has financed operations primarily through credit facilities and positive cash flow related to its OPM Contract. Principal uses of cash are cost of services provided to its customers such as notification printing and monitoring and personnel related expenses. In August 2016, IDX and ITGS, Inc., as co-borrowers, entered into a credit facility with Comerica Bank ("Lender") (the "Comerica Credit Facility"), which was amended and restated in December 2020 and further amended in July 2021. The current Comerica Credit Facility provides for a secured term loan facility in an aggregate principal amount of $10.0 million. IDX's obligations under the Comerica Credit Facility are secured by substantially all its assets. As of August 3, 2022, there was $9.4 million in principal amount outstanding under the Comerica Credit Facility.

Interest is payable monthly and accrues at the prime referenced rate plus 1.5% per year, which was 6.25% as of August 3, 2022. The outstanding principal amount of the term loan is payable in thirty-six equal monthly installments beginning on July 1, 2022, and continuing through the maturity date in June 2025. IDX may prepay the term loan, in whole or in part, at any time, without penalty or premium. Any amounts, once repaid, may not be reborrowed.

The Comerica Credit Facility contains customary affirmative and negative covenants for this type of facility, including, among others, restrictions on dispositions, any change in control, mergers or consolidations, acquisitions, investments, incurrence of debt, granting of liens, payments of dividends or distributions and certain transactions with affiliates, in each case subject to certain exceptions. The Comerica Credit Facility also contains a minimum EBITDA financial covenant requiring that IDX generate minimum EBITDA of not less than $3.0 million during any trailing twelve-month period.

The events of default under the Comerica Credit Facility include, among others, subject to grace periods in certain instances, payment defaults, covenant defaults, bankruptcy and insolvency defaults, cross-defaults to other indebtedness, judgment defaults, a material adverse change default and a default in the event that the contract with the OPM Contract is canceled or terminated. Upon the occurrence and during the continuance of an event of default, the lender may declare all outstanding principal and accrued and unpaid interest under the credit facility immediately due and payable, increase the applicable interest rate by 5%, and may exercise other rights and remedies provided under the Comerica Credit Facility. IDX intends to repay and terminate the credit facility at the Closing.

IDX is a party to that certain Convertible Promissory Note Purchase Agreement, dated as of December 18, 2018, by and among ID Experts Holdings, Inc. and certain ID Experts Holdings, Inc. shareholders, pursuant to which it has issued certain convertible promissory notes.

From time to time, IDX may explore additional financing sources and means to lower its cost of capital, which could include equity, equity-linked and debt financing. IDX cannot assure you that any additional financing will be available to it on acceptable terms, or at all. If IDX raises additional funds by issuing equity or equity-linked securities, the ownership of the existing shareholders will be diluted. If IDX raises additional financing by the incurrence of indebtedness, IDX may be subject to increased fixed payment obligations and could be subject to additional restrictive covenants, such as limitations on its ability to incur additional debt, and other operating restrictions that could adversely impact IDX's ability to conduct business. Any future indebtedness IDX incurs may result in terms that could be unfavorable to equity investors. There can be no assurances that IDX will be able to raise additional capital. The inability to raise capital would adversely affect IDX's ability to achieve its business objectives.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 under the Securities Exchange Act of 1934, as amended, and are not required to provide the information otherwise reported under this item.

Interest Rate Risk

As of January 31, 2024, we had $198.0 million of outstanding borrowings for our Convertible Notes and term loans. As part of the Business Combination completed on August 3, 2022, we obtained $150 million of Convertible Notes. The Convertible Notes have a fixed interest rate of 7.0%, if interest is paid in cash, or 8.75% if interest is paid in-kind. Of our notes outstanding after completion of the Business Combination, the Convertible Notes and InfoArmor note have fixed interest rates and the Stifel Bank note has a variable interest rate that would subject us to interest rate fluctuations.

We do not believe a hypothetical 10% increase or decrease in interest rates would have had a material impact on our financial statements as it is only the Stifel Bank note that is subject to a variable interest rate.

Foreign Currency Risk

To date, the majority of our sales contracts have been denominated in U.S. dollars (USD) with a limited number of contracts denominated in foreign currencies. Revenue denominated in non-USD was approximately 3% for fiscal year 2024. Operating expenses within the United States are primarily denominated in U.S. Dollars, while operating expenses incurred outside the United States are primarily denominated in each country’s respective local currency.

The functional currency of our foreign subsidiaries is each country’s respective local currency. Assets and liabilities of the foreign subsidiaries are translated into USD at the exchange rates in effect at the reporting date, and income and expenses are translated at average exchange rates during the period, with the resulting translation adjustments directly recorded as a component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are recorded in other income (expense), net in the Consolidated Statement of Comprehensive Loss. As the impact of foreign currency exchange rates has not been material to our operating results, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency becomes more significant.

We do not believe a hypothetical 10% increase or decrease in foreign exchange rates would have had a material impact on our financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Audited Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ZeroFox Holdings, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of ZeroFox Holdings, Inc. and subsidiaries (the Company) as of January 31, 2024 and 2023, and the related consolidated statements of comprehensive loss, changes in consolidated statements of stockholders' equity (deficit), and cash flows for the period ended January 31, 2024 and the period from August 4, 2022 to January 31, 2023 (collectively referred to as the "the Successor") and the related consolidated statements of operations, changes in consolidated statements of redeemable convertible preferred stock and stockholders' deficit, and cash flows for the period February 1, 2022 to August 3, 2022 (collectively referred to as "the Predecessor"), along with the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2024 and 2023, and the results of its operations and its cash flows for the Successor and Predecessor periods, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

McLean, Virginia
March 15, 2024

We have served as the Company's auditor since 2014.

ZeroFox Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share data)	January 31, 2024	January 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 33,149	$ 47,549
Accounts receivable, net of allowance for doubtful accounts	38,923	29,609
Deferred contract acquisition costs, current	5,351	5,456
Prepaid expenses and other assets	8,202	5,300
Total current assets	85,625	87,914
Property and equipment, net of accumulated depreciation	1,198	671
Capitalized software, net of accumulated amortization	342	253
Deferred contract acquisition costs, net of current portion	4,755	7,751
Acquired intangible assets, net of accumulated amortization	233,854	262,444
Goodwill	134,100	406,608
Operating lease right-of-use assets	3,553	720
Other assets	1,410	550
Total assets	$ 464,837	$ 766,911
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,772	$ 3,099
Accrued compensation, accrued expenses, and other current liabilities	17,126	18,751
Current portion of long-term debt	938	15,938
Deferred revenue, current	79,406	47,977
Operating lease liabilities, current	1,638	406
Total current liabilities	101,880	86,171
Deferred revenue, net of current portion	7,440	5,981
Long-term debt, net of deferred financing costs	196,827	157,843
Other liabilities	11,310	27,618
Operating lease liabilities, net of current portion	2,111	427
Total liabilities	319,568	278,040
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock, $0.0001 par value; 1,000,000,000 authorized shares; 124,639,135 and 118,190,135 shares issued and outstanding, respectively	12	12
Additional paid-in capital	1,256,593	1,243,637
Accumulated deficit	(1,110,987)	(754,677)
Accumulated other comprehensive loss	(349)	(101)
Total stockholders' equity	145,269	488,871
Total liabilities and stockholders' equity	$ 464,837	$ 766,911

See notes to consolidated financial statements.

ZeroFox Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss

(in thousands, except share and per share data)	Successor Year ended January 31, 2024	Successor August 4, 2022 to January 31, 2023	Predecessor February 1, 2022 to August 3, 2022
Revenue			
Subscription	$ 89,308	$ 31,679	$ 27,946
Services	143,992	56,707	1,291
Total revenue	233,300	88,386	29,237
Cost of revenue			
Subscription	44,137	18,225	8,349
Services	114,199	43,600	457
Total cost of revenue	158,336	61,825	8,806
Gross profit	74,964	26,561	20,431
Operating expenses			
Research and development	31,190	12,134	8,092
Sales and marketing	73,790	35,859	18,516
General and administrative	38,758	18,218	10,093
Goodwill impairment	284,240	698,650	—
Total operating expenses	427,978	764,861	36,701
Loss from operations	(353,014)	(738,300)	(16,270)
Other (expense) income			
Interest expense, net	(15,202)	(7,867)	(2,965)
Change in fair value of purchase consideration liability	2,456	—	—
Change in fair value of warrant liability	(349)	5,364	(2,059)
Change in fair value of sponsor earnout shares	2,053	9,634	—
Total other (expense) income	(11,042)	7,131	(5,024)
Loss before income taxes	(364,056)	(731,169)	(21,294)
(Benefit from) provision for income taxes	(7,746)	(10,522)	111
Net loss after tax	$ (356,310)	$ (720,647)	$ (21,405)
Net loss per share attributable to common stockholders, basic and diluted	$ (2.88)	$ (6.17)	$ (0.50)
Weighted-average shares used in computation of net loss per share attributable to common stockholders, basic and diluted:	123,813,143	116,862,277	43,041,209
Other comprehensive (loss) income			
Foreign currency translation	(248)	(101)	36
Total other comprehensive (loss) income	(248)	(101)	36
Total comprehensive loss	$ (356,558)	$ (720,748)	$ (21,369)

See notes to consolidated financial statements.

ZeroFox Holdings, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)

(in thousands, except for share data)	L&F Class A Ordinary Shares		L&F Class B Ordinary Shares		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity
Balance—February 1, 2023	—	$ —	—	$ —	118,190,135	$ 12	$ 1,243,637	$ (754,677)	$ (101)	$ 488,871
Stock-based compensation expense	—	—	—	—	—	—	7,525	—	—	7,525
Exercise of options	—	—	—	—	1,003,474	—	298	—	—	298
Vesting of restricted stock units	—	—	—	—	1,635,418	—	—	—	—	-
Issuance of common stock to partially satisfy purchase consideration liability	—	—	—	—	3,810,108	—	2,647	—	—	2,647
Other	—	—	—	—	—	—	2,486	—	—	2,486
Net loss	—	—	—	—	—	—	—	(356,310)	—	(356,310)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(248)	(248)
Balance—January 31, 2024	—	$ —	—	$ —	124,639,135	$ 12	$ 1,256,593	$ (1,110,987)	$ (349)	$ 145,269

(in thousands, except for share data)	L&F Class A Ordinary Shares		L&F Class B Ordinary Shares		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' (Deficit) Equity
Balance—August 3, 2022	1,006,002	$ —	4,312,500	$ —	—	$ —	$ 10,205	$ (34,030)	$ —	$ (23,825)
Conversion to ZeroFox Holdings, Inc. Common Stock	(1,006,002)	—	(4,312,500)	—	5,318,502	1	—	—	—	1
Issuance of Common Stock to holders of ZeroFox, Inc.	—	—	—	—	82,030,308	8	898,224	—	—	898,232
Issuance of Common Stock to holders of IDX	—	—	—	—	27,849,942	3	304,954	—	—	304,957
Issuance of Common Stock to PIPE Subscribers	—	—	—	—	2,000,000	—	20,000	—	—	20,000
Exercise of warrants	—	—	—	—	784,907	—	7,632	—	—	7,632
Stock-based compensation expense	—	—	—	—	—	—	2,500	—	—	2,500
Exercise of options	—	—	—	—	206,476	—	122	—	—	122
Net loss	—	—	—	—	—	—	—	(720,647)	—	(720,647)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(101)	(101)
Balance—January 31, 2023	—	$ —	—	$ —	118,190,135	$ 12	$ 1,243,637	$ (754,677)	$ (101)	$ 488,871

See notes to consolidated financial statements.

ZeroFox Holdings, Inc. and Subsidiaries
Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit

	Redeemable Convertible Preferred Stock																			
	Series E		Series D-2		Series D-1		Series D		Series C-1		Series C		Series B		Series A		Series Seed		Total	
(in thousands, except for share data)	Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock		Redeemable Convertible Preferred Stock	
Balance—January 31, 2022	15,227,437	$33,248	993,868	$1,451	5,878,303	$8,171	13,871,547	$21,067	11,376,115	$13,979	21,124,699	$19,899	26,914,949	$22,047	15,997,285	$10,159	9,198,372	$2,208	120,582,575	$132,229
Exercise of warrants	539,576	3,043	—	—	—	—	—	—	506,490	2,857	—	—	—	—	—	—	—	—	1,046,066	5,900
Stock-based compensation expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise of options	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Balance—August 3, 2022	15,767,013	$36,291	993,868	$1,451	5,878,303	$8,171	13,871,547	$21,067	11,882,605	$16,836	21,124,699	$19,899	26,914,949	$22,047	15,997,285	$10,159	9,198,372	$2,208	121,628,641	$138,129

(in thousands, except for share data)	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Stockholders' Deficit
Balance—January 31, 2022	42,892,927	$—	$3,873	$(156,820)	$(201)	$(153,148)
Exercise of warrants						
Stock-based compensation expense	—	—	862	—	—	862
Exercise of options	392,450	—	104	—	—	104
Net loss	—	—	—	(21,405)	—	(21,405)
Foreign currency translation adjustment	—	—	—	—	36	36
Balance—August 3, 2022	43,285,377	$—	$4,839	$(178,225)	$(165)	$(173,551)

See notes to consolidated financial statements.

ZeroFox Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)	Successor Year ended January 31, 2024	Successor August 4, 2022 to January 31, 2023	Predecessor February 1, 2022 to August 3, 2022
Cash flows from operating activities:			
Net loss	$ (356,310)	$ (720,647)	$ (21,405)
Adjustments to reconcile net loss to net cash used in operating activities:			
Goodwill impairment	284,240	698,650	—
Depreciation and amortization	1,703	366	322
Amortization of software development costs	129	25	321
Amortization of acquired intangible assets	46,490	23,056	1,604
Amortization of right-of-use assets	1,802	526	—
Amortization of deferred debt issuance costs	117	24	229
Stock-based compensation	7,525	2,500	862
Loss on sale of asset	(4)	—	—
Provision for bad debts	118	32	(7)
Change in fair value of warrants	349	(5,364)	2,059
Change in fair value of contingent consideration	(2,456)	—	—
Change in fair value of sponsor earnout shares	(2,053)	(9,634)	—
Deferred taxes	(9,140)	(10,992)	—
Noncash interest expense	14,353	6,564	303
Changes in operating assets and liabilities:			
Accounts receivable	(6,198)	(3,736)	3,643
Deferred contract acquisition costs	(6,890)	(1,267)	(109)
Prepaid expenses and other assets	(1,992)	(187)	(1,498)
Accounts payable, accrued compensation, accrued expenses, and other current liabilities	(3,913)	(8,274)	(3,073)
Operating lease liabilities	(1,949)	(413)	—
Deferred revenue	22,038	1,365	2,926
Net cash used in operating activities	(12,041)	(27,406)	(13,823)
Cash flows from investing activities:			
Proceeds from the Trust Account	—	34,864	—
Business acquisition - IDX, net of cash acquired	—	(49,803)	—
Business acquisition - ZeroFox, net of cash acquired	—	(48,369)	—
Business acquisition - Lookingglass, net of cash acquired	(7,892)	—	—
Purchases of property and equipment	(600)	(313)	(245)
Capitalized software	(217)	(278)	(501)
Net cash used in investing activities	(8,709)	(63,899)	(746)
Cash flows from financing activities:			
Proceeds from issuance of convertibles notes, net of issuance costs	—	149,872	—
Proceeds from the PIPE	—	20,000	—
Exercise of stock options	298	122	104
Proceeds from issuance of debt, net of issuance costs	7,425	—	7,412
Repurchase of class A ordinary shares	—	(24,626)	—
Payment of deferred underwriting fee	—	(6,054)	—
Repayment of debt	(938)	(469)	(469)
Net cash provided by financing activities	6,785	138,845	7,047
Foreign currency translation adjustment	(219)	(101)	54
Net change in cash, cash equivalents, and restricted cash	(14,184)	47,439	(7,468)
Cash, cash equivalents, and restricted cash, beginning of period	47,649	210	10,374
Cash, cash equivalents, and restricted cash, end of period	$ 33,465	$ 47,649	$ 2,906
Supplemental Cash Flow Information:			
Cash paid for interest	$ 2,021	$ 625	$ 2,266
Cash paid for income taxes	1,913	75	50
Non-cash investing and financing activities:			
Issuance of common stock to partially satisfy purchase consideration liability	$ 2,647	$ —	$ —
Accrual of purchase consideration liability in connection with business acquisition	9,466	—	—
Exercise of warrants	—	(7,632)	(5,900)
Issuance of warrants along with issuance of debt	126	—	519
Convertible note issued in connection with business acquisition	3,333	—	—
Operating lease liabilities arising from obtaining right-of-use assets	3,895	—	—

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows.

	Successor		Predecessor
	January 31, 2024	January 31, 2023	August 3, 2022
Cash and cash equivalents	$ 33,149	$ 47,549	$ 2,806
Restricted cash included in other assets	316	100	100
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 33,465	$ 47,649	$ 2,906

See notes to consolidated financial statements.

ZEROFOX HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1: Organization and Description of Business

ZeroFox Holdings, Inc. (ZeroFox Holdings) is a holding company incorporated in the state of Delaware. ZeroFox Holdings was formerly known as L&F Acquisition Corp. (L&F) and was a blank check, Cayman Islands exempted company, incorporated on August 20, 2020. ZeroFox Holdings conducts its business through its wholly-owned, consolidated subsidiaries, primarily ZeroFox, Inc. and Identity Theft Guard Solutions, Inc.

The Company provides digital risk protection services and safeguards modern organizations from dynamic security risks across social, mobile, surface, deep web, dark web, email, and collaboration platforms. Using diverse data sources and artificial intelligence-based analysis, the ZeroFox Platform identifies and remediates targeted phishing attacks, credential compromise, data exfiltration, brand hijacking, executive and location threats, and more. The patented ZeroFox Software as a Service (“SaaS”) technology processes and protects electronic posts, messages, and accounts daily across the social and digital landscape, spanning social media platforms, mobile app stores, the deep web, dark web, domains, and more. The Company offers its services on a subscription basis.

On August 3, 2022 (the "Closing Date"), L&F, ZeroFox, Inc., and ID Experts Holdings, Inc. ("IDX"), consummated the business combination (the Business Combination) as contemplated by the Business Combination Agreement, dated as of December 17, 2021. In connection with the finalization of the Business Combination, L&F changed its name to ZeroFox Holdings, Inc. and changed its jurisdiction of incorporation from the Cayman Islands to the state of Delaware. The Company changed its fiscal year end to January 31.

On April 21, 2023, the Company completed its acquisition of Lookingglass Cyber Solutions, Inc. (LookingGlass), a leader in external attack surface management and global threat intelligence.

The Company's Common Stock is listed on The Nasdaq Global Market under the ticker symbol "ZFOX" and its warrants are listed on The Nasdaq Capital Market under the ticker symbol "ZFOXW".

The Company provides an external cybersecurity platform and related services that protect organizations from threats outside the traditional corporate perimeter. These threats impact organizations, their brands, digital assets, and people, and include targeted phishing attacks, account takeovers, credential theft, data leakage, domain spoofing, and impersonations.

The Company’s cloud-native platform combines protection, intelligence, adversary disruption, and response services into an integrated solution (our Platform).

The Company provides data breach response services and associated identity and privacy protection services, including prevention, detection, forensic services, notification, and recovery assistance.

On February 6, 2024, the Company entered into a definitive agreement to be acquired by Haveli Investments L.P., a technology-focused private equity firm. Upon the closing of the transaction, the Company’s Common Stock will be delisted from The Nasdaq Stock Market LLC and deregistered under the Securities Exchange Act of 1934, as amended. The announced transaction is discussed further in Note 18.

Segment Information

Operating segments are defined as components of an enterprise for which discrete financial information is made available for evaluation by the chief operating decision maker (CODM) in making decisions regarding resource allocation and assessing performance. The CODM is the Company’s chief executive officer. The CODM views the Company’s operations and manages its activities as a single operating segment. The Company’s assets are primarily located in the United States.

2: Summary of Significant Accounting Policies

Basis of Presentation

As result of the Business Combination, the Company evaluated if L&F, ZeroFox, or IDX is the predecessor for accounting purposes. The Company considered the application of Rule 405 of Regulation C, the interpretative guidance of the staff of the United States Securities and Exchange Commission ("SEC"), including factors for the Registrant to consider in determining the predecessor, and analyzed the following: (1) the order in which the entities were acquired, (2) the size of the entities, (3) the fair value of the entities, (4) the historical and ongoing management structure, and (5) how management discusses the Company's business in our Form 10-Q and Form 10-K filings. In considering the foregoing principles of predecessor determination in light of the Company's specific facts and circumstances, management determined that ZeroFox, Inc. is the predecessor for accounting purposes. The financial statement presentation includes the financial statements of ZeroFox, Inc. as “Predecessor” for periods prior to the Closing Date and the financial statements of the Company as “Successor” for the period after the Closing Date, including the consolidation of ZeroFox, Inc. and IDX. The predecessor financial statements for IDX are included separately within this report. Refer to Note 5 for further discussion on the Business Combination.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as set forth by the Financial Accounting Standards Board ("FASB"). References to US GAAP issued by the FASB in these notes to the consolidated financial statements are to the FASB Accounting Standards Codifications ("ASC").

Emerging Growth Company Status

The Company is an “emerging growth company,” (EGC) as defined in the Jumpstart Our Business Startups Act, (the JOBS Act), and may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not EGCs. The Company may take advantage of these exemptions until it is no longer an EGC under the JOBS Act and has elected to use the extended transition period for complying with new or revised accounting standards. As a result of this election, the Company’s financial statements may not be comparable to companies that comply with public company FASB standards’ effective dates.

The JOBS Act exempts EGCs from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an EGC, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company's financial statements with certain other public companies difficult or impossible because of the potential differences in accounting standards used.

Principles of Consolidation

The accompanying consolidated financial statements include all the accounts of the Company. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with US GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities within these consolidated financial statements. Significant estimates and judgments include but are not limited to: (1) revenue recognition, (2) capitalization of internally developed software costs, (3) fair value of stock-based compensation, (4) valuation of assets acquired and liabilities assumed in business combinations, (5) useful lives of contract acquisition costs and intangible assets, (6) evaluation of goodwill and long lived assets for impairment, (7) valuation of warrants and the Sponsor Earnout Shares (see Note 11), (8) fair value of the purchase consideration liability (see Note 11), and (9) valuation allowances associated with deferred tax assets. The Company bases its estimates and assumptions on historical experience, expectations, forecasts, and on various other factors that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from results of prior periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of business checking accounts and money market funds. The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which, due to their short-term nature, approximates fair value.

Restricted Cash

Cash that is unavailable for general operating purposes is classified as restricted cash and is included with other assets on the Consolidated Balance Sheets. Restricted cash represents amounts pledged as collateral for credit card accounts as contractually required by the Company’s lenders.

Revenue Recognition

The Company derives its revenue from providing its customers with subscription access to the Company’s External Cybersecurity Platform (subscription revenue) and services (services revenue).

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to receive in exchange for those services. To achieve the core principle of this standard, the Company applies the following five steps:

a) *Identify Contracts with Customers.* The Company considers the terms and conditions of contracts and its customary business practices in identifying contracts with customers in accordance with ASC 606. The Company determines it has a contract with a customer when the contract is approved, the Company can identify each party’s rights regarding the services to be transferred, the Company can identify the payment terms for the services, and the Company has determined that the customer has the ability and intent to pay and the contract has commercial substance. The Company applies judgment in determining the customer’s ability and intent to pay, which is based on a variety of factors, including the customer’s historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

b) *Identify the Performance Obligations in the Contract.* Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and that are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract.

c) *Determine the Transaction Price.* The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for transferring services to the customer. The Company's typical pricing for its subscriptions and professional services does not result in contracts with significant variable consideration. The Company's arrangements do not contain significant financing components.

d) *Allocate the Transaction Price to Performance Obligations in the Contract.* If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on the stand-alone selling price (SSP) of each performance obligation, using the relative selling price method of allocation.

e) *Recognize Revenue When or As Performance Obligations are Satisfied.* Revenue is recognized at the time the related performance obligation is satisfied by transferring the promised service to a customer. For our performance obligations, the Company transfers control over time, as the customer simultaneously receives and consumes the benefits provided by the Company's service.

Subscription Revenue

The Company generates subscription revenue from its External Cybersecurity Platform.

Subscription revenue from the External Cybersecurity Platform includes the sale of subscriptions to access the platform and related support and intelligence services. Subscription revenue is driven by the number of assets protected and the desired level of service. These arrangements do not provide the customer with the right to take possession of the Company's software operating on its cloud platform at any time. These arrangements represent a combined, stand-ready performance obligation to provide access to the software together with related support and intelligence services. Customers are granted continuous access to the External Cybersecurity Platform over the contractual period. Revenue is recognized on a ratable basis over the contract term beginning on the date that the Company's service is made available to the customer. The Company's subscription contracts generally have terms of one to three years, which are primarily billed in advance and are non-cancelable.

Services Revenue

The Company generates services revenue by executing engagements for data breach response and intelligence services.

The Company generates breach response revenue primarily from various combinations of notification, project management, communication services, and ongoing identity protection services. Performance periods generally range from one to three years. The Company's breach response contracts are structured as either fixed price or variable price. In fixed price contracts, the Company charges a fixed total price or fixed individual price for the total combination of services. For variable price breach services contracts, the Company charges the breach communications component, which includes notifications and call center, at a fixed total fee, and the Company charges the ongoing identity protection services as incurred using a fixed price per enrollment. The Company generally bills for fixed fees at the time the contract is executed. For larger contracts, the Company bills 50% at the time the contract is executed and the remaining 50% within 30 days of contract execution. For variable price breach contracts, the Company invoices for identity protection services monthly based on actual enrollments.

The Company offers several types of cybersecurity services, including investigative, security advisory and training services. The Company often sells a suite of cybersecurity services along with subscriptions to its External Cybersecurity Platform. All of the Company's advisory and training services are considered distinct performance obligations from the External Cybersecurity Platform subscriptions services within the context of the Company's contracts. Revenue is recognized over time as the customers benefit from these services as they are performed or as control of the promised services is transferred to the customer. These contracts are most often fixed fee arrangements and less frequently arrangements that are billed at hourly rates. These contracts normally have terms of one year or less.

Contracts with Multiple Performance Obligations

The majority of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately. The transaction price is allocated to the separate performance obligations based on the SSP of each performance obligation using the relative selling price method of allocation.

Revenue from Reseller Arrangements

The Company enters into arrangements with third parties that allow those parties to resell the Company's services to end users. The partners negotiate pricing with the end customer and the Company does not have visibility into the price paid by the end customer. For these arrangements, the Company recognizes revenue at the amount charged to the reseller and does not reflect any mark-up to the end user.

Government Contracts

The Company evaluates arrangements with governmental entities containing fiscal funding or termination for convenience provisions, when such provisions are required by law, to determine the probability of possible cancellation. The Company considers multiple factors, including the history with the customer in similar transactions and budgeting and approval processes undertaken by the governmental entity. If the Company determines upon execution of these arrangements that the likelihood of cancellation is remote, it then recognizes revenue for such arrangements once all relevant criteria have been met. If such a determination cannot be made, revenue is recognized upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity for such arrangements.

Timing of Revenue Recognition

The table below provides revenue earned by timing of revenue for the year ended January 31, 2024, the Successor Period, and the Predecessor Period (in thousands).

	Successor		Predecessor
Revenue Recognition Timing	**Year ended January 31, 2024**	**August 4, 2022 to January 31, 2023**	**February 1, 2022 to August 3, 2022**
Over time	$ 185,345	$ 79,025	$ 27,946
Point in time	47,955	9,361	1,291
Total	$ 233,300	$ 88,386	$ 29,237

Cost of Revenue

Cost of revenue consists primarily of wages and benefits for software operations, service delivery, and customer support personnel. Cost of revenue also includes all direct costs of maintenance and hosting, as well as the amortization of costs capitalized for the development of the Company's enterprise cloud platform and acquired technology, and allocated overhead, primarily shared IT expenses.

Research and Development

Research and development costs are expensed in the period incurred and consist primarily of payroll and personnel costs, consulting costs, software and web services, and allocated overhead, primarily shared IT expenses.

General and Administrative

General and administrative costs are expensed in the period incurred and consist primarily of salaries and other related costs, including stock-based compensation, for personnel in the Company's executive and finance functions. General and administrative costs also include professional fees for legal, accounting, auditing, tax and consulting services; travel expenses; and facility-related expenses, which include costs for rent and maintenance of facilities and other operating costs.

Sales and Marketing

Selling and marketing expenses consist primarily of salaries, commissions, stock-based compensation, benefits and bonuses for personnel associated with sales and marketing activities, as well as costs related to advertising, product management, promotional materials, public relations, amortization of acquired customer relationships, other sales and marketing programs, and allocated overhead, primarily shared IT expenses.

Advertising

Advertising costs, which are expensed and included in sales and marketing expense in the period incurred were $1.3 million, $0.4 million, and $0.5 million during the year ended January 31, 2024, the Successor Period, and the Predecessor Period, respectively.

Income Taxes

In accordance with ASC 740, *Income Taxes,* income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

ASC 740 prescribes a recognition threshold and a measurement attribute for the consolidated financial statement recognition and measurement of tax positions taken, or expected to be taken, in a tax return, as well as guidance on derecognition, classification, interest, penalties, and consolidated financial statement reporting disclosures. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company remains subject to examination by U.S. federal and various state tax authorities for the fiscal years 2020 through 2023, and may be further extended upon the utilization of NOL carryforwards.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718*, Compensation — Stock Compensation*. ASC 718 requires that the cost of awards of equity instruments offered in exchange for employee services, including employee stock options and restricted stock awards, be measured based on the grant-date fair value of the award. The Company adopted FASB ASU No. 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, on February 1, 2019. This ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the consolidated statements of cash flows. The adoption did not have a material impact on the consolidated financial statements of the Company. The Company determines the fair value of options granted using the Black-Scholes-Merton option-pricing model ("Black-Scholes model") and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, generally the vesting period, net of estimated forfeitures. The fair value of restricted stock awards is based on the estimated price of the Company's common stock on the date of grant and is recognized as expense over the requisite service period of the awards, net of estimated forfeitures.

Prior to the Company's stock being publicly traded, the Company was required to estimate the fair value of common stock. The Board of Directors considered numerous objective and subjective factors to determine the fair value of the Company's common stock at each meeting in which awards are approved. The factors considered include, but are not limited to: (i) the results of contemporaneous independent third-party valuations of the Company's common stock; (ii) the prices, rights, preferences, and privileges of the Company's Convertible Redeemable Preferred Stock relative to those of its common stock; (iii) the lack of marketability of the Company's common stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company's shares.

Leases

The Company adopted ASC Topic 842, *Leases* for the fiscal year 2023. Refer to "Standards Issued and Adopted" in this footnote for more information.

The Company determines if an arrangement contains a lease and the classification of that lease, if applicable, at inception. For contracts with lease and non-lease components, we have elected to not allocate the contract consideration, and account for the lease and non-lease components as a single lease component. Operating leases are included in operating lease right-of-use (ROU) assets, operating lease liabilities and operating lease liabilities (net of current portion) in our Consolidated Balance Sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments under the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The implicit rate within our operating leases is generally not determinable and we use our incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of our incremental borrowing rate requires judgment. The Company determines our incremental borrowing rate for each lease using our current borrowing rate, adjusted for various factors including level of collateralization and term to align with the terms of the lease. The operating lease ROU asset also includes any lease prepayments, offset by lease incentives. Certain of our leases include options to extend or terminate the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain we will exercise that option. An option to terminate is considered in the determination of the lease term unless it is reasonably certain we will not exercise the option.

Lease expense for lease payments is recognized on a straight-line basis over the term of the lease.

Business Combinations

The Company accounted for the Business Combination using the acquisition method pursuant to ASC 805, *Business Combinations*. The Company determined that ZeroFox, Inc. is a Variable Interest Entity (VIE) as its equity at risk is not sufficient to fund its expected future cash flow needs including funding future projected losses and servicing existing debt obligations. The Company holds a variable interest in ZeroFox, Inc. as it owns 100% of the equity of ZeroFox, Inc. following completion of the Business Combination. The Company is considered the primary beneficiary of ZeroFox, Inc. as its ownership provides power to direct the activities that most significantly impact ZeroFox, Inc.'s performance and the Company has the obligation to absorb the losses and/or receive the benefits of ZeroFox, Inc., which potentially could be significant. Accordingly, the Company is both the legal and accounting acquirer of ZeroFox, Inc. The Company identified itself as both the legal and accounting acquirer of IDX. As the Company is identified as the accounting acquirer for both ZeroFox, Inc. and IDX, both mergers are considered "forward mergers".

Under the "forward merger" approach of the acquisition method of accounting, the Company allocated the consideration transferred to effect the mergers to the assets acquired and liabilities assumed based on their estimated acquisition-date fair values. The Company recognized the excess of consideration transferred over the fair values of assets acquired and liabilities assumed as goodwill. The Company expensed all transaction related costs of the Business Combination.

Significant estimates in valuing certain identifiable assets include, but are not limited to, the selection of valuation methodologies, future expected cash flows, discount rates, and useful lives. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Acquisition costs, such as legal and consulting fees, are expensed as incurred and are included in general and administrative expenses in the consolidated statements of comprehensive loss. During the measurement period, which is up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded in the consolidated statements of comprehensive loss. See Note 5 for additional information regarding the Business Combination.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when a business is acquired. The valuation of intangible assets and goodwill involves the use of the Company's estimates and assumptions and can have a significant impact on future operating results. The Company initially records its intangible assets at fair value. Intangible assets with finite lives are amortized over their estimated useful lives while goodwill is not amortized but is evaluated for impairment at least annually. Goodwill is evaluated for impairment beginning on November 1 of each year or when an assessment of qualitative factors indicates an impairment may have occurred. The quantitative assessment includes an analysis that compares the fair value of a reporting unit to its carrying value including goodwill recorded by the reporting unit.

The Company has a single reporting unit. Accordingly, the impairment assessment for goodwill is performed at the enterprise level. Goodwill is reviewed for possible impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. The Company initially assesses qualitative factors to determine if it is necessary to perform the goodwill impairment review. Goodwill is reviewed for impairment if, based on an assessment of the qualitative factors, it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value, or the Company decides to bypass the qualitative assessment.

The Company uses a combination of methods to estimate the fair value of its reporting unit including the discounted cash flow, guideline public company, and merger and acquisitions methods. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies and merger transactions in the Company's industry. Use of these factors requires the Company to make certain assumptions and estimates regarding industry economic factors and future profitability of its business. Additionally, the Company considers income tax effects from any tax-deductible goodwill (if applicable) on the carrying amount of the reporting unit when measuring the goodwill impairment loss. It is possible that future changes in such circumstances, or in the variables associated with the judgments, assumptions, and estimates used in assessing the fair value of the reporting unit would require the Company to record a non-cash impairment charge.

The Company considered qualitative factors that would indicate if the fair value of the Company's single reporting unit had declined below its carrying value, including the decline in the price of the Company's Common Stock, market conditions, and macroeconomic factors. Based on this qualitative analysis, the Company concluded that interim tests of goodwill impairment were required.

The Company recorded impairment charges totaling $284.2 million during the year ended January 31, 2024, and $698.7 million during the Successor Period. The Company performed an annual quantitative assessment of the fair value of the Company's single reporting unit and determined its fair value to be $572.7 million as of October 31, 2023. As the carrying value of the reporting unit was $644.8 million prior to the recognition of the impairment charge, which was above the estimated fair value of the reporting unit, the Company recorded a goodwill impairment charge $72.1 million. The remaining $212.1 million was recorded as part of the interim test of goodwill as of January 31, 2024 based on the fair value implied by the Haveli Merger Agreement. The Company's estimate of the fair value of its single reporting unit of $348.1 million as of January 31, 2024, was below the carrying value of the reporting unit of $560.2 million.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets with finite lives, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of the assets is measured by a comparison of the carrying amount of an asset or asset group to the future undiscounted cash flows expected to be generated by the asset or asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group. As of January 31, 2024, management does not believe any long-lived assets are impaired and has not identified any assets as being held for disposal.

Warrant Liabilities

The Company evaluates all of its financial instruments, including issued stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC 480, *Distinguishing Liabilities from Equity* and FASB ASC 815, *Derivatives and Hedging*. The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in the ASC 480 and ASC 815. The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, whether the warrants meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own Common Stock. This assessment, which requires the use of professional judgment, is conducted at the time of warrant issuance and as of each subsequent quarterly period end date while the warrants are outstanding.

For issued or modified warrants that meet all of the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital at the time of issuance. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are required to be recorded at their initial fair value on the date of issuance, and each balance sheet date thereafter. The Company recognizes changes in the estimated fair value of the warrants as a non-cash gain or loss on the Consolidated Statement of Comprehensive Loss. The Company assessed both Public and Private Warrants and determined both met the criteria for liability treatment.

Sponsor Earnout Shares

The Company analyzed the terms of the Sponsor Earnout Shares (see Note 11) and determined they are within the scope of ASC 815. The Company determined that the Sponsor Earnout Shares do not meet the requirements to be recognized as an equity instrument as the Company could not conclude the Sponsor Earnout Shares are indexed to the Company's own equity. Therefore, the Company recognizes the Sponsor Earnout Shares as a liability recorded at fair value.

The Sponsor Earnout Shares are not considered outstanding for accounting purposes since they are considered contingently issuable and are therefore, excluded from the calculation of basic earnings per share.

The Company analyzed the terms of the Sponsor Earnout Shares to determine if they meet the definition of "participating securities", which would require the two-class method of EPS. The holders of the Sponsor Earnout Shares are not entitled to nonforfeitable rights to dividends and as such, the Sponsor Earnout Shares do not meet the definition of "participating securities".

Fair Value of Financial Instruments

ASC 820-10, *Fair Value Measurements and Disclosures: Overall*, defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value, and expands required disclosures about fair value measurements. The fair value of an asset and liability is defined as an exit price and represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value, is as follows:

Level 1—Inputs are quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company’s assessment of the significance of an input to the fair value measurement requires judgment and may affect the valuation of the asset or liability being measured and its placement within the fair value hierarchy. The Company effectuates transfers between levels of the fair value hierarchy, if any, as of the date of the actual circumstance that caused the transfer.

Certain assets and liabilities, including goodwill and intangible assets, are subject to measurement at fair value on a non-recurring basis if there are indicators of impairment or if they are deemed to be impaired as a result of an impairment review.

As of January 31, 2024 and 2023, the Company had outstanding Public Warrants and Private Warrants. The Company measured its Public Warrants based on a Level 1 input, the public price for the Company's warrants traded on Nasdaq(ticker ZFOXW). The Company measured a portion of its Private Warrants based on a Level 2 input, the same price for the Company's Public Warrants traded on Nasdaq. The Company analyzed the terms and features of the Private Warrants and determined that they were economically similar to the Public Warrants.

As of January 31, 2024, the Company measured the Stifel Warrant issued in connection with the LookingGlass Acquisition (see Note 5) based on Level 3 inputs.

The assumptions used to value all warrants are described in Note 11.

The Company measured the liability for Sponsor Earnout Shares using Level 3 inputs. The methodology and assumptions used to measure the Sponsor Earnout Shares are described in Note 11.

A summary of the changes in the fair value of warrants for the year ended January 31, 2024, the Successor Period, the Predecessor Period, respectively, is as follows (in thousands):

	Successor	
	Public	Private
Warrant liability - February 1, 2023	$ 1,373	$ 1,208
Issuance of warrants	—	126
Gain due to change in fair value of warrants	(1,297)	(1,190)
Warrant liability - January 31, 2024	$ 76	$ 144
Warrant liability - August 4, 2022	$ 4,226	$ 11,351
Exercise of warrants	—	(7,632)
Gain due to change in fair value of warrants	(2,853)	(2,511)
Warrant liability - January 31, 2023	$ 1,373	$ 1,208

	Predecessor
Warrant liability - January 31, 2022	$ 10,709
Issuance of warrants	519
Exercise of warrants	(5,900)
Loss due to change in fair value of warrants	2,059
Warrant liability - August 3, 2022	$ 7,387

The Stifel Warrant is included in the Private Warrants column in the table above as of January 31, 2024.

The carrying amounts of accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity terms of these instruments.

The carrying amount of the Stifel Note (see Note 10) approximates fair value due to the short duration of time that has elapsed since the amendment to the loan and security agreement. The carrying amount of the Alsop Louie Convertible Note (see Note 10) approximates fair value due to the short duration of time that has elapsed since the note has been issued.

Concentration of Credit Risk

The Company maintains cash balances in bank deposit accounts, which, at times, may exceed federally insured limits. Deposits held in interest-bearing checking accounts are insured up to $250,000. Deposits held in insured cash sweep accounts are insured up to $150.0 million. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk from cash. The Company does not perform ongoing credit evaluations; generally does not require collateral; and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, and other information.

Concentration of Revenue and Accounts Receivable

For the year ended January 31, 2024, one individual customer accounted for 35% of total consolidated revenue. For the period August 4, 2022, to January 31, 2023, one individual customer accounted for 47% of total consolidated revenue. For the period February 1, 2022, to August 3, 2022, there was no individual customer that accounted for 10% or more of total consolidated revenue.

As of January 31, 2024 and 2023, one customer represented 18% and 23% of total accounts receivable, respectively.

Accounts Receivable

Accounts receivable represent net realizable amounts due from customers for subscription to the Company’s cloud-based software platform and for professional services provided by the Company. Such amounts are recorded net of allowances for bad debts. The Company’s estimates of allowances for bad debts are based on contractual terms and historical collection experience. As of January 31, 2023 and 2022, the Company’s accounts receivable consisted of the following (in thousands):

	January 31, 2024	January 31, 2023
Accounts receivable, billed	$ 30,912	$ 22,296
Accounts receivable, unbilled	8,212	7,458
Less: Allowance for doubtful accounts	(201)	(145)
Accounts receivable, net	$ 38,923	$ 29,609

The allowance for doubtful accounts reflects the Company’s estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence.

Activity in the allowance for doubtful accounts for the year ended January 31, 2024, and the Successor Period, was as follows (in thousands):

	January 31, 2024	January 31, 2023
Balance at beginning of period	$ 145	$ 133
Charged to cost and expenses	118	32
Write-offs and recoveries	(62)	(20)
Balance at end of period	$ 201	$ 145

Deferred Contract Acquisition Costs

Contract acquisition costs are primarily related to sales commissions earned by our sales force and such costs are considered incremental costs to obtain a contract. Sales commissions for initial contracts are deferred and then amortized taking into consideration the pattern of transfer to which the asset relates and may include expected renewal periods where renewal commissions are not commensurate with the initial commissions period. The Company typically recognizes the initial commissions over the longer of the customer relationship (generally estimated to be four to six years) or over the same period as the initial revenue arrangement to which these costs relate. Renewal commissions not commensurate with the initial commissions paid are generally amortized over the renewal period. Commissions earned for professional services related to breach arrangements are amortized on a straight-line basis over the estimated period of benefit of 15 months. Commissions earned for professional services related to subscription arrangements for new customers are amortized over the customer relationship (generally estimated to be four to six years). Commissions earned for professional services related to renewed subscription arrangements are amortized over the term of the arrangement.

A summary of deferred contract acquisition costs activity for the year ended January 31, 2024, and the Successor Period, is as follows (in thousands):

Deferred contract acquisition costs - February 1, 2023	$	13,207
Purchase accounting adjustment		(8,834)
Capitalization of contract acquisition costs		12,334
Amortization of deferred contract acquisition costs		(6,601)
Deferred contract acquisition costs - January 31, 2024	$	10,106
Deferred contract acquisition costs, current	$	5,351
Deferred contract acquisition costs, net of current portion		4,755
Deferred contract acquisition costs - January 31, 2024	$	10,106
Deferred contract acquisition costs - August 4, 2022	$	12,091
Capitalization of contract acquisition costs		4,915
Amortization of deferred contract acquisition costs		(3,799)
Deferred contract acquisition costs - January 31, 2023	$	13,207
Deferred contract acquisition costs, current	$	5,456
Deferred contract acquisition costs, net of current portion		7,751
Deferred contract acquisition costs - January 31, 2023	$	13,207

Deferred Contract Fulfilment Costs

Contract fulfilment costs relate to costs to operate the call center for our breach customer contracts and such costs are considered incremental costs to fulfil a contract. These costs are deferred and then amortized taking into consideration the pattern of transfer to which the asset relates. As the contract fulfilment costs relate to the combined call center and monitoring service performance obligation, they are amortized over a period of 15 months. Deferred contract fulfilment costs that will be amortized during the next twelve months is included in prepaid expenses and other assets, and the remaining portion is included in other assets on the Consolidated Balance Sheet.

As of January 31, 2024, deferred contract fulfilment costs were $1.9 million and are included in prepaid expenses and other assets. As of January 31, 2023, deferred contract fulfilment costs were $0.9 million, of which $0.8 million is included in prepaid expenses and other assets and $0.1 million is included in other assets. Amortization expense, which is included in cost of revenue, was $3.9 million and $0.3 million for the year ended January 31, 2024, and the Successor Period, respectively.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized. Repairs and maintenance costs are charged to expense as incurred. When property and equipment are retired, or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization are computed using the straight-line method.

The estimated useful lives for significant property and equipment categories are as follows:

Asset Classification	Estimated Useful Life
Computer hardware and purchased software	2 - 3 years
Furniture and fixtures	3 - 7 years
Leasehold improvements	Lesser of lease term or useful life

Capitalized Software Costs

The Company capitalizes internally developed software costs incurred in accordance with ASC 350-40, *Intangibles — Goodwill and Other: Internal-Use Software*. The Company capitalizes payroll, payroll-related costs, and any external direct costs incurred during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, which is generally three years.

The Company's capitalized software development costs were $0.2 million, $0.3 million, and $0.5 million for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, respectively. Amortization expense, which is included in cost of revenue, was $0.1 million, $0.02 million, and $0.3 million, for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, respectively.

Future amortization expense for software development costs capitalized as of January 31, 2024, is as follows (in thousands):

2025	$	165
2026		138
2027		39
Total	$	342

Transaction Fees

All transaction fees and expenses associated with the Business Combination were expensed as incurred. Accordingly, the Company recorded approximately $1.2 million of professional and other transaction fees related to the Business Combination in general and administrative expenses in the Consolidated Statement of Comprehensive Loss for the Successor Period. The Predecessor recorded approximately $3.2 million of professional and other transaction fees related to the Business Combination in general and administrative expenses in the Consolidated Statement of Comprehensive Loss for the Predecessor Period.

The Company paid a total of $8.5 million of banking and advisory fees on behalf of the Predecessor at the closing of the Business Combination. The expense related to these banking and advisor fees was not recognized in the Predecessor's financial results as the payment of the banking and advisory fees was contingent on the successful closing of the Business Combination. The Company included the banking and advisory fees as part of the consideration transferred to acquire the Predecessor (see Note 5).

All transaction fees and expenses associated with the LookingGlass Acquisition (see Note 5) were expensed as incurred. Accordingly, the Company recorded approximately $1.6 million of professional and other transaction fees related to the business acquisition of LookingGlass in general and administrative expenses in the Consolidated Statement of Comprehensive Loss for the year ended January 31, 2024.

All transaction fees and expenses associated with the Haveli Merger Agreement (see Note 18) were expensed as incurred. Accordingly, the Company recorded approximately $0.9 million of professional and other transaction fees related to the Merger Agreement in general and administrative expenses in the Consolidated Statement of Comprehensive Loss for the year ended January 31, 2024.

Deferred Revenue

Deferred revenue represents amounts billed for which revenue has not yet been recognized. Deferred revenue that will be recognized during the next twelve months is recorded as current deferred revenue, and the remaining portion is recorded as deferred revenue, net of current portion.

Debt Issuance Costs

Debt issuance costs consist of fees paid in cash to lenders and service providers in connection with the origination of debt, as well as the grant-date fair value of warrants issued to lenders in connection with the origination of debt. These costs are capitalized as debt issuance costs and presented as a direct deduction from the carrying value of the associated debt liability. Debt issuance costs are amortized using the effective interest method and are reflected in interest expense, net, on the Consolidated Statements of Comprehensive Loss.

For the year ended January 31, 2024, the Successor Period, and the Predecessor Period, deferred debt issuance costs consisted of the following (in thousands):

	Successor
Deferred debt issuance costs - February 1, 2023	$ 127
Direct costs paid	201
Amortization of debt issuance costs	(117)
Deferred debt issuance costs - January 31, 2024	$ 211
Deferred debt issuance costs - August 4, 2022	$ 120
Direct costs paid	31
Amortization of debt issuance costs	(24)
Deferred debt issuance costs - January 31, 2023	$ 127
	Predecessor
Deferred debt issuance costs - January 31, 2022	$ 1,627
Direct costs paid	118
Grant-date fair value of warrants issued	518
Amortization of debt issuance costs	(378)
Deferred debt issuance costs - August 3, 2022	$ 1,885

Net Loss Per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss attributable to common stockholders is computed by adjusting net loss attributable to common stockholders to reallocate undistributed earnings based on the potential impact of dilutive securities. Diluted net loss per share attributable to common stockholders is computed by dividing the diluted net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period, including potential dilutive common stock. For the purposes of this calculation, outstanding stock options, unvested restricted stock, stock warrants, Sponsor Earnout Shares, and redeemable convertible preferred stock are considered potential dilutive common stock and are excluded from the computation of net loss per share as their effect is anti-dilutive.

The Predecessor's redeemable convertible preferred stock and restricted common stock contractually entitled the holders of such shares to participate in dividends but do not contractually require the holders of such shares to participate in losses of the Predecessor. Accordingly, in periods in which the Predecessor reported a net loss, such losses were not allocated to such participating securities. In periods in which the Predecessor reported a net loss attributable to common stockholders, diluted net loss per share attributable to common stockholders was the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to be outstanding if their effect is anti-dilutive.

Comprehensive Loss

Comprehensive loss includes net loss as well as other changes in stockholders' deficit that result from transactions and economic events other than those with stockholders. For the year ended January 31, 2024, the Successor Period, and the Predecessor Period, there was a difference between net loss and comprehensive loss in the accompanying Consolidated Financial Statements pertaining to foreign currency translation adjustments.

Foreign Currency Translation

The functional currency of the Company's subsidiaries is the local currency. For each subsidiary, assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rates in effect at the Consolidated Balance Sheet date, and revenue and expenses are translated at the average exchange rates prevailing during the month of the transaction. The effects of foreign currency translation adjustments not affecting net income are included in the Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) under the cumulative translation adjustment account as a component of accumulated other comprehensive loss.

Reclassifications

Liabilities arising from warrants, the Sponsor Earnout Shares, and deferred taxes totaling $27.6 million were reclassified from Warrants, Sponsor earnout shares and Deferred tax liability to Other liabilities in our balance sheet as of January 31, 2023, which is consistent with our current year presentation.

Standards Issued and Adopted

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which amends the accounting for credit losses for most financial assets and certain other instruments. The standard requires that entities holding financial assets that are not accounted for at fair value through net income be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The Company adopted ASU 2016-13 on February 1, 2023, using the modified transition approach. The adoption of the standard did not have a material impact on the consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which clarifies the guidance in ASC 820 on the fair value measurement of an equity security that is subject to a contractual sale restriction. The standard clarifies that entities should not apply a discount related to a contractual sale restriction of an equity security when measuring the fair value of the equity security. The standard provides that entities should instead consider sale restrictions that are characteristics of the equity security. The standard is effective for public business entities' fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt ASU 2022-03 effective February 1, 2023. The adoption of the standard did not have a material impact on the consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which is intended to enhance the transparency, decision usefulness, and effectiveness of income tax disclosures. The standard will be effective for the Company beginning with the fiscal year ending January 31, 2026, with early adoption permitted. The Company is currently evaluating the impact of this standard on our income tax disclosures.

3: Revenue

Disaggregation of Revenue

The table below provides revenue earned by line of service for the year ended January 31, 2024, the Successor Period, and the Predecessor Period (in thousands).

	Successor		Predecessor
Revenue Line	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Subscription revenue	$ 89,308	$ 31,679	$ 27,946
Services revenue			
Breach	138,782	54,791	—
Other services	5,210	1,916	1,291
Total services revenue	143,992	56,707	1,291
Total	$ 233,300	$ 88,386	$ 29,237

The table below provides revenue earned based on geographic locations of our customers for the year ended January 31, 2024, the Successor Period, and the Predecessor Period (in thousands).

	Successor		Predecessor
Country	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
United States	$ 214,423	$ 80,674	$ 21,916
Other	18,877	7,712	7,321
Total	$ 233,300	$ 88,386	$ 29,237

For the year ended January 31, 2024, the Successor Period, and the Predecessor Period, no country other than the United States represented 10% or more of total consolidated revenue.

Contract Assets and Liabilities

The components of contract assets and liabilities consist of the following (in thousands):

	January 31, 2024	January 31, 2023
Assets:		
Accounts receivable, net	$ 38,923	$ 29,609
Deferred contract acquisition costs, current and non-current	10,106	13,207
Liabilities:		
Deferred revenue, current and non-current	$ 86,846	$ 53,958

The significant components of the changes in the contract liabilities balances primarily consisted of revenue recognized that was included in the opening deferred revenue balance of $48.3 million and $31.4 million for the year ended January 31, 2024, and the Successor Period, respectively. As of January 31, 2024 and 2023, there was $3.9 million and $21.3 million, respectively, of remaining deferred revenue acquired in the Company's business acquisitions.

Remaining Performance Obligations

As of January 31, 2024, the Company had approximately $154.5 million of revenue that is expected to be recognized from remaining performance obligations that are unsatisfied (or partially unsatisfied) under non-cancelable contracts. Of this $154.5 million, the Company expects to recognize revenue of approximately $127.1 million in the period February 1, 2024, through January 31, 2025, approximately $20.8 million in the period February 1, 2025, through January 31, 2026, and approximately $6.6 million thereafter.

4: Fair Value Measurements

The following table sets forth by level within the fair value hierarchy the liabilities carried at fair value (in thousands):

	Fair value measurements at January 31, 2024 using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Public warrants	$ (76)	$ —	$ —	$ (76)
Private warrants	—	(67)	(77)	(144)
Sponsor earnout shares	—	—	(392)	(392)
Purchase consideration liability	(3,499)	—	(863)	(4,362)
Total financial liabilities	$ (3,575)	$ (67)	$ (1,332)	$ (4,974)

The following table sets forth by level within the fair value hierarchy the assets (liabilities) carried at fair value (in thousands):

	Fair value measurements at January 31, 2023 using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents - money market funds	$ 557	$ —	$ —	$ 557
Total financial assets	$ 557	$ —	$ —	$ 557
Liabilities:				
Public warrants	$ (1,373)	$ —	$ —	$ (1,373)
Private warrants	—	(1,208)	—	(1,208)
Sponsor earnout shares	—	—	(2,445)	(2,445)
Total financial liabilities	$ (1,373)	$ (1,208)	$ (2,445)	$ (5,026)

See Note 10 for a discussion of the fair value of debt.

The assumptions used to value the warrants are described in Note 11.

The assumptions used to value the Sponsor Earnout Shares are described in Note 11.

Purchase Consideration Liability

As of January 31, 2024, the Company had an obligation to transfer $4.4 million in stock to the former owners of LookingGlass in connection with the LookingGlass Acquisition (see Note 5). The Purchase Consideration Liability represents a financial liability that will be settled in shares of the Company's Common Stock.

The Company classified the fair value of the Purchase Consideration Liability related to the variable portion of the LookingGlass Deferred Shares as Level 3 within the fair value hierarchy. This portion of the fair value includes estimates of certain contingencies to be achieved as of the reporting date, which are considered unobservable inputs. The remaining fair value of the Purchase Consideration Liability which we do not consider to be variable is classified as Level 1 within the fair value hierarchy as it is based on the price of the Company's publicly traded stock.

The assumptions used to value the Purchase Consideration Liability are described in Note 11.

The carrying amounts of accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity terms of these instruments.

5: Acquisitions

The Business Combination

On August 3, 2022, L&F, ZeroFox, Inc., and IDX, consummated the business combination as contemplated by the Business Combination Agreement, dated as of December 17, 2021. In connection with the finalization of the Business Combination, L&F changed its name to ZeroFox Holdings, Inc. and changed its jurisdiction of incorporation from the Cayman Islands to the state of Delaware. The Company changed its fiscal year end to January 31. The Company's Common Stock and public warrants began trading under the tickers ZFOX and ZFOXW, respectively. A summary of other terms provided with the settlement of the transaction is disclosed in the Company's fiscal year 2023 10-K, filed with the SEC on March 30, 2023.

Accounting for the ZeroFox, Inc. Merger

As of July 31, 2023, the Company finalized its evaluation of the initial values of the assets and liabilities of ZeroFox, Inc. that were acquired in the Business Combination.

The following table summarizes the fair value of the purchase consideration paid to affect the merger of ZeroFox, Inc. (in thousands, except per share data):

Equity value of consideration		
Common stock issued to holders of ZeroFox, Inc.		82,030,308
Closing price per share of the Company's Common Stock (ZFOX) on August 3, 2022	$	10.95
Fair value of Common Stock issued	$	898,232
Cash consideration		
Repayment of ZeroFox, Inc. debt and interest		37,674
Payment of ZeroFox, Inc. transaction expenses		8,500
Repayment of notes payable to PIPE Investors		5,000
Total consideration paid	$	949,406

The Company recorded the allocation of the purchase price to ZeroFox, Inc.'s assets acquired and liabilities assumed based on their fair values as of August 3, 2022. The final purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$	2,806
Accounts receivable		13,961
Prepaid expenses and other assets		2,201
Property and equipment		598
Other assets		341
Goodwill		828,091
Intangible assets		185,000
Total assets acquired		1,032,998
Accounts payable		4,310
Accrued liabilities		3,921
Current portion of long term debt		938
Deferred revenue, current		35,432
Deferred revenue, net of current portion		6,325
Long term debt		16,851
Warrants liabilities		7,632
Deferred tax liability		8,183
Total liabilities assumed		83,592
Total consideration transferred	$	949,406

Accounting for the IDX Merger

As of July 31, 2023, the Company finalized its evaluation of the initial values of the assets and liabilities of IDX that were acquired in the Business Combination.

The following table summarizes the fair value of the purchase consideration paid to affect the merger of IDX (in thousands, except per share data):

Equity value consideration		
Common stock issued to holders of IDX		27,849,942
Closing price per share of the Company's Common Stock (ZFOX) on August 3, 2022	$	10.95
Fair value of Common Stock issued	$	304,957
Cash consideration paid to IDX shareholders		44,447
Cash consideration gross up for offset of PIPE subscribers also IDX holders		5,000
Repayment of debt and interest		12,484
Payment of IDX transaction expenses		1,500
Total consideration paid	$	368,388

The Company recorded the allocation of the purchase price to IDX's assets acquired and liabilities assumed based on their fair values as of August 3, 2022. The following table sets forth the amounts allocated to the intangible assets identified, the estimated useful lives of those intangible assets, and the methodologies used to determine the fair values of those intangible assets (dollars in thousands):

Cash and cash equivalents	$	13,727
Accounts receivable		11,944
Prepaid and other expense		2,939
Property and equipment		125
Goodwill		285,970
Intangible Assets		100,500
Total assets acquired		415,205
Accounts payable	$	7,568
Accrued liabilities		4,944
Deferred revenue, current		9,314
Deferred revenue, net of current portion		1,522
Deferred tax liability		23,469
Total liabilities assumed		46,817
Total consideration transferred	$	368,388

Purchase Accounting Adjustments

The Company recorded an adjustment during the three months ended July 31, 2023, to remove the carrying values of deferred contract acquisition costs that existed on the opening balance sheets of ZeroFox, Inc. and IDX on the Closing Date. The adjustment recorded included the reclassification to goodwill of the net book value of the deferred contract acquisition costs recorded on the balance sheets as of April 30, 2023, the reversal of sales and marketing expense related to the amortization of the deferred contract acquisition costs recognized in prior periods, and a reduction to the related deferred tax liabilities. The net impact of all elements of this adjustment was an increase to goodwill of $7.5 million and $0.2 million related to the acquisitions of ZeroFox, Inc. and IDX, respectively.

The Company recorded additional entries for certain tax matters related to the acquisition of IDX during the three months ended July 31, 2023. The Company reduced income tax payable by $1.3 million to account for the portion of transaction costs related to the Business Combination that were deductible for income tax purposes. The Company recorded an additional $0.5 million reserve for IDX income tax positions that did not meet the more-likely-than-not recognition threshold. The net impact of these adjustments was a decrease to goodwill of $0.8 million related to the acquisition of IDX.

LookingGlass Acquisition

On April 21, 2023, the Company completed the acquisition of LookingGlass, a privately-held software company (the LookingGlass Acquisition). The Company expects the acquisition of LookingGlass will strengthen the Company's Platform with industry-leading external attack surface and threat intelligence capabilities.

The purchase consideration includes a potential maximum of 9.637 million shares of Company Common Stock, subject to adjustment for the LookingGlass Earnout Shares (see Note 11) and other customary purchase price adjustments. As of the date of the transaction, the Company estimates that 8.629 million shares will be issued to the selling shareholders.

The following table summarizes the estimated fair value of the purchase consideration (in thousands, except per share data):

Purchase consideration liability:		
Purchase consideration shares		
LookingGlass Earnout Shares		1,837,500
LookingGlass Deferred Shares		6,791,456
Total purchase consideration shares		8,628,956
Adjusted closing price per share of the Company's Common Stock (ZFOX) on April 21, 2023	$	1.10
Fair value of purchase consideration liability	$	9,465
Cash consideration	$	9,500
Convertible note		3,333
Total purchase consideration	$	22,298

The Purchase Consideration Liability is discussed further in Note 11. The convertible note is discussed further in Note 10 under the caption, "Alsop Louie Convertible Note".

The Company recorded the preliminary allocation of the purchase price to LookingGlass' assets acquired and liabilities assumed based on their fair values as of April 21, 2023. The preliminary purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$	1,608
Accounts receivable		3,233
Prepaid expenses and other assets		1,562
Property and equipment, net		1,627
Operating lease right-of-use assets		656
Goodwill		4,832
Intangible assets		17,900
Deferred tax assets		6,515
Total assets acquired	$	37,933
Accounts payable	$	1,304
Accrued compensation, accrued expenses, and other current liabilities		2,279
Operating lease liabilities, current		584
Deferred revenue, current		10,850
Other liabilities		524
Operating lease liabilities, net of current portion		94
Total liabilities assumed		15,635
Total consideration transferred	$	22,298

The following table sets forth the amounts allocated to the intangible assets identified, the estimated useful lives of those intangible assets, and the methodologies used to determine the fair values of those intangible assets (dollars in thousands):

	Fair Value	Useful Life (in years)	Fair Value Methodology
Customer relationships	$ 13,700	10	Multi-period Excess Earnings method of the Income Approach
Developed technology	4,000	7	Relief from Royalty method
Trade names and trademarks	200	2	Relief from Royalty method
	$ 17,900		

The goodwill of $4.8 million represents the excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired and liabilities assumed. Qualitative factors that contribute to the recognition of goodwill include certain intangible assets that are not recognized as separate, identifiable intangible assets apart from goodwill. Intangible assets not recognized apart from goodwill consist primarily of expertise and industry know-how of the workforce, developed technology, back-office infrastructure, strong market position, and the assembled workforce of LookingGlass. None of the goodwill recognized is expected to be deductible for income tax purposes.

The measurement period for the assets and liabilities for the LookingGlass Acquisition remains open for the period of up to one year following completion of the transaction. The Company is finalizing the fair value of the purchase consideration liability and allocation of purchase price, including income taxes.

The results of operations of LookingGlass are included in the Company's Consolidated Statements of Comprehensive Loss from the acquisition date and were not material. The impact of the unaudited supplemental pro forma financial statements is not material to the consolidated financial statements and therefore this information is not presented.

6: Goodwill and Intangible Assets

A summary of the changes in the fair value of goodwill for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, respectively, is as follows (in thousands):

		Successor
Goodwill (gross) - January 31, 2023	$	1,105,258
Accumulated impairment loss		(698,650)
Goodwill (net) - January 31, 2023		406,608
Business acquisition		4,832
Adjustment to purchase accounting from the Business Combination		6,900
Impairment		(284,240)
Goodwill (net) - January 31, 2024	$	134,100

		Predecessor
Goodwill (gross) - January 31, 2022	$	35,002
Accumulated impairment loss		-
Goodwill (net) - August 3, 2022	$	35,002

The Company recorded goodwill impairment charges of $284.2 million during the year ended January 31, 2024. The Company recorded a $72.1 million impairment charge as result of its annual test of goodwill as of October 31, 2023. The Company's estimate of the fair value of its single reporting unit of $572.7 million was below the carrying value of the reporting unit of $644.8 million as of October 31, 2023. The remaining $212.1 million was recorded as part of an interim test of goodwill. The Company's estimate of the fair value of its single reporting unit of $348.1 million that was based on the enterprise value implied by Haveli Merger Agreement (see Note 18), was below the carrying value of the reporting unit of $560.2 million as of January 31, 2024.

The Company recorded an impairment charge of $698.7 million during the Successor Period, as result of its annual test of goodwill. The Company's estimate of the fair value of its single reporting unit of $675.0 million was below the carrying value of the reporting unit of $1,373.7 million as of October 31, 2022.

Determining the fair value of our reporting unit requires judgment and the use of significant estimates and assumptions. Given the current competitive and macroeconomic environment and the uncertainties regarding the related impact on the business, there can be no assurance that the estimates and assumptions made for purposes of the Company’s interim and annual goodwill impairment tests will prove to be accurate predictions of the future. If the Company’s assumptions are not realized, the Company may record additional goodwill impairment charges in the future. It is not possible at this time to determine if any such future impairment charge would result or whether such charge would be material.

The tables below summarize the Company’s intangible assets as of January 31, 2024, and 2023 (amounts in thousands, except for useful lives).

	As of January 31, 2024						
	Weighted Average Useful Life (in years)		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
Customer relationships	7.8	$	168,100	$	(35,174)	$	132,926
Developed technology	5.1		99,800		(29,028)	$	70,772
Trademarks / trade names	10.0		35,500		(5,344)	$	30,156
		$	303,400	$	(69,546)	$	233,854

	As of January 31, 2023			
	Weighted Average Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	8.6	$ 154,400	$ (11,894)	$ 142,506
Developed technology	5.0	95,800	(9,425)	86,375
Trademarks / trade names	10.0	35,300	(1,737)	33,563
		$ 285,500	$ (23,056)	$ 262,444

The Company analyzed if there was an impairment of long-lived assets as of January 31, 2024. The Company determined that the carrying value of its assets were recoverable and accordingly, concluded that no impairment had occurred.

The tables below summarizes the future amortization of the Company's intangible assets as of January 31, 2024 (amounts in thousands).

Fiscal 2025	$ 44,981
Fiscal 2026	44,904
Fiscal 2027	44,881
Fiscal 2028	35,456
Fiscal 2029	20,515
Thereafter	43,117
Total amortization of intangible assets expense	$ 233,854

On the Company's Consolidated Statement of Comprehensive Loss, the Company recognizes expense for the amortization of customer relationships within sales and marketing expense, expense for the amortization of developed technology within cost of subscription revenue, and expense for the amortization of trademarks and trade names within general and administrative expense.

The Company recognized amortization of intangible assets expense in the accompanying Consolidated Statements of Comprehensive Loss for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, as follows (in thousands):

	Successor		Predecessor
	Year Ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Cost of revenue - subscription	$ 19,603	$ 9,425	$ 260
Sales and marketing	23,280	11,894	1,308
General and administrative	3,607	1,737	36
Total amortization of acquired intangible assets	$ 46,490	$ 23,056	$ 1,604

7: Property and Equipment

Property and equipment as of January 31, 2024 and 2023, consists of the following (in thousands):

	January 31, 2024	January 31, 2023
Computer hardware and purchased software	$ 2,495	$ 907
Furniture and fixtures	8	20
Leasehold improvements	202	114
Total property and equipment	2,705	1,041
Less: accumulated depreciation	(1,507)	(370)
Property and equipment, net	$ 1,198	$ 671

Depreciation and amortization expense for the year ended January 31, 2024, the Successor Period, and the Predecessor Period was $1.7 million, $0.4 million, and $0.3 million, respectively.

8: Leases

The Company has operating leases for office facilities and office equipment. Our leases have remaining terms of less than one year to approximately three years, some of which include options to renew.

Our total net cost for operating leases for the year ended January 31, 2024 was $2.6 million. The total net cost for operating leases for the Successor Period and the Predecessor Period was $1.6 million.

Included in the measurement of the lease liability at January 31, 2023, is $1.6 million in cash payments for operating leases which were made during the Successor Period and the Predecessor Period.

Supplemental balance sheet information related to lease liabilities is as follows:

(in thousands, except lease term and discount rate)	January 31, 2024	January 31, 2023
Operating leases		
Operating ROU assets	$ 3,553	$ 720
Operating lease liabilities, current	$ 1,638	$ 406
Operating lease liabilities, net of current portion	2,111	427
Total operating lease liabilities	$ 3,749	$ 833
Weighted average remaining lease term	2.4 years	1.7 years
Weighted average discount rate	7.1 %	4.8 %

Maturities of operating lease liabilities at January 31, 2024 is as follows:

(in thousands)	
Year ending January 31,	
2025	$ 1,863
2026	1,409
2027	760
2028	82
Total lease payments	4,114
Less: imputed interest	(365)
Total lease payments	$ 3,749

9: Accrued Compensation, Accrued Expenses, and Other Current Liabilities

Accrued compensation, accrued expenses, and other current liabilities as of January 31, 2024 and 2023, consists of the following (in thousands):

	January 31, 2024	January 31, 2023
Other current liabilities	$ 10,521	$ 12,110
Accrued bonuses	3,374	3,893
Accrued commissions	1,988	1,408
Accrued employee compensation	1,243	1,340
Total accrued compensation, accrued expenses, and other current liabilities	$ 17,126	$ 18,751

10: Debt

The tables below summarize key terms of the Company’s debt that was outstanding as of January 31, 2024 and 2023 (amounts in thousands, except for interest rates).

	As of January 31, 2024					
Lender	**Stated Interest Rate**	**Effective Interest Rate**	**Gross Balance**	**Unamortized Debt Discount**	**Unamortized Deferred Debt Issuance Costs**	**Net Carrying Value**
Stifel Bank	9.50%	9.86%	$ 22,500	$ (83)	$ (52)	$ 22,365
InfoArmor	5.50%	5.50%	1,406	—	—	1,406
Convertible notes	7.00% Cash / 8.75% PIK	9.78%	170,738	—	(77)	170,661
Alsop Louie Convertible Note (1)	6.00%	3.36%	3,333	—	—	3,333
			$ 197,977	$ (83)	$ (129)	$ 197,765
					Current portion of long-term debt	$ 938
					Long-term debt	196,827
						$ 197,765

(1) Per the note agreement, the note is interest free for the first twelve months and bears interest at a rate of 6% per annum thereafter.

	As of January 31, 2023					
Lender	**Stated Interest Rate**	**Effective Interest Rate**	**Gross Balance**	**Unamortized Debt Discount**	**Unamortized Deferred Debt Issuance Costs**	**Net Carrying Value**
Stifel Bank	8.50%	8.50%	$ 15,000	$ —	$ —	$ 15,000
InfoArmor	5.50%	5.50%	2,344	—	—	2,344
Convertible notes	7.00% Cash / 8.75% PIK	8.53%	156,564	—	(127)	156,437
			$ 173,908	$ —	$ (127)	$ 173,781
					Current portion of long-term debt	$ 15,938
					Long-term debt	157,843
						$ 173,781

Stifel Note

On January 7, 2021, the Predecessor entered into a loan and security agreement with Stifel Bank ("Stifel") for $10.0 million, which is collateralized by substantially all of the assets of the Predecessor. In conjunction with the loan and security agreement, the Predecessor issued warrants to Stifel (see Note 11 for discussion of warrants). The loan and security agreement provided for an immediate advance, upon loan closing, of $10.0 million, which the Predecessor drew in full. Advances under the agreement pay cash interest monthly at the greater of the prime rate as reported in the Wall Street Journal plus 1.00%, or 4.50% per annum. If any loan payment is not made within 10 days of the payment due date, the Predecessor will incur a late fee equal to the lesser of (i) 5.00% of the unpaid amount or (ii) the maximum amount permitted to be charged under applicable law, not in any case to be less than twenty-five dollars. The loan matures and all unpaid principal and interest is due in full on January 7, 2024.

On December 8, 2021, the Predecessor amended its loan and security agreement with Stifel. The amendment provided for an additional borrowing of $5.0 million, for which the Company borrowed $5.0 million in December 2021 and issued 161,113 warrants to purchase Series E redeemable convertible preferred stock at an exercise price of $1.86205. As of January 31, 2023, the outstanding principal of the loan included $15.0 million of principal borrowed.

In connection with the Business Combination, the Company amended its loan and security agreement with Stifel Bank. The amendment superseded the financial covenants with which the Company must be in compliance. The amended financial covenants include the following commitments: a) a balance of cash held at Stifel Bank in an amount equal to or greater than the amount of outstanding debt and b) minimum liquidity (as defined in the loan and security agreement). The Company was in compliance with its financial covenants as of January 31, 2024.

In connection with the LookingGlass Acquisition, the Company amended its loan and security agreement with Stifel Bank on April 21, 2023. The amendment extended the maturity date to June 30, 2025, and increased the aggregate borrowing limit to $22.5 million. The Company borrowed $7.5 million on April 21, 2023, and issued a warrant to purchase 128,676 shares of Common Stock at an exercise price of $1.36. As of January 31, 2024, the outstanding principal of the loan included $22.5 million of principal borrowed.

On March 4, 2024, the Company amended its loan and security agreement with Stifel Bank. The amendment, among other things, increased the amounts for which the Company may fund to certain of its subsidiaries.

The loan and security agreement with Stifel contains a provision whereby, in the Event of Default, the obligation will bear additional interest at a rate equal to 4%. Management evaluated Events of Default and determined the non-credit related events of default represent an embedded derivative that must be bifurcated and accounted for separately from the loan and security agreement. The default rate derivative is treated as a liability, initially measured at fair value with subsequent changes in fair value recorded in earnings. Management has assessed the probability of occurrence for a non-credit default event and determined the likelihood of a referenced event to be remote. Therefore, the estimated fair value of the default rate derivative was negligible as of January 31, 2024 and 2023, and no amount was recorded.

The Company determined the fair value of the note to be the principal value and accrued interest outstanding. On January 31, 2024, the carrying amount of the note approximates fair value due to the short duration of time that has elapsed since the note has been amended.

The loan with Stifel Bank is secured by all assets of the Company.

InfoArmor Note

On June 7, 2021, the Predecessor issued a $3.8 million promissory note payable to InfoArmor, Inc. in connection with its acquisition of Vigilante, which was at that time a subsidiary of InfoArmor. The promissory note accrues interest at 5.5% per annum (computed on the basis of a 365 day year). Principal and interest payments of $0.2 million are paid quarterly over the four-year term of the loan maturing on June 7, 2025. As of January 31, 2024, $0.9 million was recorded in current portion of long-term debt in the consolidated financial statements.

In connection with the Business Combination, the Company recorded the debt outstanding with InfoArmor at fair value. The Company determined the fair value of these notes to be the principal value and accrued interest outstanding at the date of the Business Combination.

The loan with InfoArmor is unsecured.

Convertible Notes

On August 3, 2022, the Company closed subscription agreements with certain purchasers to sell $150.0 million aggregate principal amount of unsecured convertible notes due 2025 (the Convertible Notes). In connection with the Business Combination, the Company completed the Convertible Notes financing of $150.0 million.

The Convertible Notes include a cash interest option of 7% per annum, payable quarterly, and a payment-in-kind (PIK) interest option of 8.75% per annum. The Convertible Notes include a default rate of interest feature. In the event of default by the Company, the rate of interest will be increased by 2.00% per annum. The Convertible Notes are convertible into shares of Company Common Stock, or a combination of cash and Company Common Stock, at the Company's election, at an initial conversion price of $11.50, subject to customary anti-dilution provisions. The Convertible Notes mature on August 3, 2025.

The Company may, at its election, force conversion of the Convertible Notes after the first anniversary of their issuance if the volume-weighted average trading price of the Company's Common Stock is greater than or equal to 150% of the conversion price for more than 20 trading days during a period of 30 consecutive trading days. After the second anniversary of their issuance this provision drops to greater than or equal to 130% of the conversion price for more than 20 trading days during a period of 30 consecutive trading dates. The first anniversary of the issuance of the Convertible Notes occurred on August 3, 2023; the Company has not forced conversion of the Convertible Notes after this date. In the event that a holder of the Convertible Notes elects to covert, the Company will be obligated to pay an amount equal to outstanding principal and interest (accrued and unpaid), at the initial conversion rate of 86.9565 shares of Common Stock per $1,000 of outstanding principal and accrued interest.

Each holder of a Note will have the right to cause the Company to repurchase for cash all or a portion of the Convertible Notes held by such holder upon the occurrence of a fundamental change (as defined in the indenture governing the Convertible Notes), at a price equal to 100% of the principal plus accrued and unpaid interest, plus any remaining amounts that would be owed to, but excluding, the maturity date. In the event of a conversion in connection with a Fundamental Change, the conversion price will be adjusted in accordance with a Fundamental Change make-whole table. The Company analyzed the features of the make-whole table and concluded that it did not require bifurcation pursuant to ASC 815 as the variables that could affect the settlement amount would be inputs to a fixed-for-fixed forward option on equity shares and as such, may be considered indexed to the Company's own equity.

At January 31, 2024, the net carrying amount of the Convertible Notes approximates fair value.

Alsop Louie Convertible Note

In connection with the LookingGlass Acquisition, on April 21, 2023, the Company issued a subordinated convertible promissory note in the principal amount of approximately $3.3 million to Alsop Louie Capital 2, L.P. in satisfaction of certain LookingGlass indebtedness (the "Alsop Louie Convertible Note"). The Alsop Louie Convertible Note matures on July 31, 2025, is interest free for the first twelve months, and bears interest at a rate of 6% per annum thereafter. Upon maturity of the Alsop Louie Convertible Note, the Company shall be obligated to pay, and prior to maturity the Company may elect to prepay, the principal amount and accrued interest on the Alsop Louie Convertible Note by paying cash, by issuing shares of Common Stock, or by a combination of cash and shares. At any time beginning July 1, 2024, the Alsop Louie Convertible Note shall become due if the volume-weighted average trading price of the Company's Common Stock equals or exceeds $5.00 over a twenty-day trading period.

The note holder will have the right to cause the Company to pay all of its outstanding obligation upon the occurrence of an event of default (as defined in the agreement governing the Alsop Louie Convertible Note), at a price equal to 100% of the principal plus accrued and unpaid interest. Additionally, upon the occurrence of an event of default, the interest rate accruing on the unpaid interest will increase by 1.5% per annum after each anniversary of the event of default.

Any payments on the Alsop Louie Convertible Note with shares of the Company's Common Stock will be determined based on the volume-weighted average trading price over a five-day trading period. The Company analyzed the share conversion features and concluded they did not require bifurcation pursuant to ASC 815 as the variables that could affect the settlement amount would be inputs to a fixed-for-fixed forward option on equity shares and as such, may be considered indexed to the Company's own equity.

On January 31, 2024, the carrying amount of the Alsop Louie Convertible Note approximates fair value due to the short duration of time that has elapsed since the Alsop Louie Convertible Notes has been issued.

11: Other Liabilities

Other liabilities consists of warrants, sponsor earnout shares, purchase consideration liability, deferred tax liability (see Note 14), and other, as follows:

	January 31, 2024	January 31, 2023
Purchase consideration liability	$ 4,362	$ —
Deferred tax liability	4,219	21,638
Other	2,117	954
Sponsor earnout shares	392	2,445
Warrants	220	2,581
Total other liabilities	$ 11,310	$ 27,618

ZeroFox Holdings, Inc. Public Warrants and Private Warrants

At January 31, 2024, there were 8,625,000 Public Warrants and 7,588,430 Private Warrants outstanding. The Public Warrants became exercisable on September 2, 2022, which was 30 days after the completion of the Business Combination. The Public Warrants will expire five years from the completion of the Business Combination or earlier upon redemption or liquidation.

Redemption Features

The Company may redeem the entirety of outstanding warrants (except as described with respect to the Private Warrants) at a price of $0.01 per warrant, with a minimum 30 days prior written notice of redemption, if the closing price of the share of Company Common Stock equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period.

The Company may redeem the entirety of outstanding warrants (except as described with respect to the Private Warrants) at a price of $0.10 per warrant, with a minimum 30 days prior written notice of redemption, if the closing price of the share of Company Common Stock equals or exceeds $10.00 per share for any 20 trading days within a 30-trading day period.

If the Company calls the Public Warrants for redemption, as described above, management will have the option to require any holder that wishes to exercise the Public Warrants to do so on a “cashless basis,” as described in the warrant agreement. The exercise price and number of shares of Company Common Stock issuable upon exercise of the Public Warrants may be adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. The Public Warrants will not be adjusted for the issuance of shares of Company Common Stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Public Warrants.

The Private Warrants are identical to the Public Warrants except for certain features. The Private Warrants will be exercisable on a cashless basis and be non-redeemable, except as described above, so long as they are held by the initial purchasers or their permitted transferees. If the Private Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants. Further, in accordance with FINRA Rule 5110(g)(8)(A), the Private Warrants purchased by one of the initial purchasers will not be exercisable for more than five years from the effective date of the registration statement filed in connection with the Company’s Initial Public Offering for so long as they are held by such initial purchaser.

Fair Value of ZeroFox Holdings, Inc. Public Warrants and Private Warrants

The Company analyzed the rights and features of the Public Warrants and Private Warrants to determine the appropriate fair value estimation approach. Both the public and private warrants give the holder the option to purchase one share of Company Common Stock at a strike price of $11.50. The Company's Public Warrants are traded on Nasdaq under the ticker "ZFOXW" providing an observable price for the warrants. Accordingly, the Company uses the closing price of the Public Warrants on the balance sheet date as an indicator of their fair value. Although the Private Warrants are not subject to the same early redemption feature as the Public Warrants and are not publicly traded, the Private Warrants are subject to the same make-whole provisions as the Public Warrants if not held by the initial purchaser or permitted transferee and as such, are considered economically similar to the Public Warrants. As such, the Company uses the same indicator of fair value as the Public Warrants for the Private Warrants.

The public closing price for the Company's Public Warrants as of January 31, 2023, was $0.16 per warrant, resulting in a fair value of $1.4 million and $1.2 million for the Public Warrants and Private Warrants, respectively.

The public closing price for the Company's Public Warrants as of January 31, 2024, was $0.0088 per warrant, resulting in a fair value of $0.1 million and $0.1 million for the Public Warrants and Private Warrants, respectively.

The Company recorded the change in the fair value of both the Public Warrants and Private warrants to change in fair value of warrant liability on the Consolidated Statement of Comprehensive Loss.

Stifel Warrant

The Company, in connection with the amendment to the loan and security agreement with Stifel Bank on April 21, 2023 (see Note 10), agreed to issue to Stifel Bank a warrant to purchase 128,676 shares of the Company's Common Stock at an exercise price of $1.36 (the Stifel Warrant). The Stifel Warrant will expire ten years from the completion of the LookingGlass Acquisition or earlier upon exercise by the holder or acquisition of the Company (subject to the terms of the warrant).

Fair Value of Stifel Warrant

The fair value of the Stifel Warrant was determined using a Black-Scholes model. The assumptions used in estimating the fair value of the Stifel Warrant are included in the table below. There are no values as of January 31, 2023, as the warrant was issued on April 21, 2023.

	January 31, 2024	April 21, 2023
Asset price	$ 0.88	$ 1.32
Exercise price of the warrant	$ 1.36	$ 1.36
Contractual term	9.2	10.0
Volatility	67.50 %	65.00 %
Dividend yield	0.00 %	0.00 %
Risk-free rate	4.00 %	3.60 %

Sponsor Earnout Shares

The sponsor and certain directors of L&F agreed, upon closing of the Business Combination, to subject 1,293,750 of their shares (Sponsor Earnout Shares) of Company Common Stock to potential forfeiture if triggering events do not occur during the earnout period. The earnout period begins on the Closing Date of the Business Combination, August 3, 2022, and extends to the five-year anniversary of the Closing Date. There are three triggers where, upon achievement of the trigger, one third of the Sponsor Earnout Shares are deemed earned and no longer subject to forfeiture. The three triggers are:

1. Triggering event I - the first date on which the volume-weighted average price per share of Company Common Stock is equal to or greater than $12.50 for at least 20 days within any 30 consecutive trading days,
2. Triggering event II - the first date on which the volume-weighted average price per share of Company Common Stock is equal to or greater than $15.00 for at least 20 days within any 30 consecutive trading days, and
3. Triggering event III - the first date on which the volume-weighted average price per share of Company Common Stock is equal to or greater than $17.50 for at least 20 days within any 30 consecutive trading days.

In the case of a change of control of the Company, the triggering events above will be considered met if the shareholders of the Company receive cash, securities, or other assets per share that equal or exceed the price targets described above.

From the closing date of the Business Combination to January 31, 2024, no triggering events had been achieved.

Sponsor Earnout Shares Fair Value

The Company performed Monte Carlo simulations to estimate the achievement of each of the triggering events, the volume-weighted average stock price at the estimated time at which the triggering events were achieved, and the duration of time required to achieve the triggering events. From the Monte Carlo results, the Company calculated an average, discounted fair value per share of each of the one-third tranches of Sponsor Earnout Shares subject to potential forfeiture. The table below documents the Monte Carlo assumptions, inputs, and the fair value results at each balance sheet date:

	January 31, 2024	January 31, 2023
Per Share Price of Company Common Stock	$ 0.88	$ 3.62
Annual Equity Volatility	97.50 %	65.00 %
Risk-Free Rate of Return	4.01 %	3.70 %
Fair Value per Share Tranche I	$ 0.33	$ 2.12
Fair Value per Share Tranche II	$ 0.30	$ 1.88
Fair Value per Share Tranche III	$ 0.28	$ 1.67
Aggregate Fair Value (in thousands)	$ 392	$ 2,445

The Company recognized the initial liability of $12.1 million as part of the closing of the Business Combination, with an offset to opening retained earnings. The Company recognized the liability as part of the Business Combination as the potential forfeiture mechanism of the Sponsor Earnout Shares only became effective as a direct result of the successful closing of the Business Combination. The Company recorded the change in the fair market value of the Sponsor Earnout Shares to change in fair market value of Sponsor Earnout Shares on the Consolidated Statement of Comprehensive Loss.

Purchase Consideration Liability

The merger agreement governing the LookingGlass Acquisition (the "LookingGlass Merger Agreement") provides that the selling shareholders are entitled to receive shares of Company Common Stock as part of the purchase consideration. The purchase consideration shares include two components: the LookingGlass Earnout Shares and the LookingGlass Deferred Shares. The purchase consideration shares shall be issued in three or four installments on the six-month, twelve-month, and eighteen-month anniversaries of the transaction closing date (April 21, 2023) and potentially a further issuance on July 31, 2025.

During the three months ended October 31, 2023, the Company issued 3,810,108 shares to the selling shareholders in connection with the distribution on the six-month anniversary of the transaction date. The shares issued included a portion of both the LookingGlass Earnout Shares and the LookingGlass Deferred Shares (both are defined below).

LookingGlass Earnout Shares

The LookingGlass Merger Agreement provides that the selling shareholders are entitled to receive up to 2.0 million shares of Company Common Stock (the LookingGlass Earnout Shares). The earnout period begins on February 1, 2023. There are four triggers where, upon achievement of the trigger, the LookingGlass Earnout Shares will be earned. The triggers are:

1. Triggering event I - if LookingGlass generates $10.0 million in certain bookings (as defined in the LookingGlass Merger Agreement) or renews a specific contract for at least $12,680,840 (as defined in the LookingGlass Merger Agreement) on or before January 31, 2024, the LookingGlass Earnout Shares will be fully earned.
2. Triggering event II - if LookingGlass renews a specific contract on or before February 28, 2024, the LookingGlass Earnout Shares will be reduced by 250,000 shares.
3. Triggering event III - if LookingGlass renews a specific contract on or before March 31, 2024, the LookingGlass Earnout Shares will be reduced by 500,000 shares.

4. Triggering event IV - if LookingGlass renews a specific contract on or before April 30, 2024, the LookingGlass Earnout Shares will be reduced by 750,000 shares.

During the year ended January 31, 2024, triggering event I was achieved.

LookingGlass Earnout Shares Fair Value

The fair value of the LookingGlass Earnout Shares includes the shares that have been earned and will be issued on the twelve and eighteen-month anniversaries of the transaction date. The fair value of the LookingGlass Earnout Shares was $1.1 million and $2.0 million as of January 31, 2024, and April 21, 2023, respectively.

The Company recorded the change in the fair market value of the LookingGlass Earnout Shares to change in fair market value of purchase consideration liability on the Consolidated Statement of Comprehensive Loss.

LookingGlass Deferred Shares

The remaining purchase consideration shares consist of shares that will be issued based on the passage of time (in accordance with the LookingGlass Merger Agreement) as well as a variable amount of shares that will be issued subject to indemnity claims (collectively, the LookingGlass Deferred Shares). The LookingGlass Merger Agreement provides that a variable number of shares of Company Common Stock will be withheld for a period of twelve months and be subject to indemnity claims by the Company, an additional 500,000 shares will be withheld until July 31, 2025, and be subject to certain indemnity claims by the Company.

Purchase Consideration Liability Fair Value

The Company performed probability-weighted assessments to estimate the variable portion of the LookingGlass Deferred Shares (related to indemnities) that will be issued pursuant to the LookingGlass Merger Agreement. The remaining purchase consideration shares consist of shares that will be issued based on the passage of time according to the LookingGlass Merger Agreement, including the remaining LookingGlass Earnout Shares that have been earned.

The purchase consideration shares are remeasured to fair value each reporting date based on the Company's re-assessment of probability weightings related to the variable portion of the LookingGlass Deferred Shares, as well as the price of the Company's Common Stock as reported on Nasdaq.

The calculation of the fair value of the purchase consideration liability is included in the table below (in thousands, except share and per share data). There is no balance as of January 31, 2023, as the LookingGlass Business Acquisition occurred on April 21, 2023.

	January 31, 2024
Purchase consideration shares	8,766,264
Distributed Tranche I purchase consideration shares	(3,810,108)
Remaining purchase consideration shares	4,956,156
Closing price per share of the Company's Common Stock (ZFOX)	$ 0.88
Fair value of remaining purchase consideration liability	$ 4,362

The Company recorded the change in the fair market value of the purchase consideration liability to change in fair market value of purchase consideration liability on the Consolidated Statement of Comprehensive Loss.

12: Common Stock and Stockholders' Equity (Deficit)

The authorized capital stock of the Company consists of 1,100,000,000 shares of stock, $0.0001 par value per share, of which 1,000,000,000 shares are designated as Common Stock and 100,000,000 shares are designated as Preferred Stock.

Common Stock

The Company has issued and outstanding 124,639,135 shares of Common Stock as of January 31, 2024. Holders of Common Stock are entitled to one vote for each share.

Dividend Rights

Subject to the preferences that may apply to any shares of the Company's preferred stock outstanding at the time, the holders of Common Stock will be entitled to receive dividends, out of funds legally available for the payment of dividends, if the Board of Directors, in its discretion, authorizes the issuance of dividends. The Company's Board of Directors has not declared any dividends related to Company Common Stock as of January 31, 2024, and through the date these financial statements were available to be issued.

Right to Receive Liquidation Distributions

If the Company becomes subject to a liquidation, dissolution, or winding-up, the assets legally available for distribution to the Company’s stockholders would be distributable ratably among the holders of Common Stock and any participating series of the Company’s Preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and liquidation preferences of any outstanding shares of the Company's preferred stock.

Preferred Stock

The Board of Directors of the Company has not issued any classes or series of preferred stock as of January 31, 2024, and through the date these financial statements were available to be issued.

The Board of Directors of the Company is authorized, subject to limitations prescribed by law, to issue preferred stock in one or more series, to establish the number of shares to be included in each series, and to fix the designation, powers, preferences, voting power, and conversion rights of the shares of each series without further vote or action by the Company’s stockholders. The Board of Directors is empowered to increase or decrease the number of shares of any series of the Company’s Preferred Stock, but not below the number of shares of that series then outstanding, without any further vote or action by the Company’s stockholders.

The Company’s and Predecessor's common stock reserved for future issuance is as follows:

	January 31, 2024	January 31, 2023
Common stock warrants	16,342,106	16,213,430
Stock options issued and outstanding	6,484,992	7,869,050
Restricted stock units issued and outstanding	10,751,337	2,802,426
Sponsor earn-out shares	1,293,750	1,293,750
Shares available for future grant under the 2022 plan	12,858,387	15,829,510
	47,730,572	44,008,166

13: Stock-Based Compensation

Conversion of Stock-Based Awards

As part of the Business Combination, the Company assumed all of the issued and outstanding options to purchase the Common Stock of ZeroFox, Inc. and IDX and converted them into options to purchase the Company's Common Stock (Company Options). The number of Company Options issued along with the associated strike prices were converted using the Exchange Ratios of the Business Combination (see Note 5). The Company issued options to purchase a total of 8,159,377 shares of the Company's Common Stock, 6,380,458 going to holders of options to purchase ZeroFox, Inc. common stock and 1,778,919 going to holders of options to purchase IDX common stock. The vesting schedules, remaining term, and provisions (other than the adjusted number of underlying shares and exercise prices) of the Company Options issued, are identical to the vesting schedules, remaining term, and other provisions of the ZeroFox, Inc. and IDX options that were converted.

The conversion did not adjust vesting conditions of the options and did not require the Company to change the classification of the options. The Company recognized no incremental compensation cost as a result of the conversion. The Company recognized stock-based compensation expense based on the estimated fair value of the awards as calculated on their respective grant dates.

The Company issued no stock options from the Closing Date of the Business Combination to January 31, 2024.

ZeroFox Holdings, Inc. 2022 Incentive Equity Plan

On August 3, 2022, the Company adopted the 2022 ZeroFox Holdings, Inc. Incentive Equity Plan (the 2022 Plan). The 2022 Plan became effective on the closing of the Business Combination, which also occurred on August 3, 2022. The 2022 Plan provides for the issuance of up to 11,750,135 shares of Common Stock to employees, officers, directors, consultants, and advisors in the form of stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards (RSUs), dividend equivalents, and other stock or cash-based awards. On November 28, 2023, and November 30, 2022, the Board of Directors approved an increase to the number of shares available for issuance under the 2022 plan, effective January 1, 2024, and 2023. Pursuant to the terms of the 2022 Plan agreement, the shares available for issuance increased by 5% of the shares of Common Stock issued and outstanding at December 31, 2023, and 2022, or 6,228,005 shares and 5,909,396 shares, respectively. As of January 31, 2024, there were 12,858,387 shares of Common Stock available for issuance under the 2022 Plan.

Stock-based awards are granted at exercise prices not less than 100% of the fair value of the stock at the date of grant. The Company determines fair value as the closing per share price of its Common Stock on the date the stock-based award is granted. The term of any stock-based award issued under the 2022 Plan may not exceed 10 years from the date of grant. The Company intends to issue new shares to satisfy share options upon exercise.

ZeroFox Holdings, Inc. Employee Stock Purchase Plan

On August 3, 2022, the Company adopted the ZeroFox Holdings, Inc. 2022 Employee Stock Purchase Plan (ESPP). The ESPP is designed to allow eligible employees of the Company and its subsidiaries to purchase shares of Company Common Stock with their accumulated payroll deductions. As of January 31, 2023, and through the date these financial statements were available to be issued, the Company had not implemented and made available the ESPP to its employees.

Stock Options

The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires estimates of highly subjective assumptions, which affect the fair value of each stock option. As the Company did not issue any stock options from the Closing Date of the Business Combination to January 31, 2024, this section describes how any such stock-based awards will be fair valued by the Company when they are issued. This section also describes how the Predecessor valued their stock-based awards.

Expected Volatility

As the Company does not have a significant trading history of the shares of its Common Stock to date, the expected volatility will be based on the average historical stock price volatility of comparable publicly-traded companies in its industry peer group, financial, and market capitalization data. The Predecessor utilized the same estimation approach.

Expected Term

The expected term of the Company's options represents the period that the stock-based awards are expected to be outstanding. The Predecessor utilized the same estimation approach.

The Company will estimate the expected term of its employee awards using the SAB Topic 14 Simplified Method allowed by the FASB and SEC, for calculating expected term as it has limited historical exercise data to provide a reasonable basis upon which to otherwise estimate expected term. The Predecessor Companies utilized the same estimation approach. Certain of the Predecessor Companies' options began vesting prior to the grant date, in which case the Predecessor used the remaining vesting term at the grant date in the expected term calculation.

Risk-Free Interest Rate

The Company will estimate its risk-free interest rate by using the yield on actively traded non-inflation-indexed U.S. treasury securities with contract maturities equal to the expected term. The Predecessor utilized the same estimation approach.

Dividend Yield

The Company has neither declared nor paid dividends to date and does not anticipate declaring dividends. As such, the dividend yield will be estimated to be zero. The Predecessor utilized the same estimation approach.

Fair Value of Underlying Common Stock

The Company will use the closing price of its Common Stock (ZFOX) on the grant date of the stock-based award to represent the fair value of the underlying Common Stock.

The Predecessor's common stock was not publicly traded. As a result, the Predecessor was required to estimate the fair value of their common stock. The Board of Directors of the Predecessor considered numerous objective and subjective factors to determine the fair value of the Predecessor's common stock at each meeting in which awards are approved. The factors considered included, but were not limited to: (i) the results of contemporaneous independent third-party valuations of the Predecessor's common stock; (ii) the prices, rights, preferences, and privileges of the Predecessor's series of Preferred Stock relative to those of its common stock; (iii) the lack of marketability of the Predecessor's common stock; (iv) actual operating and financial results of the Predecessor; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event for the Predecessor, such as an initial public offering or sale of the Predecessor, given prevailing market conditions; and (vii) precedent transactions involving the respective Predecessor's shares.

A summary of option activity for the Successor Period and the Predecessor Period, is as follows (Aggregate Intrinsic Value in thousands):

Successor	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of January 31, 2023	7,869,050	$ 1.5454	6.07	$ 16,325
Granted	—	—		
Exercised	(1,003,474)	0.2565		
Cancelled	(380,584)	4.0963		
Outstanding as of January 31, 2024	6,484,992	1.5856	4.96	1,131
Vested as of January 31, 2024	5,814,238	1.2651	4.67	1,055
Vested and expected to vest as of January 31, 2024	6,250,237	$ 1.4812	4.86	$ 1,104

Successor	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of August 4, 2022	8,159,377	$ 1.5360	6.01	$ 17,004
Granted	—	—		
Exercised	(206,476)	0.5952		
Cancelled	(83,851)	2.9681		
Outstanding as of January 31, 2023	7,869,050	1.5454	6.07	16,325
Vested as of January 31, 2023	5,772,232	0.9591	5.39	15,359
Vested and expected to vest as of January 31, 2023	7,135,156	$ 1.3793	5.88	$ 15,987

Predecessor	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of February 1, 2022	21,715,815	$ 0.4398	6.28	$ 51,688
Granted	1,214,500	2.3920		
Exercised	(392,450)	0.2659		
Cancelled	(252,159)	1.4633		
Outstanding as of August 3, 2022	22,285,706	0.5377	6.45	50,864
Vested as of August 3, 2022	14,783,495	0.2660	5.41	37,757
Vested and expected to vest as of August 3, 2022	19,659,894	$ 0.4662	6.17	$ 46,276

The Company did not grant any options during the year ended January 31, 2024, or the Successor Period. The weighted-average grant-date fair value of options granted during the Predecessor Period was $1.00. The total intrinsic value of options exercised during the year ended January 31, 2024, and Successor Period was $1.5 million and $0.6 million, respectively. The total intrinsic value of options exercised during the Predecessor Period was $1.0 million.

Restricted Stock Units ("RSUs")

The fair value of RSUs is based on the closing price of our Common Stock on the date of grant.

The Predecessor did not grant RSUs during the Predecessor Period. A summary of RSU activity for the Successor Period is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding as of January 31, 2023	2,802,426	$ 4.64
Granted	10,038,454	$ 1.29
Vested	(1,635,418)	$ 3.29
Cancelled	(454,125)	$ 2.98
Outstanding as of January 31, 2024	10,751,337	$ 1.79

	Shares	Weighted-Average Grant Date Fair Value
Outstanding as of August 4, 2022	—	$ —
Granted	2,827,426	$ 4.64
Vested	—	$ —
Cancelled	(25,000)	$ 4.63
Outstanding as of January 31, 2023	2,802,426	$ 4.64

RSUs granted under our stock incentive plans generally vest over a period of one to four years. The Company's outstanding RSUs vest upon the satisfaction of a service-based vesting condition.

Stock-Based Compensation Expense

The Company recognized non-cash, stock-based compensation expense in the accompanying Consolidated Statements of Comprehensive Loss for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, as follows (in thousands):

	Successor		Predecessor
	Year ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Cost of revenue - subscription	$ 219	$ 97	$ 18
Cost of revenue - services	111	36	2
Research and development	1,637	452	114
Sales and marketing	1,612	518	218
General and administrative	3,946	1,397	510
Total stock-based compensation expense	$ 7,525	$ 2,500	$ 862

Unrecognized compensation cost related to outstanding stock options totaled $1.7 million as of January 31, 2024, which is expected to be recognized over a weighted-average remaining period of 1.7 years.

Unrecognized compensation cost related to outstanding RSUs totaled $16.6 million as of January 31, 2024, which is expected to be recognized over a weighted-average remaining period of 3.0 years.

14: Income Taxes

U.S. and foreign components of the loss before income taxes for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, were as follows (in thousands):

	Successor		Predecessor
	Year ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
U.S. loss	$ (366,162)	$ (734,326)	$ (19,370)
Foreign income (loss)	2,106	3,157	(1,924)
Total loss before income taxes	$ (364,056)	$ (731,169)	$ (21,294)

The provision for consolidated income taxes for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, were as follows (in thousands):

	Successor		Predecessor
	Year ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Current tax expense			
Federal	$ (185)	$ —	$ —
Foreign	313	177	106
State and local	627	292	5
	755	469	111
Deferred tax expense			
Federal	(15,111)	(9,360)	(2,780)
Foreign	—	—	—
State and local	(3,527)	(2,281)	(911)
	(18,638)	(11,641)	(3,691)
Less: change in valuation allowance	10,137	650	3,691
Net income tax (benefit) expense	$ (7,746)	$ (10,522)	$ 111

The reported income tax provision differs from the amount computed by applying the statutory U.S. federal income tax rate to the loss before income taxes due to nondeductible expenses, such as the goodwill impairment, and the impact of state taxes, as well as the change in the valuation allowance. A reconciliation of the statutory US income tax rate to the effective income tax rate for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, as follows:

	Successor		Predecessor
	Year ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
U.S. statutory rate	21.00 %	21.00 %	21.00 %
State taxes	0.63	0.21	3.35
Foreign taxes	(0.09)	—	—
Goodwill impairment	(16.40)	(20.07)	—
Transaction costs	—	—	(3.23)
Fair value adjustments	—	—	(2.03)
Other permanent differences	(0.27)	0.41	(1.05)
Change in valuation allowance	(2.78)	(0.09)	(17.32)
Other	0.04	(0.02)	(1.24)
Net income tax expense	2.13 %	1.44 %	-0.52 %

Deferred income taxes reflect temporary differences in the recognition of revenue and expenses for income tax reporting and consolidated financial statement purposes. Deferred income taxes as of January 31, 2024, and 2023, consisted of the following (in thousands):

	January 31, 2024	January 31, 2023
Deferred tax assets:		
Net operating losses - federal and state	$ 54,332	$ 36,057
Research and development expenditures	13,128	4,793
Deferred revenue	1,756	3,019
Interest expense	9,052	2,544
Accruals	1,196	1,240
Capital loss carryforward	1,788	—
Credits	2,667	—
Stock-based compensation	709	574
Other	665	308
Lease liability	910	204
Depreciation and amortization	(28)	112
Allowance for doubtful accounts	48	35
Charitable contributions	6	3
Total deferred tax assets before valuation allowance	86,229	48,889
Valuation allowance	(33,702)	(5,720)
Total deferred tax assets	52,527	43,169
Deferred tax liabilities:		
Intangible assets	(52,333)	(61,109)
Contract acquisition costs	(2,392)	(3,256)
Goodwill	(701)	(258)
Right-of-use assets	(862)	(177)
Other	(458)	(7)
Total deferred tax liabilities	(56,746)	(64,807)
Net deferred tax liability	$ (4,219)	$ (21,638)

The net deferred tax liability is included within Other liabilities on the Company's balance sheet at January 31, 2024 and January 31, 2023.

The Company recognizes the tax benefit of a position when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized. At January 31, 2024, the Company recorded gross unrecognized tax benefits of approximately $1.8 million, all of which, if recognized, would impact the Company's effective tax rate. Interest and penalties accrued related to uncertain tax positions were $0.3 million at January 31, 2024. The Company anticipates a $0.1 million decrease in unrecognized tax benefits within the next 12 months from the expiration of statute of limitations. Gross unrecognized tax benefits are included within Other liabilities on the Company's balance sheet at January 31, 2024 and January 31, 2023.

The change in gross unrecognized tax benefits, excluding accrued interest and penalties, were as follows (in thousands):

	January 31, 2024	January 31, 2023
Balance at beginning of period	$ 838	$ —
Business Combination	—	838
Adjustments to the Business Combination	460	—
Business acquisition	472	—
Current period adjustments	252	—
Settlement with tax authorities	(80)	—
Statute expirations	(174)	—
Balance at end of period	$ 1,768	$ 838

The Company has established a valuation allowance to offset the portion of its deferred tax assets that will reverse subsequent to the reversal of the Company’s deferred tax liabilities, and certain net operating loss (“NOL”) carryforwards that have separate return limitations. The Company increased the valuation allowance in the current year by $28.0 million. The Company will continue to evaluate the realizability of its deferred tax assets.

The following table provides a rollforward of the Company’s valuation allowance for its deferred tax assets (in thousands):

	January 31, 2024	January 31, 2023
Balance at beginning of period	$ 5,720	$ 5,070
Increases to allowance	10,137	650
Increases due to business acquisition	17,845	—
Balance at end of period	$ 33,702	$ 5,720

The Company had NOL carryforwards available to offset future federal and state taxable income of approximately $226.4 million and $105.7 million, respectively, as of January 31, 2024. Of the federal NOL carryforwards, $75.0 million are subject to expiration between tax years 2033 and 2037. Of the state NOL carryforwards, $70.0 million are subject to expiration in varying amounts beginning tax year 2024. The remaining federal and state NOL carryforwards have no expiration.

The NOL carryforwards are subject to an annual limitation under Section 382. The Section 382 limitation will not affect the Company's ability to realize the NOL carryforwards provided the Company has sufficient taxable income, subject to the annual limitation. Any future change in control or ownership resulting from further Section 382 limitations may impact the Company's ability to utilize tax attributes such as NOL carryforwards.

Additionally, as discussed in Note 18, the Haveli Merger Agreement was executed on February 6, 2024. However, the future events described in the Haveli Merger Agreement were not considered when determining the realizability of our deferred tax assets as of January 31, 2024. The consummation of the Merger may affect certain of the Company's deferred tax liabilities and deferred tax assets, as well as the realizability of our deferred tax assets.

The Company's federal income tax returns for fiscal year 2020 through fiscal year 2023 remained open under the statute of limitations and are subject to examination by tax authorities. In addition, as of January 31, 2024, the Company had various state income tax returns that remained open under the respective statutes of limitations and are subject to examination by tax authorities. The longest period for which any of the Company's state income tax returns remained open and subject to examination by tax authorities is for fiscal year 2018 through fiscal year 2023. The statute of limitations for federal and state income tax returns may be extended upon the utilization of NOL carryforwards. As of January 31, 2024, the Company was not under examination by federal or state tax authorities.

15: Related Party Transactions

Baltimore Headquarters Lease

The Company leases office space in Baltimore, Maryland. The lessor is owned and operated by the Company's chief executive officer. The lease expired on February 28, 2023, and the Company continued to lease the facility on a month-to-month basis. On April 21, 2023, the lease agreement was amended to extend the lease for an additional three-year term through February 28, 2026.

The Company incurred rent expense of $0.4 million during the year ended January 31, 2024. The Company incurred rent expense of $0.2 million during the Successor Period and the Predecessor incurred rent expense of $0.2 million during the Predecessor Period. As of January 31, 2024, and January 31, 2023, the Company had leasehold improvements of $0.1 million, net of accumulated depreciation of $0.1 million. The lessor holds a $0.1 million security deposit that is refundable at the end of the lease term.

PIPE Investors Notes

The Predecessor accrued $0.2 million of payment-in-kind (PIK) interest for notes payable with related parties during the Predecessor Period. The interest accrued through the date of the Business Combination was paid in cash to the note holders on the date of the Business Combination. The principal value of the related notes owed by the Predecessor of $5.0 million was offset against obligations the note holders had with the Company as part of the PIPE Subscription Agreement.

16: Commitments and Contingencies

Sales and Other Taxes

The Company's cloud solutions and services are subject to sales and other taxes in certain jurisdictions where the Company does business. The Company bills sales and other taxes to customers and remits these to the respective government authorities. Taxing jurisdictions have differing rules and regulations, which are subject to varying interpretations that may change over time. There may be assessments for sales tax jurisdictions in which the Company has not accrued a sales tax liability. The Company has been unable to assess the probability, or estimate the amount, of this exposure. There were no pending reviews as of January 31, 2024.

Prior to January 1, 2022, IDX did not collect U.S. sales and use tax from its customers for its services. During 2020, IDX engaged an external tax consultant to perform a full U.S. sales tax nexus study and analysis. IDX accrued and reflected historical liabilities in its financial statements and was filing Voluntary Disclosure Agreements (VDA) in relevant U.S. jurisdictions. Beginning January 1, 2022, IDX began collecting, reporting, and remitting appropriate U.S. sales tax from its customers in all applicable jurisdictions. As of January 31, 2024, the Company recorded an accrual of $1.3 million for IDX sales and use taxes that were not remitted prior to January 31, 2022. As of January 31, 2023, the Company recorded an accrual of $1.5 million for IDX sales and use taxes that were not remitted prior to January 31, 2022.

Employee Benefit Plan

The Predecessor’s 401(k) plan (the “Predecessor's 401(k) Plan”) was established in 2014 to provide retirement and incidental benefits for its employees. As allowed under Section 401(k) of the Internal Revenue Code, the Predecessor's 401(k) Plan provides tax-deferred salary deductions for eligible employees. Contributions to the Predecessor's 401(k) Plan are limited to a maximum amount as set periodically by the Internal Revenue Service. To date, the Company has not made any contributions to the Predecessor's 401(k) Plan.

The Company maintains two separate defined contribution 401(k) plan for legacy IDX and LookingGlass employees. Employees meeting certain requirements are eligible to participate to the respective plan. Under both plans, eligible participants may contribute a portion of their compensation to the plan and the Company may make matching contributions. The Company may make discretionary contributions to each plan at its option. The Company contributed $0.4 million and $0.1 million to the plan during the year ended January 31, 2024 and the Successor Period, respectively.

General Litigation

In the ordinary course of business, the Company is involved in various disputes. In the opinion of management, the amount of liability, if any, resulting from the final resolution of these matters will not have a material impact on the Company’s consolidated financial position, results of operations, or cash flows. The Company was not involved in any pending litigation as of January 31, 2024.

Warranties and Indemnification

The Company’s enterprise cloud platform is typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with the Company’s online help documentation under normal use and circumstances.

The Company’s arrangements generally include certain provisions for indemnifying customers against liabilities if its services infringe a third-party’s intellectual property rights. To date, the Company has not incurred any material costs because of such obligations and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person’s service as a director or officer, including any action by the Company, arising out of that person’s services as the Company’s director or officer or that person’s services provided to any other company or enterprise at the Company’s request. The Company maintains director and officer insurance coverage that would generally enable the Company to recover a portion of any future amounts paid. The Company may also be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

Purchase Commitments

The Company has a non-cancelable purchase commitment of $72.4 million related to 17 months of outsourced credit monitoring services provided to the Company’s largest customer as of January 31, 2024. The dollar amount and length of this commitment is determined by the customer’s exercise of annual option periods.

17: Net Loss per Share Attributable to Common Stockholders

The Company follows the two-class method when computing net loss per share of common stock because it has issued securities, other than common stock, that contractually entitle the holders to participate in dividends and earnings. These participating securities include the Company's restricted common stock, which has non- forfeitable rights to participate in any dividends declared on the Company's common stock. The two-class method requires all earnings for the period to be allocated between common stock and participating securities based upon their respective rights to receive distributed and undistributed earnings.

Under the two-class method, for periods with net income, basic net income per share of common stock is calculated by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is calculated by subtracting from net income the portion of current year earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the year's earnings been distributed. No such adjustment to earnings is made during periods with a net loss, as the holders of the participating securities have no obligation to fund losses.

Diluted net income per share of common stock is computed under the two-class method by using the weighted average number of shares of common stock outstanding plus, for periods with net income attributable to common stockholders, the potential dilutive effects of unvested restricted stock, stock options, warrants, and preferred stock.

Due to net losses for the year ended January 31, 2024, the Successor Period, and the Predecessor Period, basic and diluted net loss per share were the same, as the effect of potentially dilutive securities would have been anti-dilutive to the calculation of net loss per share.

The following table sets forth computation of basic loss per share attributable to common stockholders (in thousands, except share and per share data):

	Successor		Predecessor
	Year Ended January 31, 2024	August 3, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Numerator:			
Net loss	$ (356,310)	$ (720,647)	$ (21,405)
Net loss per share attributable to common stockholders	$ (356,310)	$ (720,647)	$ (21,405)
Denominator:			
Weighted-average common stock outstanding	123,813,143	116,862,277	43,041,209
Net loss per share attributable to common stockholders - basic and diluted	$ (2.88)	$ (6.17)	$ (0.50)

The following potentially dilutive securities were not included in the calculation of weighted average common shares outstanding, as their effects would have been anti-dilutive for the year ended January 31, 2024, the Successor Period, and the Predecessor Period.

	Successor		Predecessor
	Year ended January 31, 2024	August 4, 2022 to January 31, 2023	February 1, 2022 to August 3, 2022
Preferred stock (on an as-converted basis)			
Series Seed redeemable convertible preferred stock	—	—	18,396,744
Series A redeemable convertible preferred stock	—	—	31,994,570
Series B redeemable convertible preferred stock	—	—	53,829,898
Series C redeemable convertible preferred stock	—	—	42,249,398
Series C-1 redeemable convertible preferred stock	—	—	22,790,767
Series D redeemable convertible preferred stock	—	—	27,743,094
Series D-1 redeemable convertible preferred stock	—	—	11,756,606
Series D-2 redeemable convertible preferred stock	—	—	1,987,736
Series E redeemable convertible preferred stock	—	—	30,490,064
Total common stock reserved	—	—	241,238,877
Common stock			
Purchase consideration liability shares	1,354,411	—	—
Sponsor earn-out shares	1,293,750	1,293,750	—
Total common stock	2,648,161	1,293,750	—
Warrants			
Common stock warrants	16,314,256	16,220,756	1,924,790
Series A redeemable convertible preferred stock warrants	—	—	249,806
Series B redeemable convertible preferred stock warrants	—	—	292,682
Series C-1 redeemable convertible preferred stock warrants	—	—	1,247,369
Series E redeemable convertible preferred stock warrants	—	—	2,079,870
Total warrants	16,314,256	16,220,756	5,794,517
Options to purchase common stock			
Issued and outstanding	6,917,053	7,926,307	22,178,814
Restricted stock units			
Issued and outstanding	8,013,568	747,405	—

18: Subsequent Events

Haveli Merger Agreement

On February 6, 2024, the Company entered into an Agreement and Plan of Merger (the "Haveli Merger Agreement") with ZI Intermediate II, Inc., a Delaware corporation (“Parent”) and HI Optimus Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent (“Merger Sub”), pursuant to which, if all of the conditions to closing are satisfied or, if permitted, waived, the Company will become a wholly-owned subsidiary of Parent (the “Merger”). Parent and Merger Sub are affiliates of Haveli Investments Software Fund I, L.P. (“Haveli Software”) and Haveli Investments Software Fund I Cayman L.P. (“Haveli Cayman” and, together with Haveli Software, the “Haveli Funds”), funds managed by Haveli Investments L.P. (“Haveli”).

The Haveli Merger Agreement provides that, among other things and on the terms and subject to the conditions of the Haveli Merger Agreement, (a) Merger Sub will merge with and into the Company, with the Company surviving the Merger as a wholly-owned subsidiary of Parent (the “Merger”), and (b) at the effective time of the Merger (the “Effective Time”), each issued and outstanding share (immediately prior to the Effective Time) of common stock of the Company, par value $0.0001 per share (the “Company Common Stock”) (except as otherwise provided in the Haveli Merger Agreement) will be cancelled and converted into the right to receive an amount in cash equal to $1.14 per share ("the Merger Consideration"), without interest and subject to any applicable withholding taxes.

The Merger, which has been unanimously approved by the Company's board of directors (the "Board"), is expected to close in the first half of 2024. Upon consummation of the Merger, the Company will cease to be a publicly traded company and the Company Common Stock and the Company's public warrants will be delisted from The Nasdaq Global Market and The Nasdaq Capital Market, respectively. The completion of the Merger is subject to the satisfaction or, if permitted, waiver of certain customary mutual closing conditions set forth in the Haveli Merger Agreement, including (a) the adoption of the Haveli Merger Agreement by the affirmative vote of holders of a majority of the outstanding shares of Company Common Stock (the "Company Stockholder Approval") and (b) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of approval, clearance or expiration of the applicable review periods under the United Kingdom's National Security and Investment Act 2021, as amended. The obligation of each party to consummate the Merger is also conditioned on, among other things, the other party's representations and warranties being true and correct (subject to certain customary materiality exceptions) and the other party having performed in all material respects its obligations under the Haveli Merger Agreement, and the obligation of Parent to consummate the Merger is additionally conditioned on no material adverse effect on the Company having occurred since the execution of the Haveli Merger Agreement that is continuing. The consummation of the Merger is not subject to any financing condition. The Haveli Merger Agreement contains termination rights for each of the Company and Parent, including, among others, (1) if the consummation of the Merger does not occur on or before August 6, 2024 (subject to extension until November 6, 2024 under specified circumstances), (2) if the Company Stockholder Approval is not obtained following the meeting of the Company's stockholders for purposes of obtaining such Company Stockholder Approval and (3) subject to certain conditions, (a) by Parent if the Board changes its recommendation in favor of the Merger or (b) by the Company in connection with the entry into a definitive agreement with respect to a Superior Proposal (as defined in the Haveli Merger Agreement). The Company and Parent may also terminate the Haveli Merger Agreement by mutual written consent.

The Company is required to pay Parent a termination fee of $5,261,750 in cash upon termination of the Haveli Merger Agreement under specified circumstances, including, among others, termination by Parent in the event that the Board changes its recommendation in favor of the Merger or termination by the Company to enter into an agreement in connection with a Superior Proposal. The Haveli Merger Agreement also provides that a reverse termination fee of $10,000,000 will be payable by Parent to the Company under specified circumstances, including, among others, if (1) Parent fails to consummate the Merger following satisfaction or waiver of certain closing conditions and the Company's irrevocable confirmation that it is ready, willing and able to consummate the closing or (2) Parent otherwise breaches its obligations under the Haveli Merger Agreement such that there is a failure of certain conditions to the Merger.

Parent has obtained equity and debt financing commitments for the purpose of financing the transactions contemplated by the Haveli Merger Agreement.

Other terms of Haveli Merger Agreement

Below is a summary of the effect of other terms of the Haveli Merger agreement on certain financial instruments at the Effective Time.

Warrants

Each Public and Private Warrant that is unexercised and outstanding immediately prior to the Effective Time will cease to represent a warrant to purchase shares of Company Common Stock. Instead the instrument will represent, upon any subsequent exercise, a right to receive the Merger Consideration. If holders properly exercise their warrants within 30 days following the public disclosure of the closing of the Merger by the Company pursuant to a current report on Form 8-K filed with the SEC, the exercise price of their warrants shall be adjusted as provided in Section 4.4 of the warrant agreement dated November 23, 2020 between L&F and Continental Stock Transfer & Trust Company.

The Stifel Warrant will automatically terminate and be cancelled such that no consideration will be payable. Accordingly, the liability for the fair value of the Stifel Warrant will be extinguished.

Stock Options

Each stock option that is vested in accordance with its terms and outstanding immediately prior to the Effective Time will be deemed exercised on a cashless basis and exchanged for the right to receive cash proceeds, without interest and subject to applicable withholding taxes. The amount of cash proceeds is equal to the excess of the Merger Consideration over the exercise price of the vested stock option, for each vested stock option. If the exercise price of the vested stock option is greater than or equal to the Merger Consideration, the vested stock option is cancelled with no consideration payable.

Each stock option that is unvested and outstanding immediately prior to the Effective Time will be converted into the contingent right to receive cash proceeds, without interest and subject to applicable withholding taxes. The amount of cash proceeds is equal to the excess of the Merger Consideration over the exercise price of the unvested stock option, for each unvested stock option. If the exercise price of the unvested stock option is greater than or equal to the Merger Consideration, the unvested stock option is cancelled with no consideration payable. The cash consideration (converted from an unvested stock option) will vest and become payable at the same time as the original Company stock option would have vested and been payable pursuant to its terms and shall otherwise remain subject to substantially the same terms and conditions that were applicable to the original Company stock option immediately prior to the Effective Time.

Restricted Stock Units ("RSUs")

Each RSU that is outstanding immediately prior to the Effective Time and that is either held by a non-employee member of the Board or vested in accordance with its terms as of the Effective Time will be cancelled and converted into the right to receive cash proceeds, without interest and subject to applicable withholding taxes. The amount of cash proceeds is equal to the Merger Consideration for each RSU.

Each RSU that is outstanding immediately prior to the Effective Time and that is either not held by a non-employee member of the Board or not vested will be converted into the contingent right to receive cash proceeds, without interest and subject to applicable withholding taxes. The amount of cash proceeds is equal to the Merger Consideration for each RSU. The cash consideration (converted from an unvested RSU) will vest and become payable at the same time as the original RSU would have vested and been payable pursuant to its terms and shall otherwise remain subject to substantially the same terms and conditions that were applicable immediately prior to the Effective Time.

Sponsor Earnout Shares

The sponsor earnout shares will be forfeited and cease to exist. Accordingly, the liability for the fair value of the Sponsor Earn Shares will be extinguished.

Purchase Consideration Liability

The purchase consideration shares to be issued under the terms of the LookingGlass Merger Agreement will remain issuable. The Haveli Merger Agreement specifies that 5,558,552 shares of Common Stock are the maximum number of shares that remain issuable in any circumstance under the terms of the LookingGlass Merger Agreement.

Convertible Notes

As the transaction qualifies as Fundamental Change (as defined in the indenture governing the Convertible Notes), each holder of a Note will have the right to cause the Company to repurchase for cash all or a portion of the Convertible Notes held by such holder, at a price equal to 100% of the principal plus accrued and unpaid interest, plus any remaining amounts that would be owed to, but excluding, the maturity date. In the event of a conversion in connection with a Fundamental Change, the conversion price will be adjusted in accordance with a Fundamental Change make-whole table.

The foregoing summary of the Haveli Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Haveli Merger Agreement, which is filed as Exhibit 2.1 of the Company's Current Report on Form 8-K filed on February 6, 2024 and included as Exhibit 2.02 to this Annual Report on Form 10-K. In connection with the Merger, the Company expects to incur significant expenses, such as transaction, professional services, and other costs. An estimate of these expenses cannot be made at this time.

Convertible Note Repurchase Agreements

On February 6, 2024, the Company and funds managed by Monarch Alternative Capital LP (collectively, the "Monarch Noteholders") entered into note repurchase agreements pursuant to which the Monarch Noteholders have agreed to sell and the Company has agreed to repurchase substantially concurrent with the Merger an aggregate principal amount of approximately $135.0 million of the Convertible Notes and any additional Convertible Notes acquired by the Monarch Noteholders at a purchase price equal to the entire aggregate principal amount of the Convertible Notes repurchased plus accrued and unpaid interest, if any, thereon to, but excluding, the repurchase date.

On February 21, 2024, the Company and L&F Acquisition Holdings Fund, LLC (the "L&F Noteholder") entered into a note repurchase agreement pursuant to which the L&F Noteholder has agreed to sell and the Company has agreed to repurchase substantially concurrent with the Merger an aggregate principal amount of approximately $8.4 million of the Convertible Notes and any additional Convertible Notes acquired by the L&F Noteholder at a purchase price equal to the entire aggregate principal amount of the Convertible Notes repurchased plus accrued and unpaid interest, if any, thereon to, but excluding, the repurchase date.

On March 4, 2024, the Company and Corbin ERISA Opportunity Fund, Ltd. (the "Corbin Noteholder") entered into note a repurchase agreement pursuant to which the Corbin Noteholder has agreed to sell and the Company has agreed to repurchase substantially concurrent with the Merger an aggregate principal amount of approximately $25.3 million of the Convertible Notes and any additional Convertible Notes acquired by the Corbin Noteholder at a purchase price equal to the entire aggregate principal amount of the Convertible Notes repurchased plus accrued and unpaid interest, if any, thereon to, but excluding, the repurchase date.

Index to Audited Financial Statements

ID Experts Holdings, Inc. and Subsidiary

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of ZeroFox Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of income, redeemable convertible preferred stock and stockholders’ deficit, and cash flows, for the period January 1, 2022 to August 3, 2022 and the related notes (collectively referred to as the "financial statements") of ID Experts Holdings, Inc. and subsidiary (the "Company"). In our opinion, the financial statements present fairly, in all material respects, the results of the Company’s operations and its cash flows for the period January 1, 2022 to August 3, 2022 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

McLean, Virginia
March 29, 2023

We began serving as the Company's auditor in 2022. In 2022, we became the predecessor auditor.

ID Experts Holdings, Inc. and Subsidiary
Consolidated Statements of Income

(in thousands, except share data)	Period January 1, 2022, to August 3, 2022
Revenue	$ 66,758
Cost of revenue	52,254
Gross profit	14,504
Operating expenses	
Research and development	3,325
Sales and marketing	4,594
General and administrative	5,758
Total operating expenses	13,677
Income from operations	827
Other expense	
Interest expense, net	(314)
Other expense	(585)
Change in fair value of warrant liabilities	(133)
Total other expense	(1,032)
Loss before income taxes	(205)
Income tax expense	652
Net loss after tax	$ (857)
Net loss attributable to common stockholders, basic and diluted	$ (857)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.07)
Weighted-average shares used in computation of net loss per share attributable to common stockholders, basic and diluted:	12,854,967

See notes to consolidated financial statements.

ID Experts Holdings, Inc. and Subsidiary
Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit

(in thousands, except for share data)	Preferred Stock									
	Series A-1 Redeemable Convertible Preferred Stock		Series A-2 Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance—January 1, 2022	5,882,350	$ 10,000	26,069,330	$ 54,902	11,671,845	$ 1	$ -	$ (70,235)	$ (70,234)
Preferred stock issued	—	—	124,994	264	—	—	—	—	—
Common stock issued	—	—	—	—	1,553,226	—	2,042	—	2,042
Stock-based compensation expense	—	—	—	—	—	—	16	—	16
Net loss	—	—	—	—	—	—	—	(857)	(857)
Balance—August 3, 2022	5,882,350	$ 10,000	26,194,324	$ 55,166	13,225,071	$ 1	$ 2,058	$ (71,092)	$ (69,033)

See notes to consolidated financial statements.

ID Experts Holdings, Inc. and Subsidiary
Consolidated Statements of Cash Flows

(in thousands)		Period January 1, 2022, to August 3, 2022
Cash flows from operating activities:		
Net loss	$	(857)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		46
Amortization of debt issuance cost		2
Stock-based compensation		16
Gain on warrant exercised		(8)
Provision for doubtful accounts		(117)
Change in fair value of warrant liabilities		133
Change in fair value of debt		589
Deferred tax expense		(1,354)
Loss on sale of property and equipment		1
Changes in operating assets and liabilities:		
Accounts receivable		(1,823)
Deferred contract acquisition costs		(944)
Prepaid expenses and other assets		(242)
Accounts payable		262
Accrued compensation, accrued expenses, and other current liabilities		1,843
Deferred revenue		1,160
Net cash used in operating activities		(1,293)
Cash flows from investing activities:		
Purchases of property and equipment		(44)
Net cash used in investing activities		(44)
Cash flows from financing activities:		
Exercise of stock options		191
Repayment of debt		(556)
Net cash used in financing activities		(365)
Net decrease in cash, cash equivalents, and restricted cash		(1,702)
Cash, cash equivalents, and restricted cash, beginning of period		17,986
Cash, cash equivalents, and restricted cash, end of period	$	16,284
Supplemental Cash Flow Information:		
Cash paid for interest	$	307
Cash paid for taxes		107
Non-cash financing and investing activities:		
Increase in redeemable convertible preferred stock		(264)
Decrease in accrued expense		2,122
Increase in retained earnings		(8)
Increase in additional paid in capital	$	(1,850)

See notes to consolidated financial statements

ID EXPERTS HOLDINGS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD JANUARY 1, 2022, TO AUGUST 3, 2022

1: Organization and Description of Business

ID Experts Holdings, Inc., and subsidiary (IDX) believes it has a leading position in the United States by revenue as a provider of data breach response services, and associated identity and privacy protection services, to both government and commercial entities. IDX's data breach solutions include prevention, detection, forensic services, notification, and recovery assistance. IDX's membership subscriptions include credit and non-credit monitoring, prevention tools, and unlimited recovery assistance. ID Experts Holdings, Inc. was incorporated in the State of Delaware in 2016 at which time Identity Theft Guard Solutions, Inc. (ITGS), the primary operating entity, became the wholly-owned subsidiary of ID Experts Holdings, Inc. in 2016 during its recapitalization. IDX serves clients throughout the United States of America and is located in Portland, Oregon.

On December 15, 2021, IDX's Board of Directors approved a business combination agreement, which was entered into as of December 17, 2021, and announced publicly on December 20, 2021. The business combination agreement details a transaction where IDX was to be merged with ZeroFox, Inc. (ZeroFox) and L&F Acquisition Corp. (L&F), a special purpose acquisition corporation (SPAC) and publicly traded company. IDX and ZeroFox are both the legal and accounting acquirees and L&F is the legal and accounting acquiror. On the date of the Business Combination, L&F changed its name to ZeroFox Holdings, Inc. (ZeroFox Holdings). See Note 2b for additional information.

2: Summary of Significant Accounting Policies

a. Basis of Presentation

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America (US GAAP) set forth by the Financial Accounting Standards Board (FASB). References to U.S. GAAP issued by the FASB in these notes to the consolidated financial statements are to the FASB Accounting Standards Codification (ASC). IDX presented financial statements from the beginning of the year to the acquisition date of August 3, 2022.

b. Emerging Growth Company Status

The Company is an "emerging growth company" (EGC), as defined in the Jumpstart Our Business Startups Act (the JOBS Act), and may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not EGCs. The Company may take advantage of these exemptions until it is no longer an EGC under Section 107 of the JOBS Act and has elected to use the extended transition period for complying with new or revised accounting standards. As a result of this election, the Company's financial statements may not be comparable to companies that comply with public company FASB standards' effective dates.

IDX merged with L&F on August 3, 2022. Refer to Note 1 for more information regarding the Business Combination. The surviving company, ZeroFox Holdings, will remain an emerging growth company until the earliest of (i) the last day of the surviving company's first fiscal year following the fifth anniversary of the completion of the L&F's initial public offering, (ii) the last day of the fiscal year in which ZeroFox Holdings has total annual gross revenue of at least $1.235 billion, (iii) the last day of the fiscal year in which ZeroFox Holdings is deemed to be a large accelerated filer, which means the market value of ZeroFox Holding's common stock that is held by non-affiliates exceeds $700.0 million as of the prior July 31 or (iv) the date on which ZeroFox Holdings has issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

c. Principles of Consolidation

The accompanying consolidated financial statements include all the accounts of IDX. All intercompany balances and transactions have been eliminated in consolidation.

d. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses reported during the period. Such estimates include assumptions used in the allocation of revenue, long-lived assets, liabilities, depreciable lives of assets, stock-based compensation, and deferred income taxes. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

e. Cash and Cash Equivalents

Cash and cash equivalents consist of business checking accounts. The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company generally places its cash and cash equivalents with major financial institutions deemed to be of high-credit-quality in order to limit its credit exposure. The Company maintains its cash accounts with financial institutions where, at times, deposits exceed federal insurance limits. Cash and cash equivalents are carried at cost, which due to their short-term nature, approximate fair value.

f. Revenue Recognition

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised products or services. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to receive in exchange for those products or services. To achieve the core principle of this standard, the Company applies the following five steps:

a) Identify Contracts with Customers,

b) Identify the Performance Obligations in the Contract,

c) Determine the Transaction Price,

d) Allocate the Transaction Price to Performance Obligations in the Contract, and

e) Recognize Revenue When or As Performance Obligations are Satisfied.

For arrangements with multiple performance obligations, the Company allocates total consideration to each performance obligation on a relative fair value basis based on management's estimate of stand-alone selling price (SSP).

The following table illustrates the timing of the Company's revenue recognition:

	January 1, 2022, to August 3, 2022
Breach - point in time	12.6 %
Breach - over time	83.4 %
Membership services - over time	4.0 %

As discussed in Note 3, all revenue was recognized over time prior to the adoption of ASC 606.

Breach Services

The Company's breach services revenue consists of contracts with various combinations of notification, project management, communication services, and ongoing identity protection services. Performance periods generally range from one to three years. Payment terms are generally between thirty and sixty days. Contracts generally do not contain significant financing components. The pricing for the Company's breach services contracts is structured as either fixed price or variable price. In fixed price contracts, a fixed total price or fixed per-impacted-individual price is charged for the total combination of services. For variable price breach services contracts, the breach communications component, which includes notifications and call center, is charged at a fixed total fee and ongoing identity protection services are charged as incurred using a fixed price per enrollment. Fixed fees are generally billed at the time the statement of work is executed and are due upon receipt. Large, fixed-fee contracts are typically billed 50% upfront and due upon receipt with the remaining 50% invoiced 30 days later with net 30 terms. For variable price contracts the charges for identity protection services are billed monthly for the prior month and are due net 30.

Membership Services

The Company provides membership services through its employer groups and strategic partners as well as directly to end-users through its website. Membership services consist of multiple, bundled identity and privacy product offerings and provide members with ongoing identity protection services. For membership services, revenue is recognized ratably over the service period. Performance periods are generally one year. Payments from employer groups and strategic partners are generally collected monthly. Payments from end-users are collected up front.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. No losses on uncompleted contracts were recognized for the period July 1, 2022, to August 3, 2022, and the period January 1, 2022, to August 3, 2022.

Significant Judgments

Significant judgments and estimates are required under ASC 606. Due to the complexity of certain contracts, the actual revenue recognition treatment required under ASC 606 for the Company's arrangements may be dependent on contract-specific terms and may vary in some instances. The Company's contracts with customers often include promises to transfer multiple services including project management services, notification services, call center services, and identity protection services. Determining whether services are distinct performance obligations that should be accounted for separately requires significant judgment.

The Company is required to estimate the total consideration expected to be received from contracts with customers, including any variable consideration. Once the estimated transaction price is established, amounts are allocated to performance obligations on a relative SSP basis. The Company's breach business derives revenue from two main performance obligations: (i) notification and (ii) combined call center and monitoring services, described further in Note 3.

At contract inception, the Company assesses the products and services promised in the contract to identify each performance obligation and evaluates whether the performance obligations are capable of being distinct and are distinct within the context of the contract. Performance obligations that are not both capable of being distinct and distinct within the context of the contract are combined and treated as a single performance obligation in determining the allocation and recognition of revenue. Determining whether products and services are considered distinct performance obligations requires significant judgment. In determining whether products and services are considered distinct performance obligations, the Company assesses whether the customer can benefit from the products and services on their own or together with other readily available resources and whether our promise to transfer the product or service to the customer is separately identifiable from other promises in the contract.

Judgment is required to determine the SSP for each distinct performance obligation. The Company rarely sells its individual breach services on a standalone basis and accordingly, the Company is required to estimate the range of SSPs for each performance obligation. In instances where the SSP is not directly observable because the Company does not sell the service separately, the Company reviews information that includes historical discounting practices, market conditions, cost-plus analyses, and other observable inputs to determine an appropriate SSP. The Company typically has more than one SSP for individual performance obligations due to the stratification of those items by classes of customers, size of breach, and other circumstances. In these instances, the Company may use other available information such as service inclusions or exclusions, customizations to notifications, or varying lengths of call center or identity protection services in determining the SSP.

If a group of agreements are so closely related to each other that they are in effect part of a single arrangement, such agreements are deemed to be one arrangement for revenue recognition purposes. The Company exercises judgment to evaluate the relevant facts and circumstances in determining whether the separate agreements should be accounted for separately or as in substance, a single arrangement. The Company's judgments about whether a group of contracts comprises a single arrangement can affect the allocation of consideration to the distinct performance obligations, which could have an effect on results of the Company's operations.

The Company has not experienced significant refunds to customers. The Company's estimates related to revenue recognition may require significant judgment and the change in these estimates could have an effect on the Company's results of operations during the periods involved.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets, or contract liabilities (deferred revenue) on the Consolidated Balance Sheets. The Company records a contract asset when revenue is recognized prior to invoicing and records a deferred revenue liability when revenue is expected to be recognized after invoicing. For the Company's breach services agreements, customers are typically invoiced at the beginning of the arrangement for the entire contract amount. When the breach agreement includes variable components related to as-incurred identity protection services, customers are invoiced monthly for the duration of the enrollment or call center period.

Unbilled accounts receivable, which consists of services billed one month in arrears, was $7.8 million as of August 3, 2022. These unbilled amounts are included in accounts receivable as the Company has the unconditional right to receive this consideration.

Contract assets are presented as other receivables within the Consolidated Balance Sheets and primarily relate to the Company's rights to consideration for work completed but not billed on service contracts. Contract assets are transferred to receivables when the Company invoices the customer. Contract liabilities are presented as deferred revenue and relate to payments received for services that are yet to be recognized in revenue.

During the period January 1, 2022, to August 3, 2022, the Company recognized $5.1 million of revenue that was included in deferred revenue at the end of the preceding year. All other deferred revenue activity is due to the timing of invoices in relation to the timing of revenue, as described above. The Company expects to recognize as revenue approximately 56% of its August 3, 2022, deferred revenue balance in the remainder of 2022, 29% in the January 1, 2023, to August 3, 2023, and the remainder thereafter.

In instances where the timing of revenue recognition differs from the timing of invoicing, the Company determined that its contracts do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's services and not to facilitate financing arrangements.

Government Contracts

The Company evaluates arrangements with governmental entities containing fiscal funding or termination for convenience provisions, when such provisions are required by law, to determine the probability of possible cancellation. The Company considers multiple factors including the history with the customer in similar transactions and the budgeting and approval processes undertaken by the governmental entity. If the Company determines upon execution of these arrangements that the likelihood of cancellation is remote, it then recognizes revenue for such arrangements once all relevant criteria have been met. If such a determination cannot be made, revenue is recognized upon the earlier of cash receipt or approval of the applicable funding provision by the governmental entity for such arrangements.

g. Contract Costs

The Company capitalizes costs to obtain a contract or fulfill a contract. These costs are recorded as deferred contract acquisitions costs on the Consolidated Balance Sheets. Costs to obtain a contract for a new customer are amortized on a straight-line basis over the estimated period of benefit. The Company determined the estimated period of benefit by taking into consideration the contractual term. The Company periodically reviews the carrying amount of the capitalized contract costs to determine whether events or changes in circumstances have occurred that could affect the period of benefit. Amortization expense associated with costs to fulfill a contract is recorded to cost of services on the Consolidated Statements of Income. Amortization expense associated with costs to obtain a contract (sales commissions) is recorded to sales and marketing expense on the Consolidated Statements of Income.

h. Cost of Services

Cost of services consists of fees to outsourced service providers for credit monitoring, call center operation, notification mailing, insurance, and other miscellaneous services and internal labor costs. Costs incurred for breach service contracts represent fulfillment costs. These costs are deferred within capitalized contract costs and recognized in relation to revenue recorded over the combined service and membership terms. The remainder of cost of services are expensed as incurred. Relevant depreciation and amortization are included in cost of services on the Consolidated Statements of Income.

i. Research and Development

Research and development expenses primarily consist of personnel costs and contractor fees related to the bundling of other third-party software products that are offered as one combined package within the Company’s product offerings. Personnel costs include salaries, bonuses, stock-based compensation, employer-paid payroll taxes, and an allocation of our facilities, benefits, and internal IT costs. Research and development costs are expensed as incurred.

j. Advertising

Advertising costs are expensed as incurred. Advertising costs amounted to $0.8 million for the period January 1, 2022, to August 3, 2022.

k. Stock-Based Compensation

The Company grants stock options to purchase common stock to employees with exercise prices equal to the fair market value of the underlying stock as determined by the Board of Directors and management. The Board of Directors, with the assistance of outside valuation experts, determines the fair value of the underlying stock by considering several factors including historical and projected financial results, the risks the Company faced on the grant date, the preferences of the Company’s debt holders and preferred stockholders, and the lack of liquidity of the Company’s common stock.

The fair value of each stock option award is estimated using the Black-Scholes-Merton valuation model. Such value is recognized as expense over the requisite service period using the straight-line method, net of forfeitures as they occur.

Excess tax benefits of awards that relate to stock option exercises are reflected as operating cash inflows. Stock-based compensation expense recognized in the Company’s Consolidated Statements of Income for options were negligible for all periods presented.

l. Earnings (Loss) per Share

Series A-1 and A-2 Preferred Stock are participating securities due to their rights to receive dividends. The Company calculates EPS under the two-class method. In the two-class method, all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities. The allocation between common stock and participating securities is based upon the rights to dividends for the two types of securities.

For periods of net income and when the effects are not anti-dilutive, the Company calculates diluted earnings per share by dividing net income available to common shareholders by the weighted average number of common shares plus the weighted average number of common shares assuming the conversion of the Company’s convertible notes, as well as the impact of all potentially dilutive common shares. Potentially dilutive common shares consist primarily of common stock options using the treasury stock method. For periods of net loss, shares used in the diluted earnings (loss) per share calculation equals the amount of shares in the basic EPS calculation as including potentially dilutive shares would be anti-dilutive.

m. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash balances and trade accounts receivable. The Company maintains cash balances at two financial institutions. The balances, at times, exceed federally insured limits. As of August 3, 2022, balances exceeded federally insured limits by $16.0 million. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk from cash. Concentrations of credit with respect to accounts receivables are generally limited due to the large number of customers, outside the U.S. Government, comprising the Company's customer base and their dispersion across different industries.

The Company generated 73% of its revenue in for the period January 1, 2022, to August 3, 2022, from the U.S. Government, who generally pays invoices in less than thirty days and is deemed to be a low credit risk. On August 3, 2022, accounts receivables from the U.S. Government made up 64% of the Company’s outstanding accounts receivables.

n. Income Taxes

The Company provides for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax effect of differences between recorded assets and liabilities and their respective tax basis along with operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained in the event of a tax audit. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related unrecognized tax benefits in income tax expense.

Deferred tax assets are reduced by a valuation allowance when in management's opinion it is more likely than not that some portion or all the deferred tax assets will not be realized. The Company considers the future reversal of existing taxable temporary differences, taxable income in prior carryback years, projected future taxable income, and tax planning strategies in making this assessment. The Company's valuation allowance is based on all available positive and negative evidence, including its recent financial operations, evaluation of positive and negative evidence with respect to certain specific deferred tax assets (including evaluating sources of future taxable income) to support the realization of the deferred tax assets.

The Company's income tax returns are generally subject to examination by taxing authorities for a period of three years from the date they are filed. Tax authorities may have the ability to review and adjust net operating loss or tax credit carryforwards that were generated prior to these periods if utilized in an open tax year. As of August 3, 2022, the Company's income tax returns for the years ended December 31, 2016 through 2021 are subject to examination by the Internal Revenue Service and applicable state and local taxing authorities.

o. Sales and Use Taxes

The Company collects sales tax in various jurisdictions. Upon collection from customers, it records the amount as a payable to the related jurisdiction. On a periodic basis, it files a sales tax return with the jurisdictions and remits the amounts indicated on the return.

p. Segment Reporting

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker, the chief executive officer, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company views its operations and manages its business as one operating segment. All revenue has been generated and all assets are held in the United States.

q. Deferred Rent and Lease Incentives

Rent expense and lease incentives from the Company's operating leases are recognized on a straight-line basis over the lease term. The Company's operating lease includes rent escalation payment terms and a rent-free period. Deferred rent represents the difference between actual operating lease payments and straight-line rent expense over the term of the lease.

r. Standards Issued and Adopted

In May 2021, the FASB issued ASU 2021-04, Earnings per Share ("Topic 260"), Debt – Modifications and Extinguishments ("Subtopic 470-50"), Compensation – Stock Compensation ("Topic 718"), and Derivatives and Hedging – Contracts in Entity's Own Equity ("Subtopic 815-40"). ASU 2021-04 clarifies the accounting by issuers for modifications or exchanges of equity-classified warrants and is effective for fiscal years starting after December 15, 2021. IDX adopted ASU 2021-04 effective as of January 1, 2022. The adoption of ASU 2021-04 did not have an impact on the consolidated financial statements.

s. Standards Issued but Not Yet Effective

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This guidance is intended to improve financial reporting for leasing transactions. The standard is effective for the Company for annual reporting periods beginning after December 15, 2021, and early adoption is permitted. Upon adoption, the Company will be required to record right-of-use assets and lease liabilities on its Consolidated Balance Sheets for leases which were historically classified as operating leases. The Company expects the adoption to have a material increase on the assets and liabilities recorded on its Consolidated Balance Sheets. The Company does not expect a material impact to its Consolidated Statement of Comprehensive Loss or Consolidated Statement of Cash Flows following adoption.

In June 2016 the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which amends the accounting for credit losses for most financial assets and certain other instruments. The standard requires that entities holding financial assets that are not accounted for at fair value through net income be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. The standard is effective for the Company for annual reporting periods beginning in fiscal year 2023. The Company does not believe the adoption will have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes (Topic 740). The amendments will remove certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. The amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. IDX is currently evaluating the impact of ASU 2019-12 on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (Topics: 470-20, 815-40). The standards reduce the number of accounting models for convertible instruments and allows more contracts to qualify for equity classification. The standard also amends diluted EPS calculations for convertible instruments and amends the requirements for a contract (or embedded derivative) that is potentially settled in an entity's own shares to be classified in equity. The standard is effective for the Company for all interim and annual periods of our fiscal year ending December 31, 2024. Early adoption is permitted. IDX is currently evaluating the impact of ASU 2020-06 on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40). ASU 2020-06 simplifies the accounting for convertible instruments by eliminating large sections of the existing guidance in this area. It also eliminates several triggers for derivative accounting, including a requirement to settle certain contracts by delivering registered shares. The standard is effective for the Company for all interim and annual periods of our fiscal year ending December 31, 2024. Early adoption is permitted. IDX is currently evaluating the impact of ASU 2020-06 on its consolidated financial statements.

3: Revenue from Contracts with Customers

Performance Obligations

The Company's primary performance obligations under breach services contracts are notification services and combined call center and monitoring services. These were determined by reviewing all of the services provided within the Company's contracts and establishing whether each service is capable of being distinct and capable of being distinct within the context of the contract. With each performance obligation, the customer can benefit from the service either on its own or together with other resources readily available and it is separately identifiable from other promises in the contract.

The following table summarizes breach revenue from contracts with customers for the period January 1, 2023, to August 3, 2022, (in thousands):

	January 1, 2022, to August 3, 2022	
Notification services	$	8,386
Call center and monitoring services		55,692
Total breach services	$	64,078

Notification Services

The Company's notification and mailing services include project management, postage, and setup costs to develop notification templates that will be printed and mailed to the customer's impacted population. These notifications are typically printed by the Company's third-party printers and mailed via USPS. The Company recognizes revenue for notification services upfront upon the date that the notifications are mailed, which typically coincides with the call center start date. The Company is deemed to be the principal in these transactions as it is primarily responsible for fulfilling the obligation, has full discretion in price setting, and controls the notification services before the resulting notifications are transferred to the customer.

Call Center and Identity Protection Services

Call center services consist of fees charged to setup an incident-specific call center and website for the population of impacted individuals. The call center component of the Company's services serves as a facilitation of its identity protection services and revenue is recognized ratably over the term of the arrangement, which typically lasts for 15 months total (3 months for the call center/enrollment period plus 12 months of identity protection services). Identity Protection services consist of fees charged to continually monitor individuals' credit and identity. Additional services are bundled with identity protection services such as non-credit reporting, alerts, and insurance. The Company typically invoices for these services upfront for fixed price contracts. For variable price contracts, the Company typically invoices the call center services upfront and the notification services and identity protection services on a monthly basis, as incurred, over the enrollment period. The timing and content of billings may vary based on individual contracts, but such variances usually only occur with the largest breach contracts.

Membership Services

For the period January 1, 2022, to August 3, 2022, revenue from consumer membership services was $2.7 million. For the period January 1, 2022, to August 3, 2022, no single consumer membership services customer exceeded 10% of total revenue.

Timing of Revenue Recognition

As a result of the adoption of ASC 606, the timing of recognition of certain performance obligations has changed. For example, most breach services contracts contain distinct performance obligations and now have a portion of revenue recognized up front, whereas these arrangements were previously recognized over time. In addition, allocating the transaction price on a relative SSP basis under the new guidance has generally resulted in an acceleration of revenue of point-in-time performance obligations.

Contract Costs

During the period January 1, 2022, to August 3, 2022, the Company recognized $7.8 million of amortization expense of capitalized contract costs. Contract costs include fulfillment costs and costs to obtain contracts. There were no impairment losses recognized for the period January 1, 2022, to August 3, 2022.

Remaining Performance Obligations

Remaining performance obligations represent contracted revenue that has not been recognized, which include contract liabilities and amounts that will be billed and recognized as revenue in future periods. As of August 3, 2022, the Company had $86.6 million of remaining performance obligations. The approximate percentages expected to be recognized as revenue in the future are as follows (in thousands, except percentages):

	0-12 Months	13-24 Months	Over 24 Months	Total Remaining Performance Obligations
Breach services	98 %	2 %	0 %	$ 85,932
Consumer membership services	100 %	0 %	0 %	678
Total	98 %	2 %	0 %	$ 86,610

4: Redeemable Convertible Preferred Stock

Series A-1 Redeemable Convertible Preferred Stock

On July 29, 2016, the Company's Board of Directors approved the issuance of up to 6,000,000 shares of Series A-1 preferred stock, par value $0.0001. The original issuance price of the Series A-1 preferred stock was $0.85. Series A-1 preferred stock is recorded at the maximum redemption value per the agreement in redeemable convertible preferred stock.

Dividends

If a dividend is declared on common stock, the stockholders of Series A-1 preferred stock are entitled to receive an amount equal to the dividend they would receive if the shares were converted to common stock. If a dividend is declared on a class of shares that is not convertible to common stock, the convertible preferred stockholders receive an amount determined by (A) dividing the amount of the dividend payable on each class of stock by the original price of such class and (B) multiplying the fraction by the original issue price of the convertible preferred stock. The convertible preferred stockholders must receive their pro-rata dividends before or concurrent with any dividend payable to common stockholders. No dividends have been approved or declared by the Board of Directors related to the Company's Series A-1 preferred stock.

Liquidation

In a liquidation event, excluding a public offering, stockholders of the Series A-1 preferred stock shall receive any declared and unpaid dividends, plus the higher of a liquidation preference of $0.85 per share, or the value the stockholders would receive if shares were converted to common stock and Series B preferred stock.

Redemption

The Series A-1 preferred stock is redeemable at the option of the stockholders seven years after original issuance, which is outside of the Company's control, and therefore, is classified as temporary equity. The redemption price is the higher of the fair market value of the shares upon conversion to common stock or the original issuance price plus any declared and unpaid dividends. The fair market value of the shares shall not exceed any amount which is greater than two times (2x) the original issue price.

Conversion

Stockholders may convert their preferred shares into an equal quantity of common stock and Series B preferred stock at their election. In the event of a Qualified IPO, which is defined in the Company's amended and restated certificate of incorporation as upon the closing of the sale of shares of common stock to the public at a price of $2.6325 per share, resulting in at least $50.0 million in gross proceeds, the Series A-1 preferred stock automatically convert to common stock and Series B preferred stock.

Voting

Stockholders of Series A-1 preferred stock are entitled to cast the number of votes equal to the number of whole shares of common stock their preferred shares would convert into as of the record date.

Series A-2 Redeemable Convertible Preferred Stock

On July 29, 2016, the Company's Board of Directors approved the issuance of up to 27,000,000 of Series A-2 preferred stock, par value $0.0001. The original issuance price of the Series A-2 preferred stock was $1.053. Series A-2 preferred stock is recorded at the maximum redemption value per the agreement in redeemable convertible preferred stock.

Dividends

If a dividend is declared on common stock, the stockholders of Series A-2 preferred stock are entitled to receive an amount equal to the dividend they would receive if the shares were converted to common stock. If a dividend is declared on a class of shares that is not convertible to common stock, the convertible preferred stockholders receive an amount determined by (A) dividing the amount of the dividend payable on each class of share by the original price of such class and (B) multiplying the fraction by the original issue price of the convertible preferred stock. The convertible preferred stockholders must receive their pro-rata dividends before or concurrent with any dividend payable to the common stockholders. No dividends have been approved or declared by Board of Directors related to the Company's convertible Preferred A-2 stock.

Liquidation

In a liquidation event, excluding a public offering, the stockholders of the Series A-2 preferred stock shall receive any declared and unpaid dividends, plus the higher of a liquidation preference of $1.053 per share, or the value the stockholders would receive if shares were converted to common stock and Series B preferred stock.

Redemption

The Series A-2 preferred stock is redeemable at the option of the stockholders seven years after original issuance. This redemption option is outside of IDX's control and therefore, IDX classifies the Series A-2 preferred stock as temporary equity in the Consolidated Balance Sheets. The redemption price of the Series A-2 preferred stock is the higher of (i) the fair market value of the shares upon conversion to common stock or (ii) the original issuance price plus any declared and unpaid dividends. The fair market value of the shares shall not exceed any amount which is greater than two times the original issue price.

Conversion

Stockholders may convert their preferred shares into an equal quantity of common stock and Series B preferred stock at their election. In the event of a Qualified IPO, which is defined in IDX's amended and restated certificate of incorporation as upon the closing of the sale of shares of common stock to the public at a price of $2.6325 per share, resulting in at least $50.0 million in gross proceeds, the Series A-2 preferred stock automatically convert to common and Series B preferred stock.

Voting

Holders of Series A-2 preferred stock are entitled to cast the number of votes equal to the number of whole shares of common stock their preferred shares would convert into as of the record date.

5: Stockholders’ Deficit

Series B Preferred Stock

On July 29, 2016, IDX’s Board of Directors approved the issuance of up to 33,000,000 shares of Series B preferred stock with a par value of $0.0001. Stockholders of Series B preferred stock are not entitled to vote and do not have preferential dividend rights.

In the event of a liquidation event, excluding a public offering, Stockholders of Series B preferred stock receive, following all preferential distributions made to Series A-1 preferred stock and Series A-2 preferred stock, any declared and unpaid dividends and a liquidation preference of $0.361 per share. As of August 3, 2022, no Series B preferred stock was outstanding.

Common Stock

As of August 3, 2022, the Company had authorized 53,000,000 shares of common stock with a par value of $0.0001. Stockholders of common stock are entitled to one vote per share, to receive dividends, if and when declared by the Board of Directors, and upon liquidation or dissolution, receive a portion of the assets available for distributions to stockholders, subject to preferential amounts owed to stockholders of the Company’s preferred stock.

Common stockholders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to preferred stock with respect to dividend rights and rights upon liquidation, winding up, and dissolution of the Company.

No dividends have been approved or declared by Board of Directors related to the Company’s common stock.

6: Income Taxes

The income (loss) before income taxes is solely from domestic sources.

The provision for income taxes for the period January 1, 2022, to August 3, 2022, are as follows (in thousands):

	January 1, 2022, to August 3, 2022	
Federal	$	1,645
State		361
Total current tax expense		2,006
Deferred tax benefit:		
Federal		(1,129)
State		(225)
Total deferred tax benefit		(1,354)
Income tax expense	$	652

The income tax provision differs from the amount computed by applying the statutory federal income tax rate of 21% to the loss before income tax as a result of the following differences (in thousands):

	January 1, 2022, to August 3, 2022	
Income taxes at statutory rate	$	(43)
State income tax, net of federal benefit		(12)
Permanent items		4
Non-deductible transaction costs		625
Non-deductible convertible debt and warrant expense		150
Stock-based compensation		(145)
Tax credits		(25)
Loss of attributes		25
Uncertain tax positions		106
Other		(21)
Valuation allowance		(12)
Income tax expense	$	652

The key differences resulting in income tax expense that differs from the statutory rate for the period January 1, 2022, to August 3, 2022, relate to the impact of non-deductible transaction costs and convertible debt and warrant expenses offset by the benefit of stock-based compensation.

The unrecognized tax benefits for uncertain tax positions were approximately $0.8 million as of August 3, 2022. Penalties and interest of $0.1 million have been accrued to expense as of August 3, 2022. The uncertain tax positions that are reasonably possible to decrease in the next twelve months are insignificant.

As of August 3, 2022, the Company is not currently under examination by tax authorities.

7: Stock Incentive Plan

In August 2016, the Company adopted the 2016 Equity Incentive Plan (the “2016 Plan”) in which incentive equity awards were authorized to be issued to key employees, officers, directors, and consultants of the Company. Under the terms of the 2016 Plan a maximum of 6,287,732 shares of common stock are available for issuance. The Company may grant shares of common stock in the form of incentive stock options, nonqualified stock options, restricted stock grants, non-restricted stock grants or restricted stock units. Options granted under the 2016 Plan have a term of ten years and vest over a period of up to 48 months, subject to modification by the Board of Directors. The exercise price of the options may not be granted at a price less than 100% of the fair value of the common stock on the date of grant. In August 2017, the Company terminated the 2016 Plan and all shares available for issuance were rolled into the 2017 Equity Incentive Plan (the "2017 Plan"). As of August 3, 2022, there were 265,000 awards outstanding and no shares available for issuance under the 2016 Plan.

In August 2017, the Company adopted the 2017 Plan in which incentive equity awards were authorized to be issued to key employees, officers, directors, and consultants of the Company. Under the terms of the 2017 Plan a maximum of 8,785,330 shares of common stock are available for issuance and future cancellations and forfeitures from the 2016 Plan role into the available pool automatically. The Company may grant shares of common stock in the form of incentive stock options, nonqualified stock options, restricted stock grants, non-restricted stock grants or restricted stock units. Options granted under the 2017 Plan have a term of ten years and vest over a period of up to 60 months, subject to modification by the Board of Directors. The exercise price of the options may not be granted at a price less than 100% of the fair value of the common stock on the date of grant. As of August 3, 2022, there were 2,313,442 awards outstanding and 299,217 shares available for issuance under the 2017 Plan.

The Company recognized stock-based compensation in general and administrative expenses in the Consolidated Statements of Income. The amount of stock-based compensation expense the Company recognized was negligible for all periods presented. As of August 3, 2022, there was a negligible amount of future compensation that will be recognized from the remaining periods in 2022 through 2026. Stock-based compensation expense is expected to be recognized over a weighted average period of 3.06 years.

The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average grant date fair value of options granted during the period January 1, 2022, to August 3, 2022, was $1.97. The Company uses a simplified method to estimate the expected term of the options. The Company utilizes a divided yield rate of 0% as it does not expect to issue dividends. Since the Company’s shares are not publicly traded, expected volatility is estimated based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve at the date of grant. The weighted average assumptions for the period January 1, 2022, to August 3, 2022, grants are as follows:

Assumptions	January 1, 2022, to August 3, 2022
Weighted-average risk-free rate	2.20 %
Weighted-average expected term of the option (in years)	7.0
Weighted-average expected volatility	35.00 %
Weighted-average dividend yield	0.00 %

Stock option activity during the period January 1, 2022, to August 3, 2022, is as follows:

(Aggregate Intrinsic Value in thousands)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2022	2,843,372	$ 0.14	7.3	$ 5,768
Granted	72,500	1.97		
Exercised	(272,766)	0.04		
Cancelled	(62,424)	0.38		
Outstanding as of August 3, 2022	2,580,682	$ 0.20	6.5	$ 11,998
Vested as of August 3, 2022	1,556,944	$ 0.17	5.3	$ 7,300

The weighted average grant date fair value of options exercised during the period January 1, 2022, to August 3, 2022, was $0.04. The intrinsic value of options exercised during the period January 1, 2022, to August 3, 2022, was $1.3 million. The fair value of shares vested during the period January 1, 2022, to August 3, 2022, was $1.4 million.

8: Earnings (Loss) per Share

Earnings (loss) Per Share (EPS) is calculated under the two-class method under which all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities based on their respective rights to receive dividends. Series A-1 and A-2 preferred stock are entitled to receive nonforfeitable dividends equivalent to the dividends paid to the holders of common stock; the preferred shares meet the definition of participating securities. The following table present the calculations of basic and diluted EPS for the period January 1, 2022, to August 3, 2022, (in thousands, except per share data):

	January 1, 2022, to August 3, 2022
Net income (loss) applicable to common equity	$ (857)
Less: undistributed earnings allocated to participating securities	—
Net income (loss) applicable to common stockholders	$ (857)
Total weighted-average common shares outstanding	12,854,967
Net income (loss) per share, basic and diluted	$ (0.07)

9: Related Party Transactions

The Company has a convertible debt loan due to several stockholders. The Company did not pay any loan fees or interest on the convertible debt loan to its stockholders for the period January 1, 2022, to August 3, 2022.

Additionally, the Company recognized $0.6 million in revenue from contracts with affiliates of minority stockholders and recognized $0.1 million in expense from contracts with affiliates of majority stockholders during the period January 1, 2022, to August 3, 2022. For the period January 1, 2022, to August 3, 2022, expense of $0.1 million was recorded in cost of services in the Consolidated Statements of Income.

10. Commitments and Contingencies

From time to time, the Company may become involved in routine litigation arising in the ordinary course of business. While the results of such litigation cannot be predicted with certainty, management believes that the final outcome of such matters is not likely to have a material effect on the Company’s financial position, results of operations, or cash flows.

The Company has entered into a non-cancelable purchase commitment of $58.9 million related to eleven months of outsourced credit monitoring services provided to the Company’s largest customer as of August 3, 2022. The amount and duration of this commitment is determined by the customer’s exercise of annual option periods.

11. Subsequent Events

IDX has evaluated subsequent events through the date these financial statements were available to be issued and concluded that there are no material subsequent events which would require adjustment to or disclosure in the accompanying financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures" as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to ensure that information required to be disclosed by the issuer in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), our Chief Executive Officer and our Chief Financial Officer (our principal executive officer and principal financial and accounting officer, respectively) have concluded that the Company's disclosure controls and procedures were effective as of January 31, 2024.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting consists of policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) are designed and operated to provide reasonable assurance regarding the reliability of the Company's financial reporting and the Company's process for the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements or prevent or detect instances of fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2024, using the criteria established in “Internal Control—Integrated Framework” (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment, management concluded that the Company’s internal control over financial reporting was effective as of January 31, 2024.

Remediation of Previously Reported Material Weaknesses in Internal Control Over Financial Reporting

As previously reported in our Annual Report on Form 10-K for our fiscal year ended January 31, 2023, filed with the SEC on March 30, 2023, management identified material weaknesses in our internal controls over financial reporting based on the criteria and framework established in *Internal Control-Integrated Framework (2013)* issued by COSO for the fiscal year ended January 31, 2023. Based on this evaluation, management concluded there were material weaknesses, individually and in the aggregate, in internal controls over financial reporting in the control environment, risk assessment, and control activities COSO components:

- The Company did not have adequate staffing resources to facilitate accurate financial reporting.
- The Company did not perform a formal risk assessment, including the risk of fraud.
- The Company did not design and retain contemporaneous documentation to evidence the implementation of controls, including the review of non-routine and complex transactions, reviews of third-party specialist work and information used in the operation of the control, and IT general controls.

Management with the participation of the Audit Committee, began the implementation of certain remediation measures in fiscal year 2023, including the following enhancements to the Company's controls over financial reporting:

- Added a Corporate Controller and Director of SEC Reporting and Technical Accounting to the organization with sufficient technical accounting and reporting expertise;
- Engaged third party experts to assist in analyzing and concluding on complex accounting matters;
- Engaged external consultants to assist in our evaluation of more complex applications of US GAAP; and
- Implemented a new accounting general ledger system with enhanced system controls and additional IT systems relevant to the preparation of our financial statements and controls over financial reporting.

Through testing of the Company's internal controls completed during the year ended January 31, 2024, management determined that the controls related to the remediation actions discussed above were effectively designed and operated effectively for a sufficient period of time to enable us to conclude that the material weaknesses have been remediated as of January 31, 2024.

Changes in Internal Control Over Financial Reporting

Other than the actions described above to remediate the material weaknesses relating to the Company's internal control over financial reporting, there was no change in internal control over financial reporting that occurred during the year ended January 31, 2024, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Insider Trader Arrangements

During the three months ended January 31, 2024, no directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item may be found in the Company's definitive proxy statement to be delivered to stockholders in connection with the Company's 2024 Annual Meeting of Stockholders. Such information is incorporated by reference.

We have adopted the Code of Business Conduct and Ethics that applies to all officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at https://ir.zerofox.com. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this item may be found in the Company's definitive proxy statement to be delivered to stockholders in connection with the Company's 2024 Annual Meeting of Stockholders. Such information is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this item may be found in the Company's definitive proxy statement to be delivered to stockholders in connection with the Company's 2024 Annual Meeting of Stockholders. Such information is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in the Proxy Statement under the captions "Certain Relationships and Related Party Transactions" and "Director Independence" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item may be found in the Company's definitive proxy statement to be delivered to stockholders in connection with the Company's 2024 Annual Meeting of Stockholders. Such information is incorporated by reference.

Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Annual Report on Form 10-K:

1. *Financial Statements*. See Item 8, "Financial Statements and Supplementary Data."
2. *Financial Statement Schedules*. All financial statement schedules are omitted because the information is inapplicable or presented in the notes to the financial statements.
3. *Exhibits*. Reference is made to Item 15(b) below.

(b) Exhibits.

The Exhibit Index, which immediately precedes the signature page to this Annual Report on Form 10-K, is incorporated by reference into this Annual Report on Form 10-K.

(c) Financial Statement Schedules.

Reference is made to Item 15(a)(2) above.

ITEM 16. FORM 10–K SUMMARY

None.

Exhibit Index

Exhibit Number	Description	Location
2.01†	Business Combination Agreement, dated as of December 17, 2021, by and among L&F Acquisition Corp., L&F Acquisition Holdings, LLC, ZF Merger Sub, Inc., IDX Merger Sub, Inc., IDX Forward Merger Sub, LLC, ZeroFox, Inc., and ID Experts Holdings, Inc.	Previously filed as Annex A to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 14, 2022
2.02††	Agreement and Plan of Merger, dated as of April 14, 2023, by and among ZeroFox Holdings, Inc., LGCS Acquisition Holdco, LLC, LGCS Holdco, Inc., LGCS Merger Sub, Inc., Lookingglass Cyber Solutions, Inc., and Glenn Rieger, soley in his capacity as Stockholders' Representative	Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on April 14, 2023
3.01	Certificate of Incorporation of ZeroFox Holdings, Inc.	Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
3.02	Amended and Restated Bylaws of ZeroFox Holdings, Inc., as of December 6, 2022	Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on December 6, 2022
4.01	Specimen Warrant Certificate of L&F Acquisition Corp.	Previously filed as Exhibit 4.3 to the Company's Registration Statement on Form S-1/A (File No. 333-249497), filed with the SEC on November 12, 2020
4.02	Warrant Agreement, dates November 24, 2020, by and between L&F Acquisition Corp. and Continental Stock Transfer & Trust Company, as warrant agent	Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on November 23, 2020
4.03	Indenture dates as of August 3, 2022, by and between the Company and Wilmington Trust, National Association, as trustee	Previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
4.04	Form of 7.00%/8.75% Convertible Senior Cash/PIK Toggle Notes due 2025 (included in Exhibit 4.3)	Previously filed as Exhibit 4.4 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
4.05	Specimen Common Stock Certificate of ZeroFox Holdings, Inc.	Previously filed as Exhibit 4.6 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022

4.06	Description of Securities	Previously filed as Exhibit 4.06 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.01	Form of Common Equity Subscription Agreement	Previously filed as Annex D to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 14, 2022
10.02	Form of Convertible Notes Subscription Agreement	Previously filed as Annex E to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 14, 2022
10.03	Second Amended and Restated Sponsor Support Letter Agreement dates as of January 31, 2022, by and among L&F Acquisition Corp., JAR Sponsor, LLC, ZeroFox, Inc., ID Experts Holdings, Inc., Albert Goldstein, Joseph Lieberman, Kurt Summers, and other individuals named therein	Previously filed as Annex F to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 14, 2022
10.04†	Amended and Restated Registration Rights Agreement, dated as of August 3, 2022, by and among ZeroFox Holdings, Inc. and the Stockholders Party Thereto	Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.05#	ZeroFox Holdings, Inc. 2022 Incentive Equity Plan	Previously filed as Annex H to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 14, 2022
10.06#	Form of Restricted Stock Unit Award under the ZeroFox Holdings, Inc. 2022 Incentive Equity Plan - Director Version	Previously filed as Exhibit 10.06 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.07#	Form of Restricted Stock Unit Award under the ZeroFox Holdings, Inc. 2022 Incentive Equity Plan - Employee Version	Previously filed as Exhibit 10.07 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.08#	ZeroFox Holdings, Inc. 2022 Employee Stock Purchase Plan	Previously filed as Annex I to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 14, 2022
10.09#	ID Experts Holdings, Inc. 2016 Stock Option and Grant Plan	Previously filed as Exhibit 99.03 to the Company's Registration Statement on Form S-8 (File No. 333-268337), filed with the SEC on November 11, 2022
10.10#	ID Experts Holdings, Inc. 2017 Equity Incentive Plan	Previously filed as Exhibit 99.04 to the Company's Registration Statement on Form S-8 (File No. 333-268337), filed with the SEC on November 11, 2022

10.11	Form of L&F Acquisition Corp. Indemnity Agreement	Previously filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1/A (File No. 333-249497), filed with the SEC on November 12, 2020
10.12#	Form of ZeroFox Holdings, Inc. Indemnification Agreement	Previously filed as Exhibit 10.8 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.13	Lease Agreement, dated February 27, 2016, by and between ZeroFox, Inc. and 1830 Charles Street LLC	Previously filed as Exhibit 10.13 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022
10.14	Amendment No. 1 Lease Agreement, dated March 1, 2021, by and between ZeroFox, Inc. and 1830 Charles Street LLC	Previously filed as Exhibit 10.14 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022
10.15	Amendment No. 2 Lease Agreement, dated April 21, 2023, by and between ZeroFox, Inc. and 1830 Charles Street LLC	Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on April 24, 2023
10.16#	The ZeroFox, Inc. 2013 Equity Incentive Plan, as amended	Previously filed as Exhibit 10.17 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022
10.17#	Form of Option Grant Agreement under ZeroFox, Inc. 2013 Equity Incentive Plan	Previously filed as Exhibit 10.18 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022
10.18#	Form of Restricted Stock Grant Agreement under the ZeroFox, Inc. 2013 Equity Incentive Plan	Previously filed as Exhibit 10.19 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022
10.19	Letter Agreement, dated December 7, 2021, by and between ZeroFox, Inc. and Redline Capital Management S.A. acting on behalf and for the account of Redline Capital Fund Universal Instruments, a sub-fund of Redline Capital Fund, FCP-FIS	Previously filed as Exhibit 10.23 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022
10.20§	Contract (Order No. 24361819F0014) between U.S. Office of Personnel Management and Identity Theft Guard Solutions, LLC dated December 21, 2018	Previously filed as Exhibit 10.24 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on July 1, 2022
10.21	Amendment P00010 dated March 29, 2022, to Contract (Order No. 24361819F0014) between U.S. Office of Personnel Management and Identity Theft Guard Solutions, LLC dated December 21, 2018	Previously filed as Exhibit 10.31 to the Company's Registration Statement on Form S-4/A (File No. 333-262570), filed with the SEC on April 8, 2022

10.22	Amendment P00014 dated September 20, 2022, to Contract (Order No. 24361819F0014) between U.S. Office of Personnel Management and Identity Theft Guard Solutions, LLC dated December 21, 2018	Previously filed as Exhibit 10.34 to the Company's Registration Statement on Form S-1 (File No. 333-267200), filed with the SEC on September 27, 2022
10.23†††*	Contract (Order No. 24322624F0016) between U.S. Office of Personnel Management and Identity Theft Guard Solutions, LLC dated December 27, 2023	
10.24	Registration Rights Agreement, dated as of August 3, 2022, by and among ZeroFox Holdings, Inc. and the Holders of the Notes party thereto	Previously filed as Exhibit 10.27 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.25†	Loan and Security Agreement dated as of January 7, 2021, by and among Stifel Bank, ZeroFox, Inc., and certain guarantor subsidiaries party thereto	Previously filed as Exhibit 10.28 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.26†	First Amendment and Joinder to Loan and Security Agreement dated as of June 7, 2021	Previously filed as Exhibit 10.29 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.27	Second Amendment and Waiver to Loan and Security Agreement dated as of December 8, 2021	Previously filed as Exhibit 10.30 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.28	Third Amendment to Loan and Security Agreement dated as of December 16, 2021	Previously filed as Exhibit 10.31 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.29	Fourth Amendment to Loan and Security Agreement dates as of February 10, 2022	Previously filed as Exhibit 10.32 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.30	Fifth Amendment to Loan and Security Agreement dated as of August 3, 2022	Previously filed as Exhibit 10.33 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on August 9, 2022
10.31	Sixth Amendment and Joinder to Loan and Security Agreement dated as of October 6, 2022	Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-39722), filed with the SEC on December 14, 2022

10.32	Seventh Amendment to Loan and Security Agreement dated as of April 21, 2023, by and among Stifel Bank, ZeroFox, Inc., as borrower, and ZeroFox Holdings, Inc. and certain subsidiaries as guarantor parties thereto	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-39722), filed with the SEC on April 24, 2023
10.33	Eighth Amendment and Joinder to Loan and Security Agreement dated as of May 31, 2023	Previously filed as Exhibit 10.03 to the Company's Quarterly Report on Form 10-Q (File No. 001-39722), filed with the SEC on June 9, 2023
10.34#	ZeroFox Holdings, Inc. 2023 Executive Incentive Plan	Previously filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.35#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and James C. Foster	Previously filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.36#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and Kevin T. Reardon	Previously filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.37#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and Timothy S. Bender	Previously filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.38#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and Michael Price	Previously filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.39#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and John R. Prestridge, III	Previously filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.40#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and Scott O'Rourke	Previously filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.41#	Employment Agreement, dated January 18, 2023, between ZeroFox Holdings, Inc. and Thomas P. FitzGerald	Previously filed as Exhibit 10.36 to the Company's Annual Report on Form 10-K (File No. 001-39722), filed with the SEC on March 30, 2023
10.42#	Employment Agreement between Identity Theft Guard Solutions, Inc. and Thomas F. Kelly, dated August 9, 2017	Previously filed as Exhibit 10.26 to the Company's Registration Statement on Form S-4 (File No. 333-262570), filed with the SEC on February 7, 2022
10.43#	Amendment No. 1 to Employment Agreement between Identity Theft Guard Solutions, Inc. and Thomas F. Kelly, dated May 21, 2020	Previously filed as Exhibit 10.27 to the Company's Registration Statement on Form S-4 (File No. 333-262570), filed with the SEC on February 7, 2022

10.44#	Amendment No. 2 to Employment Agreement between Identity Theft Guard Solutions, Inc. and Thomas F. Kelly, dated August 25, 2021	Previously filed as Exhibit 10.28 to the Company's Registration Statement on Form S-4 (File No. 333-262570), filed with the SEC on February 7, 2022
10.45#	Amendment No. 3 to Employment Agreement between Identity Theft Guard Solutions, Inc. and Thomas F. Kelly, dated November 3, 2021	Previously filed as Exhibit 10.29 to the Company's Registration Statement on Form S-4 (File No. 333-262570), filed with the SEC on February 7, 2022
10.46#	Amendment No. 4 to Employment Agreement between Identity Theft Guard Solutions, Inc. and Thomas F. Kelly, dated December 17, 2021	Previously filed as Exhibit 10.30 to the Company's Registration Statement on Form S-4 (File No. 333-262570), filed with the SEC on February 7, 2022
21.01*	List of subsidiaries of the Company	
23.01*	Consent of Deloitte & Touche LLP, independent registered public accounting firm of ID Experts Holdings, Inc.	
23.02*	Consent of Deloitte & Touche LLP, independent registered public accounting firm of ZeroFox Holdings, Inc.	
24.01*	Power of Attorney (included on signature page to this Annual Report on Form 10-K)	
31.01*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.02*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32.01**	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32.02**	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
97.01*	ZeroFox Holdings, Inc. Clawback Policy	
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.	

101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

*	Filed herewith.
**	Furnished herewith.
#	Indicates management or compensatory plan.
†	Certain of the exhibits or schedules to this Exhibit have been omitted in accordance with Item 601(a)(5) of Regulation S-K. The Registrant agrees to furnish a copy of all omitted exhibits and schedules to the SEC upon its request.
††	Certain portions of this Exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish supplementally an unredacted copy of the Exhibit to the SEC upon its request.
†††	Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The registrant agrees to furnish a copy of the unredacted exhibit to the SEC upon its request.
§	Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(a)(6).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 in the City of Baltimore, State of Maryland on March 15, 2024.

		ZEROFOX HOLDINGS, INC.
Date: March 15, 2024	By:	/s/ James C. Foster
	Name:	**James C. Foster**
	Title:	**Chief Executive Officer, Chairman of the Board (Principal Executive Officer)**
Date: March 15, 2024	By:	/s/ Timothy S. Bender
	Name:	**Timothy S. Bender**
	Title:	**Chief Financial Officer (Principal Financial and Accounting Officer)**

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James C. Foster, Timothy S. Bender and Thomas P. Fitzgerald, jointly and severally, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign this Annual Report on Form 10-K of ZeroFox Holdings, Inc., and any or all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	**Title**	**Date**
/s/ James C. Foster James C. Foster	Chief Executive Officer, Chairman of the Board (Principal Executive Officer)	March 15, 2024
/s/ Timothy S. Bender Timothy S. Bender	Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2024
/s/ Adam Gerchen Adam Gerchen	Director	March 15, 2024
/s/ Todd P. Headley Todd P. Headley	Director	March 15, 2024
/s/ Thomas F. Kelly Thomas F. Kelly	Director	March 15, 2024
/s/ Samskriti King Samskriti King	Director	March 15, 2024
/s/ Paul Hooper Paul Hooper	Director	March 15, 2024
/s/ Teresa H. Shea Teresa H. Shea	Director	March 15, 2024

/s/ Barbara Stewart Barbara Stewart	Director	March 15, 2024

Exhibit 10.23

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH NOT MATERIAL AND IS THE TYPE THAT THE REGISTRANT TREATS AS PRIVATE OR CONFIDENTIAL

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS

OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, & 30

1. REQUISITION NUMBER

PAGE 1 OF 67

2. CONTRACT NO. GS-23F0037T

3. AWARD/EFFECTIVE DATE

4. ORDER NUMBER 24322624F0016

5. SOLICITATION NUMBER

6. SOLICITATION ISSUE DATE

7. FOR SOLICITATION INFORMATION CALL: a. NAME Elizabeth Finley

b. TELEPHONE NUMBER *(No collect calls)*

8. OFFER DUE DATE/LOCAL TIME

9. ISSUED BY CODE OPM 243226

OPO - DC
US Office of Personnel Management
1900 E St. NW
Room 1342
Washington DC 20415-7710

10. THIS ACQUISITION IS ☒ UNRESTRICTED OR ☐ SET ASIDE: % FOR:

☐ SMALL BUSINESS
☐ HUBZONE SMALL BUSINESS
☐ SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS (SDVOSB)
☐ WOMEN-OWNED SMALL BUSINESS (WOSB)
☐ ECONOMICALLY DISADVANTAGED WOMEN-OWNED SMALL BUSINESS (EDWOSB)
☐ 8(A)

NORTH AMERICAN INDUSTRY CLASSIFICATION STANDARD (NAICS): 561450

SIZE STANDARD: $41

11. DELIVERY FOR FREE ON BOARD (FOB) DESTINATION UNLESS BLOCK IS MARKED ☒ SEE SCHEDULE

12. DISCOUNT TERMS PROMPT NET 30

13a. THIS CONTRACT IS A RATED ORDER UNDER THE DEFENSE PRIORITIES AND ALLOCATIONS SYSTEM - DPAS (15 CFR 700) ☐

13b. RATING

14. METHOD OF SOLICITATION ☐ REQUEST FOR QUOTE (RFQ) ☐ INVITATION FOR BID (IFB) ☐ REQUEST FOR PROPOSAL (RFP)

15. DELIVER TO CODE OPM 42AA

Office of the Chief Financial Offic
Office of the Chief Financial Offic
1900 E St NW, Rm 5475
Washington DC 20416

16. ADMINISTERED BY CODE OPM 243226

See Schedule

17a. CONTRACTOR/OFFEROR CODE W87HKT8TQJP5 FACILITY CODE

IDENTITY THEFT GUARD SOLUTIONS, INC.
Attn: IAN KELLY
4145 SW WATSON AVE STE 400
BEAVERTON OR 970052158

TELEPHONE NO.

18a. PAYMENT WILL BE MADE BY CODE OP DELPHI EINVOI

OPM Delphi eInvoicing System
https://einvoice.esc.gov

☐ 17b. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN OFFER

18b. SUBMIT INVOICES TO ADDRESS SHOWN IN BLOCK 18a UNLESS BLOCK BELOW IS CHECKED ☐ SEE ADDENDUM

19. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	ADMINISTERED BY: OPO - DC US Office of Personnel Management 1900 E St. NW Room 1342 Washington DC 20415-7710 USA 1.) This document establishes a fixed priced task order between the Office of Personnel Management ("OPM") and Identity Theft Guard Solutions, Inc. ("IDX"). This task order is issued under the				

(Use Reverse and/or Attach Additional Sheets as Necessary)

25. ACCOUNTING AND APPROPRIATION DATA
See schedule

26. TOTAL AWARD AMOUNT *(For Government Use Only)*
$[***]

☐ 27a. SOLICITATION INCORPORATES BY REFERENCE (FEDERAL ACQUISITION REGULATION) FAR 52.212-1, 52.212-4. FAR 52.212-3 AND 52.212-5 ARE ATTACHED. ADDENDA ☐ ARE ☐ ARE NOT ATTACHED.

☒ 27b. CONTRACT/PURCHASE ORDER INCORPORATES BY REFERENCE FAR 52.212-4. FAR 52.212-5 IS ATTACHED. ADDENDA ☒ ARE ☐ ARE NOT ATTACHED.

☒ 28. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN 1 COPIES TO ISSUING OFFICE. CONTRACTOR AGREES TO FURNISH AND DELIVER ALL ITEMS SET FORTH OR OTHERWISE IDENTIFIED ABOVE AND ON ANY ADDITIONAL SHEETS SUBJECT TO THE TERMS AND CONDITIONS SPECIFIED.

☐ 29. AWARD OF CONTRACT: REFERENCE ______ OFFER DATED ______. YOUR OFFER ON SOLICITATION (BLOCK 5), INCLUDING ANY ADDITIONS OR CHANGES WHICH ARE SET FORTH HEREIN, IS ACCEPTED AS TO ITEMS:

30a. SIGNATURE OF OFFEROR/CONTRACTOR
James C. Foster

31a. UNITED STATES OF AMERICA *(SIGNATURE OF CONTRACTING OFFICER)*

30b. NAME AND TITLE OF SIGNER *(Type or print)*
James Foster, CEO

30c. DATE SIGNED
12/27/23

31b. NAME OF CONTRACTING OFFICER *(Type or print)*
Elizabeth Finley

31c. DATE SIGNED

AUTHORIZED FOR LOCAL REPRODUCTION
PREVIOUS EDITION IS NOT USABLE

STANDARD FORM 1449 (REV. 11/2021)
Prescribed by GSA - FAR (48 CFR) 53.212

19. ITEM NO.	20. SCHEDULE OF SUPPLIES/SERVICES	21. QUANTITY	22. UNIT	23. UNIT PRICE	24. AMOUNT
	terms and conditions of Request for Quotation (RFQ) 24322623Q0086, IDX' GSA Schedule Contract GS-23F-0037T, and IDX' Technical and Price Quotations dated Nov. 14, 2023. 2.) The Transition-In Period is hereby executed from January 1, 2024 to June 30, 2024. The Base Period services will begin on July 1, 2024 through June 30, 2025. 3.) The current Task Order obligation amount is $[***]. The Base Period will be obligated in the amount of $[***] via a separate modification in Q3 of FY24. Accounting Info: 0000000000.0000.0000000000.0000000000.00000.00000000.0000000000.0000000000.0000000000.0000000000 Period of Performance: 01/01/2024 to 09/30/2028				
00001	Transition-In Period: This is a firm fixed priced CLIN for all transition-in services described in the attached PWS. Award Type: Firm-fixed-price Period of Performance: 01/01/2024 to 06/30/2024				0.00
00002	Base Period: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount of $[***] for services described in the Continued ...				0.00

32a. QUANTITY IN COLUMN 21 HAS BEEN

☐ RECEIVED ☐ INSPECTED ☐ ACCEPTED, AND CONFORMS TO THE CONTRACT, EXCEPT AS NOTED:

32b. SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE	32c. DATE	32d. PRINTED NAME AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE
32e. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE		32f. TELEPHONE NUMBER OF AUTHORIZED GOVERNMENT REPRESENTATIVE 32g. E-MAIL OF AUTHORIZED GOVERNMENT REPRESENTATIVE

33. SHIP NUMBER ☐ PARTIAL ☐ FINAL	34. VOUCHER NUMBER	35. AMOUNT VERIFIED CORRECT FOR	36. PAYMENT ☐ COMPLETE ☐ PARTIAL ☐ FINAL	37. CHECK NUMBER
38. S/R ACCOUNT NUMBER	39. S/R VOUCHER NUMBER	40. PAID BY		

41a. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT		42a. RECEIVED BY *(Print)*	
41b. SIGNATURE AND TITLE OF CERTIFYING OFFICER	41c. DATE	42b. RECEIVED AT *(Location)*	
		42c. DATE REC'D *(YY/MM/DD)*	42d. TOTAL CONTAINERS

NAME OF OFFEROR OR CONTRACTOR
IDENTITY THEFT GUARD SOLUTIONS, INC.

ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	attached PWS. Award Type: Firm-fixed-price $[***] Period of Performance: 07/01/2024 to 06/30/2025				
00003	Base Period: Offline Mailed Alternative: This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Period of Performance: 07/01/2024 to 06/30/2025				0.00
10001	Option Period I: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount of $[***] for services described in the attached PWS. Award Type: Firm-fixed-price Amount: $[***](Option Line Item) Period of Performance: 07/01/2025 to 06/30/2026				0.00
10002	Option Period I: Offline Mailed Alternative -This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Amount: $[***](Option Line Item) Period of Performance: 07/01/2025 to 06/30/2026				0.00
20001	Option Period II: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount Continued ...				0.00

NAME OF OFFEROR OR CONTRACTOR
IDENTITY THEFT GUARD SOLUTIONS, INC.

ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	of $[***] for services described in the attached PWS. Award Type: Firm-fixed-price Amount: $[***](Option Line Item) Period of Performance: 07/01/2026 to 09/30/2026				
20002	Option Period II: Offline Mailed Alternative - This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Amount: $[***](Option Line Item) Period of Performance: 07/01/2026 to 09/30/2026				0.00
30001	Option Period III: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount of $[***] for services described in the attached PWS. Award Type: Firm-fixed-price Amount: $[***](Option Line Item) Period of Performance: 10/01/2026 to 03/31/2027				0.00
30002	Option Period III: Offline Mailed Alternative - This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Amount: $[***](Option Line Item)				0.00
40001	Period of Performance: 10/01/2026 to 03/31/2027 Option Period IV: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount of $[***] for services described in the attached PWS. Award Type: Firm-fixed-price Continued ...				0.00

NAME OF OFFEROR OR CONTRACTOR
IDENTITY THEFT GUARD SOLUTIONS, INC.

ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	Amount: $[***](Option Line Item) Period of Performance: 04/01/2027 to 09/30/2027				
40002	Option Period IV: Offline Mailed Alternative - This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Amount: $[***](Option Line Item) Period of Performance: 04/01/2027 to 09/30/2027				0.00
50001	Option Period V: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount of $[***] for services described in the attached PWS. Award Type: Firm-fixed-price Amount: $[***](Option Line Item) Period of Performance: 10/01/2027 to 03/31/2028				0.00
50002	Option Period V: Offline Mailed Alternative - This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Amount: $[***](Option Line Item)				0.00
60001	Period of Performance: 10/01/2027 to 03/31/2028 Option Period VI: Total Solution CM IPS Services - this is a firm fixed priced CLIN in the amount of $[***] for services described in the attached PWS. Award Type: Firm-fixed-price Amount: $[***](Option Line Item) Continued ...				0.00

NAME OF OFFEROR OR CONTRACTOR
IDENTITY THEFT GUARD SOLUTIONS, INC.

ITEM NO. (A)	SUPPLIES/SERVICES (B)	QUANTITY (C)	UNIT (D)	UNIT PRICE (E)	AMOUNT (F)
	Period of Performance: 04/01/2028 to 09/30/2028				
60002	Option Period VI: Offline Mailed Alternative - This is a not to exceed CLIN for the Offline Mailed Alternative as described in PWS Section 5.10 not to exceed [***] offline mailed alternative enrollees at a rate of $[***] per enrollee for a total CLIN value not to exceed $[***]. Amount: $[***](Option Line Item) Period of Performance: 04/01/2028 to 09/30/2028				0.00
70001	Optional Transition Out: The is a firm priced priced CLIN in the amount of $[***]. This six-month optional transition out period may run concurrently with any option period including the Option to Extend Services IAW FAR 52.217-8. Award Type: Firm-fixed-price Amount: $[***](Option Line Item) Period of Performance: 04/01/2028 to 09/30/2028				0.00
	The following documents are hereby incorporated into and made a part of this Task Order, listed in order of precedence: 1. RFQ 2432262[illegible] (incorporated by reference) 2. PWS (incorporated in full text) 3. IDX' GSA Schedule contract GS-23F-0037T (incorporated by reference) 4. FAR and OPM Specific Clauses (incorporated in full text) 5. IDX's Technical and Price Quotations dated Nov. 14, 2023 (incorporated by reference) The total amount of award: $247,888,900.00. The obligation for this award is shown in box 26.				

Exhibit 21.01

List of Subsidiaries

Entity	Jurisdiction
ZeroFox Holdings, LLC	Delaware
LGCS Acquisition HoldCo, LLC	Delaware
ZeroFox, Inc.	Delaware
ZeroFox UK Ltd	United Kingdom
ZeroFox Chile Holdings, LLC	Delaware
ZeroFox India Holdings	Delaware
ZeroFox Chile SpA	Chile
ZeroFox India Private Ltd	India
IDX Holdings, LLC	Delaware
Identity Theft Guard Solutions, Inc.	Delaware
LookingGlass Cyber Solutions, LLC	Delaware
LookingGlass Cyber Solutions Europe s.r.o.	Czech Republic

Exhibit 23.01

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-274488 and No. 333-268337 on Form S-8 and Registration Statement No. 333-271028 on Form S-3 of our report dated March 29, 2023, relating to the consolidated financial statements of ID Experts Holdings, Inc. and subsidiary appearing in the consolidated financial statements of ZeroFox Holdings, Inc.

/s/ Deloitte & Touche LLP

McLean, Virginia

March 15, 2024

Exhibit 23.02

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-274488 and No. 333-268337 on Form S-8 and Registration Statement No. 333-271028 on Form S-3 of our report dated March 15, 2024, relating to the consolidated financial statements of ZeroFox Holdings, Inc.

/s/ Deloitte & Touche LLP

McLean, VA
March 15, 2024

Exhibit 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James C. Foster, certify that:

1. I have reviewed this Annual Report on Form 10-K of ZeroFox Holdings, 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.

Date: March 15, 2024

/s/ James C. Foster
James C. Foster
Chief Executive Officer, Chairman of the Board
(Principal Executive Officer)

Exhibit 31.02

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy S. Bender, certify that:

1. I have reviewed this Annual Report on Form 10-K of ZeroFox Holdings, 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.

Date: March 15, 2024

/s/ Timothy S. Bender
Timothy S. Bender
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.01

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of ZeroFox Holdings, Inc. (the "Company") for the fiscal year ended January 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Foster, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2024

/s/ James C. Foster

James C. Foster
Chief Executive Officer, Chairman of the Board
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to ZeroFox Holdings, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.02

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of ZeroFox Holdings, Inc. (the “Company”) for the fiscal year ended January 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Timothy S. Bender, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2024

/s/ Timothy S. Bender

Timothy S. Bender
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to ZeroFox Holdings, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 97.01

ZEROFOX HOLDINGS, INC.
CLAWBACK POLICY
(the "Policy")

In the event that ZeroFox Holdings, Inc. (the "**Company**") the Company is required to prepare an accounting restatement of its financial statements due to the material noncompliance of the Company with any financial reporting requirement under the applicable U.S. federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "**Restatement**"), then the Company shall recover reasonably promptly from any person who is or was an "**Executive Officer**," as such term is defined in Rule 10D-1 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and Rule 5608 of the Nasdaq listing rules, of the Company (each, a "**Covered Person**") the amount of any "Erroneously Awarded Incentive-Based Compensation" (as defined below). This Policy shall be effective as of October 2, 2023, the effective date of Rule 5608 of the Nasdaq listing rules (the "**Effective Date**").

"**Erroneously Awarded Incentive-Based Compensation**" is the amount of "Incentive-Based Compensation" (as defined below) received by a Covered Person that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts, computed without regard to any taxes paid. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Incentive-Based Compensation is not subject to mathematical recalculation directly from the information in a Restatement, (i) the amount must be based on a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received, and (ii) the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Nasdaq Stock Market LLC ("**Nasdaq**").

"**Incentive-Based Compensation**" is any compensation that is granted, earned or vested based wholly or in part upon the attainment of a "Financial Reporting Measure." "**Financial Reporting Measures**" are measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return are Financial Reporting Measures for purposes of this Policy. A Financial Reporting Measure need not be presented within the Company's financial statements or included in a filing with the Securities and Exchange Commission (the "**SEC**") in order to be a Financial Reporting Measure for purposes of this Policy.

For the purposes of this Policy, Incentive-Based Compensation is deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the applicable Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

This Policy shall apply to all Incentive-Based Compensation received by a Covered Person on or after the Effective Date: (i) after beginning service as an Executive Officer; (ii) who served as an

Executive Officer at any time during the performance period for the Incentive-Based Compensation; (iii) while the Company has a class of securities listed on a national securities exchange or a national securities association; and (iv) during the three completed fiscal years immediately preceding the date that the Company is required to prepare a Restatement, and any applicable transition period that results from a change in the Company's fiscal year within or immediately following those three completed fiscal years (provided that a transition period between the last day of the Company's fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed to be a completed fiscal year). The period described in this paragraph is referred to as the "**Recovery Period**."

For purposes of determining the relevant Recovery Period, the date that the Company is required to prepare a Restatement shall be the earlier of: (i) the date the Board, a committee of the Board, or the Company's officer or officers authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement; and (ii) the date a court, regulator or other legally authorized body directs the Company to prepare a Restatement. The Company's obligation to recover Erroneously Awarded Incentive-Based Compensation is not dependent on if or when the restated financial statements are filed with the SEC.

The Company shall recover Erroneously Awarded Incentive-Based Compensation as provided in this Policy unless the Company's Compensation Committee, or in the absence of such a committee, a majority of the independent directors serving on the Board makes a determination that recovery is impracticable because: (i) the direct expense to be paid to a third party to assist in enforcing this Policy would exceed the amount of Erroneously Awarded Incentive-Based Compensation; provided that, the Company must make a reasonable attempt to recover the Erroneously Awarded Incentive-Based Compensation before concluding that recovery is impracticable, document such reasonable attempt to recover the Erroneously Awarded Incentive-Based Compensation and provide such documentation to Nasdaq; or (ii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the applicable requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

The Company's Compensation Committee, or in the absence of such a committee, a majority of the independent directors serving on the Board, shall have discretion to determine the appropriate means of recovering Erroneously Awarded Incentive-Based Compensation based on the particular facts and circumstances.

In no event will the Company or any of its subsidiaries indemnify any Covered Person against (i) the loss of any Erroneously Awarded Incentive-Based Compensation that is repaid, returned or recovered in accordance with this Policy, or (ii) any claims relating to the Company's enforcement of this Policy. This Policy is in addition to (and not in lieu of) any right of repayment, forfeiture or right of offset against any employees that is required pursuant to any statutory repayment requirement (regardless of whether implemented at any time prior to or following the adoption or amendment of this Policy), including Section 304 of the Sarbanes-Oxley Act of 2002. Any amounts paid to the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 shall be considered in determining any amounts recoverable under this Policy.

The application and enforcement of this Policy does not preclude the Company from taking any other action to enforce a Covered Person's obligations to the Company, including termination of employment or institution of legal proceedings. Nothing in this Policy restricts the Company from seeking recoupment under any other compensation recoupment policy or any applicable provisions in plans, agreements, awards or other arrangements that contemplate the recoupment of compensation from a Covered Person. If a Covered Person fails to repay Erroneously Awarded Incentive-Based Compensation that is owed to the Company under this Policy, the Company shall take all appropriate action to recover such Erroneously Awarded Incentive-Based Compensation from the Covered Person, and the Covered Person shall be required to reimburse the Company for all expenses (including legal expenses) incurred by the Company in recovering such Erroneously Awarded Incentive-Based Compensation.

The terms of this Policy shall be binding and enforceable against all Covered Persons subject to this Policy and their beneficiaries, heirs, executors, administrators or other legal representatives. If any provision of this Policy or the application of such provision to any Covered Person shall be adjudicated to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Policy, and the invalid, illegal or unenforceable provisions shall be deemed amended to the minimum extent necessary to render any such provision (or the application of such provision) valid, legal or enforceable.

The Company will file all disclosures with respect to this Policy in accordance with the requirements of all applicable U.S. federal securities laws, including the disclosures required by applicable SEC filings.

This Policy shall be interpreted in a manner that is consistent with Rule 10D-1 under the Exchange Act, Rule 5608 of the Nasdaq listing rules and any related rules or regulations adopted by the SEC or Nasdaq (the "**Applicable Rules**") as well as any other applicable law. To the extent the Applicable Rules require recovery of incentive-based compensation in additional circumstances beyond those specified above, nothing in this Policy shall be deemed to limit or restrict the right or obligation of the Company to recover incentive-based compensation to the fullest extent required by the Applicable Rules.

Compensation Committee Approved: November 16, 2023

-oOo-