

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2022

OR

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

For the transition period from _____ **to** _____
Commission File Number: 001-40750

Consensus Cloud Solutions, Inc.

(Exact name of registrant as specified in its charter)

Delaware

87-1139414

(State or other jurisdiction of incorporation or organization)

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

700 S. Flower Street, 15th Floor, Los Angeles, California 90017, (323) 860-9200

(Address and telephone number of principal executive offices)

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, \$0.01 par value	CCSI	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 Section 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," "small 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. ⁽¹⁾

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). ⁽¹⁾

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

As of the last day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of the common stock held by non-affiliates, based upon the closing price of the common stock as quoted by the Nasdaq Global Select Market was \$764,528,244.

As of March 24, 2023, the registrant had 19,909,661 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2022 are incorporated by reference into Part III of this Form 10-K.

⁽¹⁾ Disclosure is not being provided under this item pursuant to guidance issued by the staff of the Securities and Exchange Commission.

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PART I

Item 1. Business

Overview

Consensus Cloud Solutions, Inc., together with its subsidiaries (“Consensus Cloud Solutions”, “Consensus”, the “Company”, “our”, “us” or “we”), is a provider of secure information delivery services with a scalable Software-as-a-Service (“SaaS”) platform. Consensus serves approximately 1 million customers of all sizes, from enterprises to individuals, across approximately 50 countries and multiple industry verticals including healthcare, government, financial services, law and education. Beginning as an online fax company over two decades ago, Consensus has evolved into a leading global provider of enterprise secure communication solutions. Our communication and digital signature solutions enable our customers to securely and cooperatively access, exchange and use information across organizational, regional and national boundaries. Our mission is to democratize secure information interchange across technologies and industries and solve the healthcare interoperability challenge. Substantially all of Consensus’ revenue is recurring in nature and is generated either via fixed subscription plans or usage-based contracts.

Over the past decade, Consensus has progressively shifted focus towards larger commercial customers (“Corporate”). As enterprise data communication shifted toward digitization and cloud-based solutions, Consensus entered industry verticals such as healthcare, government, financial services, law and education. Our Corporate business has grown from \$170 million of revenue in 2021 to approximately \$192 million of revenue in 2022, representing a 13.2% annual growth rate. We currently serve approximately 52,000 Corporate customers, generally small/medium businesses or large enterprises, to whom sales are made through direct interaction with a sales person and involve specific pricing, multiple line subscriptions, API connections and/or commercial grade security.

We currently serve approximately 942,000 small office/home office (“SoHo”) online fax customers, generally consumers and SoHo users, who acquire a pre-defined subscription through an e-commerce website without direct interaction with a sales person. Our SoHo brands include eFax®, jSign®, MyFax®, Sfax®, Metrofax®, and SRfax®.

In 2020, we launched the Consensus Unite healthcare interoperability platform, a comprehensive workflow collaboration and data exchange solutions suite. Healthcare represents Consensus’ largest industry vertical and has information, secure communication, management and interoperability needs. In early 2022, we acquired Summit Healthcare Services, Inc. (“Summit”), a leading provider of digital Health Level Seven (“HL7”) and Fast Healthcare Interoperability Resources (“FHIR”) technology which are complementary to our existing product set for healthcare interoperability. The sector is undergoing a large-scale digitization effort, with the objective to streamline workflows, increase efficiency for operators, and increase transparency for patients. We believe our leadership in digital cloud fax, HL7, FHIR and our deep domain knowledge and experience in the healthcare industry positions Consensus well to help healthcare providers accomplish their broader digitization and interoperability objectives.

Our Industry

Secure Information Communication

Our products and services are a component of the secure information transmission market, which is part of the broader public cloud services market, for which demand for cloud services is expected to accelerate in the future. Fax remains one of the most ubiquitous technologies to transmit documents securely. The use of fax is particularly high in industries subject to data protection laws such as the Health Insurance Portability and Accountability Act (“HIPAA”), as fax offers safety of transmission and nearly universal legal acceptance. Cloud adoption has grown quickly in secure transmission, taking share from on-premises solutions over the past decade. Key drivers to cloud adoption include:

- **Digitization:** Key industry verticals such as healthcare, government, financial services and law have been heavily investing in digitization of information and the online fax industry has significantly benefited from the trend.
- **Data security and data privacy awareness:** Digital cloud fax technology is demonstrably more secure than traditional email and traditional fax machines, which are vulnerable to physical security threats and retrieval problems.
- **Regulatory tailwinds:** Because of its security, eFax® meets regulatory requirements for data security and remains ubiquitous in highly regulated industries, such as healthcare and sectors where large volumes of sensitive information is exchanged.

- **Cost efficiency:** Cloud-based solutions often have minimal installation costs and are highly efficient to scale as the needs of the organization fluctuate.
- **Green initiatives:** Cloud-based solutions appeal to customers engaging in “green” initiatives to reduce their impact on the environment because they rely less on paper for printing documents.

Healthcare Interoperability

In the healthcare industry, interoperability is defined as the ability of different information systems, devices and applications (systems) to access, exchange, integrate and cooperatively use data in a coordinated manner, within and across organizational, regional and national boundaries, to provide timely and seamless portability of information and optimize the health of individuals and populations globally. In the increasingly data-driven healthcare industry, interoperability is essential to ensuring quality care delivery and safeguarding patient information.

To address market demand for effective interoperability solutions, Consensus is concentrating its development efforts in tools capable of integrating with existing healthcare IT infrastructure to facilitate timely and accurate communication between providers and allow use of multiple transmission protocols within a single cloud-based platform.

Our Products and Solutions

Corporate Solutions

eFax Corporate®: eFax Corporate® provides digital cloud fax technology.

Unite: Unite is a single platform that allows the user to choose between several protocols to send and receive healthcare information in an environment that can integrate into an existing electronic health record (“EHR”) system or stand-alone if no EHR is present.

jSign®: jSign® provides electronic signature and digital signature solutions to businesses, offering document markup and end-user signing services via mobile-aware web application and enterprise API.

Conductor: Conductor is a robust interface engine and complete interoperability platform that provides seamless integration technology that supports all the latest standards for connectivity and data formats (API/FHIR, Web Service), addressing a wide range of interoperability challenges from the simple to the extremely complex.

Clarity: Using Natural Language Processing and Artificial Intelligence (NLP/AI) Clarity’s valuable insightful information can transform unstructured documents into structured actionable data. Clarity’s intelligent data extraction allows data to be sent to the right person, at the right place, at the right time - to accelerate patient treatment across the continuum of care.

SoHo Fax Solutions

eFax®: eFax® is a global online faxing service with customers worldwide. In addition to eFax®, we offer a variety of brands for subscription.

Customers

We have a diverse set of customers globally, using cloud fax, electronic signature and interoperability products.

Our Strengths

Building on our position as a global provider of internet fax solutions from individuals to enterprises and across industries, Consensus is well positioned to capitalize on shifts in how we share private documents and information. We believe that our key strengths and competitive advantages include:

Differentiated Product Offering Based on Scalable SaaS Platform. Our scalable and highly customizable technology infrastructure supports the transmission of a large number of documents each year. Due to our scale and capabilities, we have differentiated visibility into the trends that affect the way our customers transmit, store and manage information.

Position in the Growing Enterprise Cloud Fax Market. We believe our status in the enterprise cloud fax space provides Consensus with an opportunity for organic growth and the potential to explore acquisitions that are value accretive and enhance our scale and geographic diversity.

Positioned to Support Healthcare Interoperability. Because fax remains a ubiquitous electronic document exchange protocol for highly sensitive and legally binding documents, Consensus is in the healthcare communication ecosystem and our goal is to build on that foundation to become a participant in the larger healthcare interoperability solutions space.

Recurring Revenue Stream. Our revenues consist of monthly recurring subscription and usage-based fees, with monthly recurring subscription revenue representing approximately 73% of our total subscription revenue for 2022. Our cancellation rates have remained relatively steady over time, and we expect this trend to continue into the future given that many of the services we provide are critical to our customers' business operations.

Global and Diversified Customer Base. Our customers are located globally across six continents. We believe that our product-line and geographic diversity, combined with our lack of customer concentration, will help us mitigate the effects of isolated downturns in various end markets.

Operational Efficiency and Capital Discipline. The recurring nature of our revenue, combined with high operational efficiency, results in predictable and attractive margins and free cash flow generation. As we evaluate growth investments and expansion into new verticals, we will measure against metrics and parameters that promote efficient and prudent use of capital to generate sustained shareholder value.

Proven and Experienced Management Team. Our experienced management team has a highly successful track record with regard to both business performance among its industry peer group, growing new business lines, and identifying and integrating strategic acquisitions.

Our Strategy

Our strategy focuses on generating attractive organic growth, achieving solid margins and free cash flow generation, pursuing value-accretive acquisitions and delivering high value to our shareholders. Our strategy includes:

- Continuing to grow in Corporate secure information exchange;
- Solving healthcare interoperability challenges;
- Optimize eCommerce (SoHo) revenue;
- Leveraging our technology to enter new markets (e.g. government);
- Positioning the business for sustained growth through continued focus on profitability and cash flow generation;
- Focused investments in our products and capabilities; and
- Complementing organic growth investments with targeted acquisitions.

Patents and Proprietary Rights

We regard the protection of our intellectual property rights as important to our success. We aggressively protect these rights by relying on a combination of patents, trademarks, copyrights, trade dress and trade secrets. We also enter into confidentiality and intellectual property assignment agreements with employees and contractors, and nondisclosure agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information.

Through a combination of internal technology development and acquisitions, we have built a portfolio of numerous U.S. and foreign patents. Several of our U.S. patents have been reaffirmed through reexamination proceedings before the United States Patent and Trademark Office (“USPTO”). We intend to continue to invest in patents, to aggressively protect our patent assets from unauthorized use and to generate patent licensing revenues from authorized users.

We seek patents for inventions that may contribute to our business or technology sector. In addition, we have multiple pending U.S. and foreign patent applications, covering components of our technology and in some cases technologies beyond those that we currently offer. Unless and until patents are issued on the pending applications, no patent rights can be enforced.

We have obtained patent licenses for certain technologies where such licenses are necessary or advantageous.

We own and use a number of trademarks in connection with our services. Many of these trademarks are registered worldwide, and numerous trademark applications are pending around the world. We hold numerous internet domain names and we have filed to protect our rights to our brands in certain alternative top-level domains such as “.org”, “.net”, “.biz”, “.info” and “.us”, among others.

Like other technology-based businesses, we face the risk that we will be unable to protect our intellectual property and other proprietary rights, and the risk that we will be found to have infringed the proprietary rights of others. For more information regarding these risks, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business over the internet and, in some cases, using services of third-party telecommunications and internet service providers. These include, among others, laws and regulations addressing privacy, data storage, retention and security, freedom of expression, content, taxation, numbers, advertising and intellectual property. For information about the regulations to which we are subject and the risks we face with respect to governmental regulation, please see Item 1A of this Annual Report on Form 10-K entitled Risk Factors.

Seasonality

General economic conditions have an impact on our business and financial results. From time to time, the markets in which we sell our products, services and solutions experience weak economic conditions that may negatively affect sales. We traditionally experience marginally lower than average usage and customer sign-ups in the fourth quarter. Our revenues are also impacted by the number of effective business days in a given period.

Research and Development

The markets for our services are evolving rapidly, requiring ongoing expenditures for research and development and timely introduction of new services and service enhancements. Our future success will depend, in part, on our ability to enhance our current services, to respond effectively to technological changes, attract and retain engineering talent, sell additional services to our existing customer base and introduce new services and technologies that address the increasingly sophisticated needs of our customers.

We devote significant resources to develop new services and service enhancements. For more information regarding the technological risks that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K. None of our employees are represented by collective bargaining.

Human Capital Resources

As of December 31, 2022, we had 581 employees, with about one-third of the employees located outside of the United States. Our ability to continue to attract, retain and motivate our highly qualified workforce is very important to our continued success.

Our Culture

We have a strong enterprise-wide culture that focuses on our core values – strive for excellence, demonstrate empathy, embrace innovation, foster open communication, focus on solutions, and be driven by data as we make decisions – and in turn, deliver solid business results.

Our mission is to be the trusted global source for the transformation, enhancement and secure exchange of digital information. Our vision is to deliver life’s essential data when, where and how you need it.

Diversity, Equity & Inclusion

Our cloud fax users and employees are diverse – gender, race, ethnicity, age, orientation, geography, education, background, interests, and more. We recognize that each employee’s unique experiences, perspectives and viewpoints add value to our ability to create and deliver the most innovative work environment for our employees and the best possible service to our diverse customers. To this effect, we created a Diversity, Equity and Inclusion (“DEI”) Council to promote thoughtful discussion, implement training and events to foster respectful awareness of diversity, equity, and inclusion in our workplace environment and create a community where each employee feels they belong and where they can contribute to the overall success of the Company.

Hiring

We reinforce our culture and our values by seeking out diverse candidates, and looking for candidates that fit well with our organizational priorities, values, mission and vision.

Employee Compensation & Benefits

Compensation is an important consideration for all of our employees and we strive to pay competitive compensation packages that reflect the success of the business and the individual contributions of each colleague. We are committed to fair pay practices; roles are periodically benchmarked to help inform where adjustments may be needed.

We provide our employees with benefits we believe are effective at attracting and retaining the talent critical for our success and, more importantly, promoting their day to day well-being. Those benefits include comprehensive health insurance coverage and covering 84% of health insurance premiums for covered U.S. employees and their families, an employee stock purchase program, share based compensation, flexible time off, up to 16 weeks of paid parental leave for birth parents and 24 hours annually of fully paid Volunteer Time Off.

Health and Wellness

Creating a culture where all colleagues feel supported and valued is paramount to our corporate mission. We expect to evolve our programs to meet our colleagues’ health and wellness needs, which we believe are essential to attract and retain employees of the highest caliber, and we offer a competitive benefits package focused on fostering work/life integration.

Competition

We face competition from, among others, online fax-providers, traditional fax machine or multifunction printer companies, electronic signature companies, healthcare interface companies, health information service providers and robotic process automation companies.

Our solutions relate to online faxing and compete primarily against traditional fax machine manufacturers, which are generally large and well-established companies, as well as publicly traded and privately-held providers of fax servers and related software and outsourced fax services. Some of these companies may have greater financial and other resources than we do.

As we pursue our expansion into expanded secure information delivery services and healthcare interoperability services, we compete against other providers of secure information delivery services, including providers of electronic signature solutions.

We believe that the primary competitive factors determining our success in the market for our services include financial strength and stability; pricing; reputation for reliability and security of service; breadth and depth of product functionality; intellectual property ownership; effectiveness of customer support; sign-up, service and software ease-of-use; service scalability; customer messaging and branding; geographic coverage; scope of services; currency and payment method acceptance; and local language sales, messaging and support.

For more information regarding the competition that we face, see “Risk Factors—Risks Related to Our Business—The markets in which we operate are highly competitive and our competitors may have greater resources to commit to growth, superior technologies, cheaper pricing or more effective marketing strategies”.

Consensus Cloud Solutions, Inc. Spin-Off

On October 7, 2021, J2 Global, Inc. (now known as "Ziff Davis", "Former Parent Company" or "Former Parent") completed its previously announced plans to separate into two leading publicly traded companies: one addressing healthcare interoperability and comprising the Cloud Fax business, which does business as Consensus Cloud Solutions, Inc., and one that will continue the Former Parent's strategy of building a leading internet platform focused on key verticals, including technology & gaming, shopping, health, cybersecurity and martech, which will do business as Ziff Davis. We refer to the transactions that resulted in the separation of Consensus and Ziff Davis into two separate publicly traded companies as the "Spin-Off" or "separation and distribution.").

Available Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") with the Securities and Exchange Commission (the "SEC"). Such reports and other information and amendments thereto filed or furnished by the Company with the SEC are available free of charge on the Company's website at www.consensus.com as soon as reasonably practicable after we file such reports with, or furnish them to, the SEC's website. The information on our website is not part of this report. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings we file electronically with the SEC at www.sec.gov. Our Board has adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees. The Code is posted on the corporate governance page of Consensus' website, and can be accessed at <http://investor.consensus.com>. Any changes to or waiver of our Code of Business Conduct and Ethics for senior financial officers, executive officers or directors will be posted on that website.

Item 1A. Risk Factors

Before deciding to invest in Consensus or to maintain or increase your investment, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere in this Annual Report on Form 10-K and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. In that event, the market price of our common stock will likely decline and you may lose part or all of your investment.

Risk Factors Summary

The following is a summary of the principal risks that could adversely affect our business, operations and financial results.

Risks Related To Our Business

- Our fax services constitute substantially all of our revenue and operating income.
- Developments in the healthcare industry could adversely affect our business.
- The market for our products and services is rapidly evolving. If the market does not develop further, develops more slowly, or in a way that we do not expect, our business will be adversely affected.
- There are particular challenges in addressing the market for healthcare interoperability solutions.
- Our industry is undergoing rapid technological changes and we may not be able to keep up.
- We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.
- The COVID-19 pandemic, as well as any future pandemics or global health crises, and related governmental responses could negatively affect our business, operations and financial performance.
- Our business could suffer if providers of broadband Internet access services block, impair or degrade our services.
- Our business is dependent on a small number of telecommunications carriers in each region and our inability to maintain agreements at attractive rates with such carriers may negatively impact our business.
- The successful operation of our business depends on the supply of critical business elements from other companies, including data center services.
- Our sales cycle with enterprise and commercial customers can be long and unpredictable, and our sales efforts require considerable time and expense.
- We face risks associated with system failures, cybersecurity breaches and other technological issues.
- The markets in which we operate are highly competitive, and we may not be successful in growing our brands or revenue.
- We may be found to infringe the intellectual property rights of others, and we may be unable to adequately protect of our own intellectual property rights.
- We may be subject to risks from international operations, including risks associated with currency fluctuations and foreign exchange controls and adverse changes in global financial markets.
- We may be engaged in legal proceedings that could cause us to incur unforeseen expenses and could divert significant operational resources and our management's time and attention.
- Our business is highly dependent on our billing systems functioning properly, and we face risks associated with card declines and merchant standards imposed by card companies.
- Changes in our tax rates, changes in tax treatment of companies engaged in e-commerce, the adoption of new U.S. or international tax legislation, or exposure to additional tax liabilities may adversely impact our financial results.
- We face risks associated with political instability and volatility in the economy.

Risks Related To Regulation, Including Taxation

- Changes in regulations relating to health information communication protocols could affect our business.
- Our services may become subject to burdensome regulation, which could increase our costs or restrict our service offerings.
- Changes in our tax rates, changes in tax treatment of companies engaged in e-commerce, the adoption of new U.S. or international tax legislation, or exposure to additional tax liabilities may adversely impact our financial results.
- Taxing authorities may successfully assert that we should have collected, or in the future should collect sales and use, telecommunications or similar taxes, and we could be subject to liability with respect to past or future tax, which could adversely affect our operating results.
- We are subject to a variety of new and existing laws and regulations which could subject us to claims, judgments, monetary liabilities, and other remedies, and to limitations on our business practices.

Risks Related To Our Common Stock

- We cannot be certain that an active trading market for our common stock will continue and stock price has in the past and may in the future fluctuate significantly.
- Shares of our common stock generally will be eligible for resale, which may cause our stock price to decline.
- We do not intend to pay dividends on our common stock.
- We have identified material weaknesses in internal control over financial reporting which could adversely affect our business, reputation, results of operations and stock price.

Risks Related to the Separation

- If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, Ziff Davis, Consensus and Ziff Davis stockholders could be subject to significant tax liabilities, and, in certain circumstances, Consensus could be required to indemnify Ziff Davis for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.
- We may not be able to engage in desirable strategic or capital-raising transactions following the separation.
- We have a limited history of operating as an independent company and we have incurred and expect to continue to incur increased administrative and other costs following the separation by virtue of our status as an independent public company. Our historical financial information is not necessarily representative of the results that we would have achieved as a separate, publicly traded company and may not be a reliable indicator of our future results.

Risks Related To Our Business

Our fax services constitute substantially all of our revenue and operating income.

Cloud Fax revenue constitutes substantially all of our revenues and our operating income. The success of our business is therefore dependent upon the continued use of cloud fax as a messaging medium and our ability to expand usage of our other current and future products and services in the secure data exchange area. While our strategy is to pursue development of a range of products to address secure data exchange needs, if the demand for cloud fax as a messaging medium decreases and we are unable to replace lost revenues from decreased usage or cancellation of our cloud fax services with other products and services, or a proportional increase in our customer base, our business, financial condition, operating results and cash flows could be materially and adversely affected.

We believe that one of the attractive features of our cloud fax products is that cloud fax signatures are a generally accepted method of executing contracts and a method of transmitting confidential information in a secure manner especially in the healthcare field in the United States. There are ongoing efforts by governmental and nongovernmental entities to create a universally accepted method for electronically signing documents. Widespread adoption of so-called “digital signatures” could, in the future, reduce demand for our fax services where the fax service is primarily being used to evidence a wet signature. While we have introduced a digital signature product, other companies have offered such products for longer and have greater customer adoption. If future adoption of digital signature products results in a reduction for our fax services without a

corresponding adoption of our digital signature or other products, it could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Developments in the healthcare industry could adversely affect our business.

A significant portion of our strategy is focused on addressing the secure data exchange and interoperability needs of the healthcare industry, and could be affected by circumstances affecting the healthcare industry, including government regulation or other industry circumstances that affect spending in the healthcare industry. Industry changes affecting healthcare such as government regulation or private initiatives that affect the manner in which healthcare industry participants exchange data, consolidation of healthcare industry participants, reductions in governmental funding for healthcare or adverse changes in business or economic conditions affecting healthcare industry participants could affect the market for our offerings. See the risk factor titled “Changes in regulations relating to health information communications protocols could affect our business” under the heading “Risks Related to Regulation Including Taxation.” The healthcare industry has changed significantly in recent years, and we expect that significant changes to the healthcare industry will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot assure you that the demand for our offerings will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in the healthcare industry.

The market for our products and services is relatively new and rapidly evolving. If the market does not develop further, develops more slowly, or in a way that we do not expect, our business will be adversely affected.

Part of our strategy is to develop products and services to address customers’ needs in the secure data exchange and healthcare interoperability spaces. The market for secure data exchange and healthcare interoperability products and services is relatively new and rapidly evolving, which makes our business and future prospects difficult to evaluate. Our healthcare interoperability products beyond our online fax products have been recently introduced and currently represent an immaterial portion of our revenues. It is difficult to predict customer demand for our products and services, customer retention and expansion rates, the size and growth rate of the market for secure data exchange and healthcare interoperability products and services, the entry of competitive products or the success of existing competitive products. In response to customer demand, it is important to our success that we continue to enhance our software products and services and to seek to set the standard for secure data exchange capabilities. We expect that we will continue to need significant product development and sales efforts to attract and educate prospective customers, particularly enterprise and commercial customers, about the uses and benefits of our products and services. The size and growth of our addressable market depends on a number of factors, including the level of our customers’ adoption of our critical data exchange and interoperability solutions, as well as changes in the competitive landscape, technological changes, budgetary constraints of our customers, changes in business practices, changes in regulations and changes in economic conditions. If customers do not accept the value proposition of our offerings, then a viable market for products and services may not develop further, or it may develop more slowly than we expect, either of which would adversely affect our business and operating results.

There are particular challenges in addressing the market for healthcare interoperability solutions. If we do not successfully address these challenges, our business will be adversely affected.

There are many challenges to addressing the healthcare interoperability market. Healthcare providers, including hospitals and medical practices, have adopted an enormous variety of data storage, management and exchange solutions that are often not compatible with solutions adopted by other providers. This enormous variety of incompatible systems makes it technically challenging to provide effective solutions to the healthcare interoperability market, and is a large part of the reason that the healthcare industry continues to rely heavily on fax for secure data exchange.

The healthcare industry is being driven to find interoperability solutions by government regulation and market forces. However, individual healthcare providers, including hospitals or medical practices, may have concerns about adopting healthcare interoperability solutions due to privacy or security concerns or concerns about patient retention. This dynamic may make it more difficult to drive adoption of our healthcare interoperability solutions.

A wide variety of providers are working on solutions to address healthcare interoperability challenges, and interoperability can be defined in a variety of ways. For example, the Health Information Systems Management Society (“HIMSS”), which is generally recognized as an authority on health information technology, released its definition of interoperability and defined it four ways: foundational, structural, semantic and organizational. Customers or vendors could use any of these four components to define their particular “interoperability solution.” Separately, the Center for Medicare and Medicaid Services further defined a fifth component of interoperability that includes patients, which is not included in the HIMSS definition. Furthermore, the Office of the National Coordinator for Health Information Technology (the “ONC”) has

developed another definition that is included in the 21st Century Cures Act, which includes the concept of “information blocking” as a component of healthcare interoperability. This wide variety of definitions has the potential to create a risk of confusion in the market, or allow competitors to reframe the problem to their advantage in a competitive situation, potentially allowing less robust solutions to hold themselves out as healthcare interoperability solutions. We expect to encounter significant competition for customers as the healthcare interoperability market develops. Our current competitors in the healthcare interoperability space currently consist mostly of point solutions rather than full suites of healthcare interoperability solutions. If other companies develop solutions to address healthcare interoperability challenges more successfully than we do, or if customers otherwise adopt competing solutions rather than our solutions, it will adversely affect our business and operating results.

Our industry is undergoing rapid technological changes and we may not be able to keep up. If our products and services do not gain market acceptance, our operating results may be negatively affected.

Our success depends upon our ability to design, develop, test, market, license, sell and support new products and services and enhancements of current products and services that effectively address the critical data exchange and healthcare interoperability needs of our customers. Our success also depends on our ability to offer such products and services on a timely basis in response to both competitive threats and marketplace demands. The secure data exchange industry is subject to rapid and significant technological change, and effectively addressing the issue of healthcare interoperability is a complex technological challenge. We cannot predict the effect of technological changes on our business. We expect that new products, services and technologies will emerge in the markets in which we compete. These new products, services and technologies may be superior to the products, services and technologies that we use or these new products, services and technologies may render our products, services and technologies obsolete. Our future success will depend, in part, on our ability to anticipate correctly and adapt effectively to technological changes and evolving industry standards and customer preferences. We expect to invest in the development or acquisition of new technologies, and we may fail to predict accurately which technologies will be adopted in the marketplace. The timing and level of commercial success of new products and services depends on many factors, including the degree of innovation of the products and services we develop or acquire and effective distribution and marketing. We may be unable to develop or acquire new technologies in a cost effective manner or at all, and may therefore be unable to offer products or services in a competitive or profitable manner. Any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.

We intend to continue to develop new products and services and enhance existing products and services through acquisitions of other companies, technologies and personnel.

Acquisitions involve numerous risks, including the following:

- difficulties in integrating the operations, systems, controls, technologies, products and personnel of the acquired businesses;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets may have stronger market positions;
- diversion of management’s attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions; and
- the potential loss of key employees, customers, distributors, vendors and other business partners of the businesses we acquire.

Acquisitions may also cause us to:

- use a substantial portion of our cash resources or incur debt;
- significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;
- assume liabilities;
- issue common stock that would dilute our current stockholders’ percentage ownership;
- record goodwill and intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets; and

- become subject to intellectual property or other litigation.

Mergers and acquisitions are inherently risky and subject to many factors outside of our control. We cannot give assurance that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. In addition, our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions.

The COVID-19 pandemic, as well as any future pandemics or global health crises, and related governmental responses could negatively affect our business, operations and financial performance.

The impact of the COVID-19 pandemic and subsequent variants has had a negative effect on the global economy, disrupting the financial markets and creating increasing volatility and overall uncertainty. Among other things, the COVID-19 pandemic has resulted in travel bans around the world, declarations of states of emergency, stay- or shelter-at-home requirements, business and school closures and manufacturing restrictions. In addition, the COVID-19 pandemic has, at times, contributed to (i) increased unemployment and decreased consumer confidence and business generally; (ii) sudden and significant declines, and significant increases in volatility, in financial and capital markets; (iii) increased spending on our business continuity efforts, which has required and may further require that we cut costs or investments in other areas; and (iv) heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements.

We have adjusted certain aspects of our operations to protect our employees and customers while still seeking to meet customers' needs for our vital cloud fax services. We cannot predict at this time the extent to which the COVID-19 pandemic could negatively affect our business, operations and financial performance. The extent of any continued or future adverse effects of the COVID-19 pandemic, as well as any future pandemics or global health crises, will depend on future developments, which are highly uncertain and outside our control, including the scope and duration of the pandemic, the emergence and virulence of new variants, the effect of the rollout of vaccines on the pandemic and public acceptance of vaccines, the direct and indirect impact of the pandemic on our employees, customers, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

Our business could suffer if providers of broadband Internet access services block, impair or degrade our services.

Our business is dependent on the ability of our customers to access our services and applications over broadband Internet connections. Internet access providers and Internet backbone providers may be able to block, degrade or charge for access or bandwidth use of certain of our products and services, which could lead to additional expenses and the loss of users. Our products and services depend on the ability of our users to access the Internet. Use of our products and services through mobile devices, such as smartphones and tablets, must have a high-speed data connection. Broadband Internet access services, whether wireless or landline, are provided by companies with significant market power. Many of these providers offer products and services that directly compete with ours.

Many of the largest providers of broadband services have publicly stated that they will not degrade or disrupt their customers' use of products and services like ours. If such providers were to degrade, impair or block our services, it would negatively impact our ability to provide services to our customers and likely result in lost revenue and profits, and we would incur legal fees in attempting to restore our customers' access to our services. Broadband internet access providers may also attempt to charge us or our customers additional fees to access services like ours that may result in the loss of customers and revenue, decreased profitability, or increased costs to our retail offerings that may make our services less competitive.

Our business is dependent on a small number of telecommunications carriers in each region and our inability to maintain agreements at attractive rates with such carriers may negatively impact our business.

Our business substantially depends on the capacity, affordability, reliability and security of our network and services provided to us by our telecommunications suppliers. Only a small number of carriers in each region, and in some cases only one carrier, offer the number and network services we require. We purchase certain telecommunications services pursuant to short-term agreements that the providers can terminate or elect not to renew. As a result, any or all of our current carriers could discontinue providing us with service at rates acceptable to us, or at all, and we may not be able to obtain adequate replacements, which could materially and adversely affect our business, prospects, financial condition, operating results and cash flows.

Our business could suffer if we cannot obtain or retain numbers, are prohibited from obtaining local numbers or are limited to distributing local numbers to only certain customers.

The future success of our phone number-based cloud fax services products depends on our ability to procure large quantities of local numbers in the U.S. and other countries in desirable locations at a reasonable cost and offer our services to our prospective customers without restrictions. Our ability to procure and distribute numbers depends on factors such as applicable regulations, the practices of telecommunications carriers that provide numbers, the cost of these numbers and the level of demand for new numbers. For example, several years ago the Federal Communications Commission (the “FCC”) conditionally granted petitions by Connecticut and California to adopt specialized “unified messaging” area codes, but neither state has adopted such a code. Adoption of a specialized area code within a state or nation could harm our ability to compete in that state or nation if it materially affects our ability to acquire numbers for our operations or makes our services less attractive due to the unavailability of numbers with a local geographic area.

In addition, although we are the customer of record for all of our U.S. numbers, from time to time, certain U.S. telephone carriers inhibit our ability to port numbers or port our numbers away from us to other carriers. If a federal or regulatory agency determines that our customers should have the ability to port numbers without our consent, we may lose customers at a faster rate than what we have experienced historically, potentially resulting in lower revenues. Also, in some foreign jurisdictions, under certain circumstances, our customers are permitted to port their numbers to another carrier. These factors could lead to increased cancellations by our customers and loss of our number inventory. These factors may have a material adverse effect on our business, prospects, financial condition, operating results, cash flows and growth in or entry into foreign or domestic markets.

In addition, future growth in our phone number-based cloud services customer base, together with growth in the customer bases of other providers of phone number-based services, has increased and may continue to increase the demand for large quantities of numbers, which could lead to insufficient capacity and our inability to acquire sufficient numbers to accommodate our future growth.

The successful operation of our business depends upon the supply of critical business elements from other companies.

We depend upon third parties for critical elements of our business and we do not control the operations of these parties or their facilities on which we depend. We rely on private third-party providers for our Internet, telecommunications and other connections and for data center hosting facilities and cloud computing needs. We have from time to time experienced interruptions in our services and such interruptions may occur in the future. Any damage to or disruption in the services provided by any of these suppliers, any adverse change in access to their platforms or services or in their terms and conditions of use or services, any cybersecurity or physical breach of their facilities, or any failure by them to handle current or higher volumes of activity could have a material adverse effect on our customer relations, business, prospects, financial condition, operating results and cash flows. Our arrangements with these third parties typically are not exclusive and do not extend over a significant period of time. Failure to continue these relationships on terms that are acceptable to us or to continue to create additional relationships could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. We do not control the operation of third-party facilities, and they may be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures, and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct, as well as local administrative actions, changes to legal or permitting requirements, and litigation to stop, limit, or delay operation. The occurrence of a natural disaster, a pandemic (such as COVID-19) or an act of terrorism, a decision to close the facilities without adequate notice, or other unanticipated problems at these facilities could result in lengthy interruptions in our services.

These hardware, software, data, and cloud computing systems may not continue to be available at reasonable prices, on commercially reasonable terms, or at all. Any loss of the right to use any of these hardware, software, or cloud computing systems could significantly increase our expenses and otherwise result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained through purchase or license, and integrated into our services.

We may be subject to increased rates for the telecommunications services we purchase from regulated carriers which could require us to either raise the retail prices of our offerings and lose customers or reduce our profit margins.

The FCC adopted wide-ranging reforms to the system under which regulated providers of telecommunications services compensate each other for the exchange of various kinds of traffic. While we are not a provider of regulated telecommunications services, we rely on such providers to offer our services to our customers. As a result of the FCC’s reforms, regulated providers of telecommunications services are determining how the rates they charge customers like us will

change in order to comply with the new rules. It is possible that some or all of our underlying carriers will increase the rates we pay for certain telecommunications services. Should this occur, the costs we incur to provide phone number-based cloud services may increase which may require us to increase the retail price of our products services. Increased prices could, in turn, cause us to lose customers, or, if we do not pass on such higher costs to our customers, our profit margins may decrease.

Increased cost of email transmissions could have a material adverse effect on our business.

We rely on email for the delivery of certain cloud fax services. If regulations or other changes in the industry lead to a charge associated with the sending or receiving of email messages, the cost of providing our services could increase and, if significant, could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

Our sales cycle with enterprise and commercial customers can be long and unpredictable, and our sales efforts require considerable time and expense.

Our ability to increase our revenue and grow our business is partially dependent on the widespread acceptance of our products and services by large businesses and other commercial organizations. We often need to spend significant time and resources to better educate and familiarize these potential customers with the value proposition of our products and services. The length of our sales cycle for enterprise customers from initial evaluation to payment for our offerings can be as long as 12 to 18 months, but can vary substantially from customer to customer and from offering to offering. Further, these enterprise and commercial customers may require services based on volume of usage which can vary seasonally and/or slowly ramp up over an initiation period of 12-36 months. Customers frequently require considerable time to evaluate, test and qualify our offerings prior to entering into or expanding a subscription. This is particularly true in the case of customers in highly regulated industries, including healthcare, where longer evaluation, testing and qualification processes often result in longer sales cycles and set-up time. The timing and contractual commitments of our sales with our enterprise customers and related revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle and the variable usage of the services by these customers. During the sales cycle, we expend significant time and money on sales and marketing and contract negotiation activities, which may not result in any sale or any significant sale.

A system failure, cybersecurity breach or other technological risk could delay or interrupt service to our customers, harm our reputation or subject us to significant liability.

Our operations are dependent on our network being free from material interruption by damage from fire, earthquake, flood, storm, tornado and other severe weather and climate conditions (including those resulting from or exacerbated by climate change), power loss, telecommunications failure, unauthorized entry, computer viruses, cyber-attacks or any other events beyond our control. Similarly, the operations of our partners and other third parties with which we work are also susceptible to the same risks. There can be no assurance that our existing and planned precautions of backup systems, regular data backups, security protocols and other procedures will be adequate to prevent significant damage, system failure or data loss and the same is true for our partners, vendors and other third parties on which we rely. We have experienced automated log in attempts to gain unauthorized access to customer accounts. To date, these events have not resulted in the material impairment of any business operations.

Many of our services are cloud and web-based, and the amount of data we store for our customers on our servers has been increasing. Despite the implementation of security measures, our infrastructure, and that of our partners, vendors and other third parties, may be vulnerable to computer viruses, hackers or similar disruptive problems caused by our vendors, partners, other third parties, customers employees or other internet users who attempt to invade public and private data networks. As seen in the industries in which we operate and others, these activities have been, and will continue to be, subject to continually evolving cybersecurity and technological risks. Further, in some cases we do not have in place disaster recovery facilities for certain ancillary services.

A significant portion of our operations relies heavily on the secure processing, storage and transmission of confidential and other sensitive data. For example, a significant number of our customers authorize us to bill their credit or debit card accounts directly for all transaction fees charged by us. We rely on encryption and authentication technology to effect secure transmission of confidential information, including customer credit and debit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a material compromise or breach of the technology used by us, our partners, vendors, or other third parties, to protect transaction and other confidential data. Additionally, due to geopolitical tensions related to Russia's invasion of Ukraine, the risk of cyber-attacks may be elevated. Any system failure or security breach that causes interruptions or data loss in our operations, our partners, vendors, or other third parties, or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential information could result in a significant liability to us (including in the form of judicial decisions and/or settlements, regulatory findings and/or forfeitures, and other means), cause considerable harm to us and our reputation (including requiring notification

to customers, regulators, and/or the media), cause a loss of confidence in our products and services, and deter current and potential customers from using our services.

Our Board is briefed on cybersecurity risks and we implement cybersecurity risk management under our Board's oversight. We use vendors to assist with cybersecurity risks, but these vendors may not be able to assist us adequately in preparing for or responding to a cybersecurity incident. We maintain insurance related to cybersecurity risks, but this insurance may not be sufficient to cover all of our losses from any breaches or other adverse consequences related to a cybersecurity-event.

Any of these events could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows, or cause us to suffer other negative consequences. For example, we may incur remediation costs (such as liability for stolen assets or information, repairs of system damage, and incentives to customers or business partners in an effort to maintain relationships after an attack); increased cybersecurity protection costs (which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants); lost revenues resulting from the unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation and legal risks (including regulatory actions by state and federal governmental authorities and non-U.S. authorities); increased insurance premiums; reputational damage that adversely affects customer or investor confidence; and damage to the company's competitiveness, stock price, and diminished long-term shareholder value. To date, these events have not resulted in the material impairment of any business operations. Although we have experienced, and expect to continue to confront, efforts by third parties to gain unauthorized access or deny access to, or otherwise disrupt, our information systems, to date, these events have not resulted in the material impairment of any business operations.

If our products and services fail to perform properly and if we fail to develop enhancements to resolve any defect or other problems, we could lose customers or become subject to service performance or warranty claims and our market share could decline.

Our operations are dependent upon our ability to prevent system interruptions and, as we continue to grow, we will need to devote additional resources to improving our infrastructure in order to maintain the performance of our products and services. The applications underlying our products and services are inherently complex and may contain material defects or errors, which may cause disruptions in availability or other performance problems. We have from time to time found defects in our products and services and may discover additional defects in the future that could result in data unavailability or unauthorized access or other harm to, or loss or corruption of, our customers' data. While we implement bug fixes and upgrades as part of our regularly scheduled system maintenance, we may not be able to detect and correct defects or errors before implementing our products and services. Consequently, we or our customers may discover defects or errors after our products and services have been employed. If we fail to perform timely maintenance or if customers are otherwise dissatisfied with the frequency and/or duration of our maintenance services and related system outages, our existing customers could elect not to renew their subscriptions, delay or withhold payment to us, or cause us to issue credits, make refunds or pay penalties, potential customers may not adopt our products and services and our brand and reputation could be harmed. In addition, the occurrence of any material defects, errors, disruptions in service or other performance problems with our software could result in warranty or other legal claims against us and diversion of our resources. The costs incurred in addressing and correcting any material defects or errors in our software and expanding our infrastructure and architecture in order to accommodate increased demand for our products and services may be substantial and could adversely affect our operating results.

The markets in which we operate are highly competitive and our competitors may have greater resources to commit to growth, superior technologies, cheaper pricing or more effective marketing strategies. Also, we face significant competition for users, advertisers, publishers, developers and distributors.

Some of our competitors include major companies with much greater resources and significantly larger customer bases than we have. Some of these competitors offer their services at lower prices than we do. These companies may be able to develop and expand their network infrastructures and capabilities more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than we can. There can be no assurance that additional competitors will not enter markets that we are currently serving and plan to serve or that we will be able to compete effectively. Competitive pressures may reduce our revenue, operating profits or both.

Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions,

technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate with each other or collaborate, and new competitors may enter the market. Some of our competitors in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.

If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

Our growth will depend on our ability to develop, strengthen, and protect our brands, and these efforts may be costly and have varying degrees of success.

Some of our brands, such as eFax are widely recognized, while others of our brands, including Consensus, are relatively new to the market. Developing Consensus or other new brands into competitive brands and strengthening our current brands will be critical to achieving widespread commercial acceptance of our products and services. This will require our continued focus on active marketing, the costs of which have been increasing and may continue to increase. In addition, substantial initial investments may be required to launch new brands and expand existing brands to cover new geographic territories and fields. Accordingly, we may need to spend increasing amounts of money on, and devote greater resources to, advertising, marketing and other efforts to cultivate brand recognition and customer loyalty. Brand promotion activities may not yield increased revenues and, even if they do, increased revenues may not offset the expenses incurred. A failure to launch, promote, and maintain our brands, or the incurrence of substantial expenses in doing so, could have a material adverse effect on our business.

Our brand recognition depends, in part, on our ability to protect our trademark portfolio and establish trademark rights covering new brands and territories. Some regulators and competitors have taken the view that certain of our brands, such as eFax, are descriptive or generic when applied to the products and services we offer. Nevertheless, we have obtained U.S. and foreign trademark registrations for our brand names, logos, and other brand identifiers, including eFax. If we are unable to obtain, maintain or protect trademark rights covering our brands across the territories in which they are or may be offered, the value of these brands may be diminished, competitors may be able to dilute, harm, or take advantage of our brand recognition and reputation, and our ability to attract customer may be adversely affected.

We hold domain names relating to our brands, in the U.S. and internationally. The acquisition and maintenance of domain names are generally regulated by governmental agencies and their designees. The regulation of domain names may change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain all relevant domain names that relate to our brands. Furthermore, international rules governing the acquisition and maintenance of domain names in foreign jurisdictions are sometimes different from U.S. rules, and we may not be able to obtain all of our domains internationally. As a result of these factors, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our brands, trademarks or other proprietary rights. In addition, failure to secure or maintain domain names relevant to our brands could adversely affect our reputation and make it more difficult for users to find our websites and services.

Inadequate intellectual property protections could prevent us from defending our proprietary technology and intellectual property.

Our success depends, in part, upon our proprietary technology and intellectual property. We rely on a combination of patents, trademarks, trade secrets, copyrights, contractual restrictions, and other confidentiality safeguards to protect our proprietary technology. However, these measures may provide only limited protection and it may be costly and time-consuming to enforce compliance with our intellectual property rights. In some circumstances, we may not have adequate, economically feasible or realistic options for enforcing our intellectual property and we may be unable to detect unauthorized use. While we have a robust worldwide portfolio of issued patents and pending patent applications, there can be no assurance that any of these patents will not be challenged, invalidated or circumvented, that we will be able to successfully police infringement, or that any rights granted under these patents will in fact provide a competitive advantage to us.

In addition, our ability to register or protect our patents, copyrights, trademarks, trade secrets and other intellectual property may be limited in some foreign countries. As a result, we may not be able to effectively prevent competitors in these regions from utilizing our intellectual property, which could reduce our competitive advantage and ability to compete in those regions and negatively impact our business.

We also strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We typically enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure and use of, our proprietary information. However, we may not be successful in executing these agreements with every party who has access to our confidential information or contributes to the development of our technology or intellectual property rights. Those agreements that we do execute may be breached, and we may not have adequate remedies for any such breach. These contractual arrangements and the other steps we have taken to protect our intellectual property rights may not prevent the misappropriation or disclosure of our proprietary information nor deter independent development of similar technology or intellectual property by others.

Monitoring unauthorized use of the content on our websites and mobile applications, and our other intellectual property and technology, is difficult and costly. Our efforts to protect our proprietary rights and intellectual property may not have been and may not be adequate to prevent their misappropriation or misuse. Third parties from time to time copy content or other intellectual property or technology from our solutions without authorization and seek to use it for their own benefit. We generally seek to address such unauthorized copying or use, but we have not always been successful in stopping all unauthorized use of our content or other intellectual property or technology, and may not be successful in doing so in the future. Further, we may not have been and may not be able to detect unauthorized use of our technology or intellectual property, or to take appropriate steps to enforce our intellectual property rights.

Companies that operate in the same industry as us have experienced substantial litigation regarding intellectual property. We may find it necessary or appropriate to initiate claims or litigation to enforce our intellectual property rights or determine the validity and scope of intellectual property rights claimed by others. This or any other litigation to enforce or defend our intellectual property rights may be expensive and time consuming, could divert management resources and may not be adequate to protect our business.

We may be found to have infringed the intellectual property rights of others, which could expose us to substantial damages or restrict our operations.

We may be subject to legal claims that we have infringed the intellectual property rights of others. The ready availability of damages and royalties and the potential for injunctive relief have increased the costs associated with litigating and settling patent infringement claims. In addition, we may be required to indemnify our resellers and users for similar claims made against them. Any claims, whether or not meritorious, could require us to spend significant time, money, and other resources in litigation, pay damages and royalties, develop new intellectual property, modify, design around, or discontinue existing products, services, or features, or acquire licenses to the intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available at all or have acceptable terms. As a result, intellectual property claims against us could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

We may be subject to risks from international operations.

To the extent we expand our business operations in countries outside the U.S., our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; political or social unrest, economic instability, geopolitical tensions or war in a specific country or region (including the invasion of Ukraine by Russia); trade protection measures and other regulatory requirements which may affect our ability to provide our services; difficulties in staffing and managing international operations; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries and affiliates and transfer pricing implications. Any or all of these factors could have a material adverse impact on our future business, prospects, financial condition, operating results and cash flows.

Further, the impact on the global economy as a result of unforeseen global crises such as war (including the invasion of Ukraine by Russia and any related political or economic responses and counter-responses or otherwise by various global actors), strife, strikes, global health pandemics, earthquakes or major weather events or other uncontrollable events could negatively impact our revenue and operating results.

We may be engaged in legal proceedings that could cause us to incur unforeseen expenses and could divert significant operational resources and our management's time and attention.

From time to time, we may be subject to litigation or claims or become involved in other legal disputes or regulatory inquiries, including in the areas of patent infringement and anti-trust that could negatively affect our business operations and

financial condition. Such disputes could cause us to incur unforeseen expenses, divert operational resources, occupy a significant amount of our management's time and attention and negatively affect our business operations and financial condition. The outcomes of such matters are subject to inherent uncertainties, carrying the potential for unfavorable rulings that could include monetary damages and injunctive relief. We may not always have insurance coverage for defense costs, judgments, and settlements. We may also be subject to indemnification requirements with business partners, vendors, current and former officers and directors, and other third parties. Payments under such indemnification provisions may be material.

Our business is highly dependent on our billing systems.

A significant part of our revenues depends on prompt and accurate billing processes. Customer billing is a highly complex process, and our billing systems must efficiently interface with third-party systems, such as those of credit card processing companies. Our ability to accurately and efficiently bill our customers is dependent on the successful operation of our billing systems and the third-party systems upon which we rely, such as our credit card processor, and our ability to provide these third parties the information required to process transactions. In addition, our ability to offer new services or alternative-billing plans is dependent on our ability to customize our billing systems. Any failures or errors in our billing systems or procedures, or any disruptions in billing-related services provided by our vendors, could impair our ability to properly bill our current customers or attract and service new customers, and thereby could materially and adversely affect our business and financial results.

Increased numbers of credit and debit card declines in our business could lead to a decrease in our revenues or rate of revenue growth.

A significant number of our customers pay for our services through credit and debit cards, particularly with respect to our SoHo fax products. Weakness in certain segments of the credit markets and in the U.S. and global economies could result in increased numbers of rejected credit and debit card payments. We believe this could result in increased customer cancellations and decreased customer signups. Rejected credit or debit card payments, customer cancellations and decreased customer sign up may adversely impact our revenues and profitability.

If our business experiences excessive fraudulent activity or cannot meet evolving credit card company merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment and our customer base could decrease significantly.

A significant number of our customers, particularly for our SoHo fax products, authorize us to bill their credit card accounts directly for all service fees charged by us. If people pay for these services with stolen credit cards, we could incur substantial unreimbursed third-party vendor costs. We also incur losses from claims that the customer did not authorize the credit card transaction to purchase our service. If the numbers of unauthorized credit card transactions become excessive, we could be assessed substantial fines for excess chargebacks and could lose the right to accept credit cards for payment. In addition, we are subject to Payment Card Industry ("PCI") data security standards, which require periodic audits by independent third parties to assess our compliance. PCI standards are a comprehensive set of requirements for enhancing payment account data security. Failure to comply with the security requirements or rectify a security issue may result in fines or a restriction on accepting payment cards. Credit card companies may change the standards required to utilize their services from time to time. If we are unable to meet these new standards, we could be unable to accept credit cards. Further, the law relating to the liability of providers of online payment services is currently unsettled and states may enact their own rules with which we may not comply. Substantial losses due to fraud or our inability to accept credit card payments, which could cause our customer base to significantly decrease, could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Our success depends on our retention of our executive officers, senior management and our ability to hire and retain key personnel.

Our success depends on the skills, experience and performance of our key personnel, including our executive officers, senior management and skilled workforce. The loss of the services of one or more of our key employees could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. In particular, the recruitment and retention of top technical, marketing, sales and subject matter experts - particularly those with specialized knowledge, will be critical to our success. Competition for such people is intense, substantial and continuous, and we may not be able to attract, integrate or retain highly qualified technical, sales or managerial personnel in the future. In our effort to attract and retain key personnel, we may experience increased compensation costs that are not offset by either improved productivity or higher prices for our products or services

We have observed an increasingly competitive labor market. Increased employee turnover, changes in the availability of our employees and labor shortages more generally have resulted in, and could continue to result in, increased costs, and could adversely impact the efficiency of our operations.

Political instability and volatility in the economy may adversely affect segments of our customers, which may result in decreased usage and advertising levels, customer acquisition and customer retention rates and, in turn, could lead to a decrease in our revenues or rate of revenue growth.

Certain segments of our customers may be adversely affected by political instability and volatility in the general economy or any downturns. To the extent these customers' businesses are adversely affected by political instability or economic volatility, their usage of our services and/or our customer retention rates could decline. This may result in decreased cloud services subscription and/or usage revenues and decreased advertising, e-commerce or other revenues, which may adversely impact our revenues and profitability. For example, in connection with the conflict between Russia and Ukraine, the U.S. government has imposed severe economic sanctions and export controls and has threatened additional sanctions and controls. The full impact of these measures, or of any potential responses to them by Russia or other countries, on the businesses and results of operations of our customers or us is unknown.

Risks Related To Our Regulation Including Taxation

Changes in regulations relating to health information communication protocols could affect our business.

The Office of the National Coordinator for Health Information Technology ("ONC") is the principal U.S. federal entity charged with the coordination of nationwide efforts to implement and use health IT for the electronic exchange of health information. ONC regularly proposes legislative changes to incentivize the healthcare industry to adopt specific electronic tools to exchange health information. Changes to information exchange requirements could impact the use of cloud fax as a communication choice for healthcare entities and have a material impact on our business, prospects, financial condition, operating results and cash flows.

We face potential liability related to the privacy and security of health-related information we collect from, or on behalf of, our consumers and customers.

The privacy and security of information about the physical or mental health or condition of an individual is an area of significant focus in the U.S. because of heightened privacy concerns and the potential for significant consumer harm from the misuse of such sensitive data. We have procedures and technology in place intended to safeguard the information we receive from customers and users of our services from unauthorized access or use. The Privacy Standards and Security Standards under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establish a set of basic national privacy and security standards for the protection of individually identifiable health information by health plans, healthcare clearinghouses and certain healthcare providers, referred to as "covered entities", and the business associates with whom such covered entities contract for services. Notably, whereas HIPAA previously directly regulated only these covered entities, the Health Information Technology for Economic and Clinical Health Act of 2009 ("HITECH") makes certain of HIPAA's Privacy and Security Standards directly applicable to covered entities' business associates. As a result, business associates are now subject to significant civil and criminal penalties for failure to comply with applicable Privacy and Security Standards. Additionally, certain states have adopted comparable privacy and security laws and regulations, some of which may be more stringent than HIPAA.

HIPAA directly applies to covered entities such as our hospital clients. Since these clients disclose protected health information to our subsidiaries so that those subsidiaries can provide certain services to them, those subsidiaries are business associates of those clients. In addition, we may sign business associate agreements in connection with the provision of the products and services developed for other third parties or in connection with certain of our other services that may transmit or store protected health information.

Failure to comply with the requirements of HIPAA or HITECH or any of the applicable federal and state laws regarding patient privacy, identity theft prevention and detection, breach notification and data security may subject us to penalties, including civil monetary penalties and, in some circumstances, criminal penalties or contractual liability under agreements with our customers and clients. Any failure or perception of failure of our products or services to meet HIPAA, HITECH and related regulatory requirements could expose us to risks of investigation, notification, litigation, penalty or enforcement, adversely affect demand for our products and services and force us to expend significant capital and other resources to modify our products or services to address the privacy and security requirements of our clients and HIPAA and HITECH.

Our services may become subject to burdensome regulation, which could increase our costs or restrict our service offerings.

We believe that most of our services are “information services” under the Telecommunications Act of 1996 and related precedent, or, if not “information services,” that we are entitled to other exemptions, meaning that we generally are not currently subject to U.S. telecommunications services regulation at both the federal and state levels. We utilize data transmissions over public telephone lines and other facilities provided by third-party carriers. These transmissions are subject to foreign and domestic laws and regulation by the FCC, state public utility commissions and foreign governmental authorities. These regulations affect the availability of numbers, the prices we pay for transmission services, the administrative costs associated with providing our services, the competition we face from telecommunications service providers and other aspects of our market. However, as messaging and communications services converge and as the services we offer expand, we may become subject to FCC or other regulatory agency regulation. It is also possible that a federal or state regulatory agency could take the position that our offerings, or a subset of our offerings, are properly classified as telecommunications services or otherwise not entitled to certain exemptions upon which we currently rely. Such a finding could potentially subject us to fines, penalties or enforcement actions as well as liabilities for past regulatory fees and charges, retroactive contributions to various telecommunications-related funds, telecommunications-related taxes, penalties and interest. It is also possible that such a finding could subject us to additional regulatory obligations that could potentially require us either to modify our offerings in a costly manner, diminish our ability to retain customers, or discontinue certain offerings, in order to comply with certain regulations. Changes in the regulatory environment could decrease our revenues, increase our costs and restrict our service offerings. In many of our international locations, we are subject to regulation by the applicable governmental authority.

In the U.S., Congress, the FCC, and a number of states require regulated telecommunications carriers to contribute to federal and/or state Universal Service Funds (“USF”). Generally, USF is used to subsidize the cost of providing service to low income customers and those living in high cost or rural areas. Congress, the FCC and a number of states are reviewing the manner in which a provider’s contribution obligation is calculated, as well as the types of entities subject to USF contribution obligations. If any of these reforms are adopted, they could cause us to alter or eliminate our non-paid services and to raise the price of our paid services, which could cause us to lose customers. Any of these results could lead to a decrease in our revenues and net income and could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

The Telephone Consumer Protection Act (the “TCPA”) and FCC rules implementing the TCPA, as amended by the Junk Fax Act, prohibit sending unsolicited facsimile advertisements to telephone fax machines. The FCC, the Federal Trade Commission (“FTC”), or both may initiate enforcement action against companies that send “junk faxes” and individuals also may have a private cause of action. Although entities that merely transmit facsimile messages on behalf of others are not liable for compliance with the prohibition on faxing unsolicited advertisements, the exemption from liability does not apply to fax transmitters that have a high degree of involvement or actual notice of an illegal use and have failed to take steps to prevent such transmissions. We take significant steps to ensure that our services are not used to send unsolicited faxes on a large scale, and we do not believe that we have a high degree of involvement in or notice of the use of our service to broadcast junk faxes. However, because fax transmitters do not enjoy an absolute exemption from liability under the TCPA and related FCC and FTC rules, we could face inquiries from the FCC and FTC or enforcement actions by these agencies, or private causes of action, if someone uses our service for such impermissible purposes. If this were to occur and we were to be held liable for someone’s use of our service for transmitting unsolicited faxes, the financial penalties could cause a material adverse effect on our operations and harm our business reputation.

Likewise, the TCPA also prohibits placing calls or sending text messages to mobile phones without “prior express consent” subject to limited exceptions. Parties that solely enable calling or text messaging are only directly liable under the TCPA pursuant to federal common law vicarious liability principles. We take significant steps to ensure that users understand that they are responsible for how they use our technology including complying with relevant federal and state law. However, because we do not enjoy absolute exemption from liability under the TCPA and related FCC and FTC rules, we could face inquiries from the FCC and FTC or enforcement actions by these agencies, or private causes of action, if someone uses our service for such impermissible purposes. If this were to occur and we were to be held liable for someone’s use of our service for unauthorized calling or text messaging mobile users, the financial penalties could cause a material adverse effect on our operations and harm our business reputation.

Changes in our tax rates, changes in tax treatment of companies engaged in e-commerce, the adoption of new U.S. or international tax legislation, or exposure to additional tax liabilities may adversely impact our financial results.

We are a U.S.-based multinational company subject to taxes in the U.S. and foreign jurisdictions. Our provision for income taxes is based on a jurisdictional mix of earnings, statutory tax rates and enacted tax rules, including transfer pricing. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. As a result, our

future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. These changes may adversely impact our effective tax rate and harm our financial position and results of operations.

We are subject to examination by the U.S. Internal Revenue Service (“IRS”) and other domestic and foreign tax authorities and government bodies. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our income tax and other tax reserves. If our reserves are not sufficient to cover these contingencies, such inadequacy could materially adversely affect our business, prospects, financial condition, operating results, and cash flows.

In addition, due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to impose additional or new regulation on our business or levy additional or new sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in e-commerce. New or revised international, federal, state or local tax regulations or court decisions may subject us or our customers to additional sales, income and other taxes. For example, the European Union, certain member states, and other countries, as well as states within the United States, have proposed or enacted taxes on online advertising and marketplace service revenues. The application of existing, new or revised taxes on our business, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of selling products over the internet. Any of these events could have a material adverse effect on our business, financial condition, and operating results.

We are subject to examination for indirect taxes in various states, municipalities and foreign jurisdictions. Management currently believes we have adequate reserves established for these matters. If a material indirect tax liability associated with prior periods were to be recorded, for which there is not a reserve, it could materially affect our financial results for the period in which it is recorded.

Taxing authorities may successfully assert that we should have collected, or in the future should collect sales and use, telecommunications or similar taxes, and we could be subject to liability with respect to past or future tax, which could adversely affect our operating results.

We believe we have provided for state and local sales and use tax, excise, utility user, and ad valorem taxes, fees and surcharges or other similar obligations in all relevant jurisdictions in which we generate sales, based on our understanding of the applicable laws in those jurisdictions. Such tax, fees and surcharge laws and rates vary greatly by jurisdiction, and the application of such taxes to e-commerce businesses, such as ours, is a complex and evolving area. The jurisdictions where we have sales may apply more rigorous enforcement efforts or take more aggressive positions in the future that could result in greater tax liability. In addition, in the future we may also decide to engage in activities that would require us to pay sales and use, telecommunications, or similar taxes in new jurisdictions. Such tax assessments, penalties and interest for failure to comply with current or future laws and regulations may materially adversely affect our business, financial condition and operating results. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

We are subject to a variety of new and existing laws and regulations which could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices.

The application of existing domestic and international laws and regulations to us relating to issues such as defamation, pricing, advertising, taxation, promotions, billing, consumer protection, export controls, accessibility, content regulation, data privacy, intellectual property ownership and infringement, and accreditation in many instances is unclear or unsettled. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international activities. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. We may incur substantial liabilities for expenses necessary to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

In certain instances, we may be subject to enhanced privacy obligations based on the type of information we store and process. While we believe we are in compliance with the relevant laws and regulations, we could be subject to enforcement actions, fines, forfeitures and other adverse actions.

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the “CAN-SPAM Act”), which allows for penalties that run into the millions of dollars, requires commercial emails to include identifying information from the sender and a mechanism for the receiver to opt out of receiving future emails. Several states have enacted additional, more

restrictive and punitive laws regulating commercial email. Foreign legislation exists as well, including Canada’s Anti-Spam Legislation and the European laws that have been enacted pursuant to the GDPR and European Union Directive 2002/58/EC and its amendments. We use email as a significant means of communicating with our existing and potential users. We believe that our email practices comply with the requirements of the CAN-SPAM Act, state laws, and applicable foreign legislation. If we were ever found to be in violation of these laws and regulations, or any other laws or regulations, our business, financial condition, operating results and cash flows could be materially adversely affected.

Many third-parties are examining whether the Americans with Disabilities Act (“ADA”) concept of public accommodation also extends to websites and to mobile applications. Generally, some plaintiffs have argued that websites and mobile applications are places of public accommodation under Title III of the ADA and, as such, must be equipped so that individuals with disabilities can navigate and make use of subject websites and mobile applications. We cannot predict how the ADA will ultimately be interpreted as applied to websites and mobile applications. We believe we are in compliance with relevant law. If the law changes with the ADA, then any adjustments or requirements to implement any changes prescribed by the ADA could result in increased costs to our business, we may become subject to injunctive relief, plaintiffs may be able to recover attorneys’ fees, and it is possible that, while the ADA does not provide for monetary damages, we become subject to such damages through state consumer protection or other laws. It is possible that these potential liabilities could cause a material adverse effect on our operations and harm our business reputation.

As of May 25, 2018, certain data transfers from and between the European Union (“EU”) are subject to the GDPR. As discussed in more detail below, the GDPR prohibits data transfers from the EU to other countries outside of the EU, including the U.S., without appropriate security safeguards and practices in place. Previously, for certain data transfers from and between the EU and the U.S., we, like many other companies, had relied on what is referred to as the “EU-U.S. Safe Harbor,” in order to comply with privacy obligations imposed by EU countries. The European Court of Justice invalidated the EU-U.S. Safe Harbor. Additionally, other countries that relied on the EU-U.S. Safe Harbor that were not part of the EU have also found that data transfers to the U.S. are no longer valid based on the European Court of Justice ruling. Although U.S. and EU policymakers approved a new framework known as “Privacy Shield” that would allow companies like us to continue to rely on some form of a safe harbor for the transfer of certain data from the EU to the U.S., on July 16, 2020, the Court of Justice of the European Union issued a judgment declaring as “invalid” the European Commission’s Decision (EU) 2016/1250 on the adequacy of the protection provided by the EU-U.S. Privacy Shield, rendering it invalid. We cannot predict how or if these issues will be resolved nor can we evaluate any potential liability at this time.

The Company has put into place various alternative grounds on which to rely in order to be in compliance with relevant law for the transfer of data from overseas locations to the U.S. which have not been invalidated by the European Court of Justice. Some independent data regulators have adopted the position that other forms of compliance are also invalid though the legal grounds for these findings remain unclear at this time. We cannot predict at this time whether the alternative grounds that we continue to implement will be found to be consistent with relevant laws nor what any potential liability may be at this time.

On June 28, 2018, the California legislature enacted the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020 and became enforceable starting July 1, 2020. The CCPA, which covers businesses that obtain or access personal information on California resident consumers grants consumers enhanced privacy rights and control over their personal information and imposes significant requirements on covered companies with respect to consumer data privacy rights. The CCPA provides consumers with the right to opt out of the sale of their personal information including the requirement to include a “Do Not Sell” link on our websites and applications that sell personal data of California resident consumers. We believe we have implemented such links to the extent necessary and our privacy policies have been updated and posted on our websites. Further, on November 3, 2020, the California Privacy Rights Act (the “CPRA”) was voted into law by California residents. The CPRA significantly amends the CCPA, and imposes additional data protection obligations on companies doing business in California, including additional consumer rights processes and opt outs for certain uses of sensitive data. It also creates a new California data protection agency specifically tasked to enforce the law, which could result in increased regulatory scrutiny of California businesses in the areas of data protection and security. The substantive requirements for businesses subject to the CPRA went into effect on January 1, 2023 and become enforceable on July 1, 2023. Similar laws have been passed in several other states, and have been proposed in additional states and at the federal level.

Failure or perceived failure by us to comply with our policies, applicable requirements, or industry self-regulatory principles related to the collection, use, sharing or security of personal information, or other privacy, data-retention or data-protection matters could result in a loss of user confidence in us, damage to our brands, and ultimately in a loss of users and advertising partners, which could adversely affect our business. Changes in these or any other laws and regulations or the interpretation of them could increase our future compliance costs, limit the amount and type of data we can collect, transfer, share, or sell, make our products and services less attractive to our users, or cause us to change or limit our business practices.

Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant civil or criminal liabilities.

If we are subject to burdensome laws or regulations or if we fail to adhere to the requirements of public or private regulations, our business, financial condition and results of operations could suffer.

The requirements of being a public company, including developing and maintaining proper and effective disclosure controls and procedures and internal control over financial reporting, may strain our resources and divert management's attention away from other business concerns.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of Nasdaq and other applicable securities rules and regulations that impose various requirements on public companies. Our management and other personnel are required to devote a substantial amount of time to compliance with these requirements and as an independent public company, such compliance has resulted in increased legal, accounting and financial costs. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and improve the effectiveness of such controls, we have expended, and anticipate that we will continue to expend, significant resources. For example, we have hired and expect to continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge to assist in our compliance efforts. We have also incurred significant expenses and devoted substantial management effort toward compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. To assist us in complying with these requirements we may need to hire more employees in the future, or engage outside consultants, which will increase our operating expenses. As reported elsewhere in this Annual Report on Form 10-K, we have identified material weaknesses in our internal control over financial reporting.

We cannot assure you that additional material weaknesses in our internal control over financial reporting will not be identified in the future. While we have designed and implemented, or expect to implement, measures to remediate these material weaknesses, our efforts to remediate these material weaknesses may not be effective. Moreover, we are also continuing to develop our internal controls and processes. Despite significant investment, our current controls and any new controls that we develop may become inadequate because of changes in business conditions. For example, because we have acquired companies in the past and may continue to do so in the future, we need to effectively expend resources to integrate the controls of these acquired entities with ours. Any failure to implement and maintain effective internal control over financial reporting could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting will be required to be included in the periodic reports that we file with the SEC. Any current or future material weakness in our internal control over financial reporting, or adverse report thereon, could cause investors to lose confidence in the accuracy and completeness of our financial reports, could cause the market price of our common stock to decline, and could subject us to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities or shareholder litigation.

Risks Related To Our Stock

The trading market for our common stock has existed for only a short period following the distribution. Our stock price may fluctuate significantly.

Prior to the distribution, there was no public market for our common stock. An active trading market for our common stock commenced only recently following the distribution and may not be sustainable. The market price of our common stock has in the past, and may continue to, fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results;
- changes in earnings estimated by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of comparable companies;
- changes to the regulatory and legal environment in which we operate; and
- domestic and worldwide economic conditions.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could also adversely affect the trading price of our common stock.

We do not intend to pay dividends on our common stock.

We have no present intention to pay cash dividends on our common stock. Any determination to pay dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our existing and any future debt and other factors that our board of directors deems relevant.

We have identified material weaknesses in our internal control over financial reporting, and if our remediation of such material weaknesses is not effective, or if we experience additional material weaknesses or otherwise fail to design and maintain effective internal control over financial reporting we may not be able to accurately report our financial results in a timely manner, which may adversely affect investor confidence in us and materially and adversely affect our business and operating results.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Act and are required to prepare our financial statements according to the rules and regulations required by the SEC. In addition, the Exchange Act requires that we file annual, quarterly and current reports. Our failure to prepare and disclose this information in a timely manner or to otherwise comply with applicable law could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing. In addition, the Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting and disclosure purposes. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. As reported elsewhere in this Annual Report on Form 10-K, we have identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis.

We cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the internal control deficiencies that led to our material weaknesses, that the material weaknesses will be remediated on a timely basis, or that additional material weaknesses will not be identified in the future. If the steps we take do not remediate the outstanding material weaknesses in a timely manner, there could continue to be a possibility that these control deficiencies or others could result in a material misstatement of our annual or interim consolidated financial statements. Further, our current internal control over financial reporting and any additional internal control over financial reporting that we develop may become inadequate because of changes in conditions in our business. We also cannot assure you that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. If we are not able to remediate these existing material weaknesses and document effective internal control over financial reporting, our independent registered public accounting firm will not be able to certify as to the effectiveness of our internal control over financial reporting, if and when required.

Matters affecting our internal controls, including the material weaknesses described above, may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, violations of applicable stock exchange listing rules, and litigation brought by our shareholders and others. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. This could have a material and adverse effect on us by, for example, leading to a decline in our share price and impairing our ability to raise additional capital, and also could result in litigation brought by our shareholders and others.

Future sales by Ziff Davis or others of our common stock, or the perception that such sales may occur, could depress our common stock price.

Ziff Davis has informed us that as of December 31, 2022, Ziff Davis owned 5% of the economic interest and voting power of our outstanding common stock. Future sales of these shares in the public market will be subject to the volume and other restrictions of Rule 144 under the Securities Act of 1933, as amended (the “Securities Act”), for so long as Ziff Davis is deemed to be our affiliate, unless the shares to be sold are registered with the Securities and Exchange Commission, or SEC. We are a party to a Stockholder and Registration Rights Agreement with Ziff Davis, pursuant to which we agreed, upon request of Ziff Davis, we will use our reasonable best efforts to effect the registration under applicable federal and state securities laws of any shares of our common stock that it retains. In June 2022, the registration statement on Form S-1 we filed with respect to the shares of our common stock held by Ziff Davis became effective, and Ziff Davis has informed us that it reduced its position in our common stock from 19.9% to approximately 5% over the course of 2022. We are unable to predict with certainty whether or when Ziff Davis will distribute to holders of Ziff Davis debt and/or Ziff Davis stockholders, or sell, a substantial number of their remaining shares of our common stock following the distribution. Sales by Ziff Davis or others of a substantial number of shares after the distribution, or a perception that such sales could occur, could significantly reduce the market price of our common stock.

Immediately following the distribution, we filed a registration statement on Form S-8 registering under the Securities Act the shares of our common stock reserved for issuance under our 2021 Equity Incentive Plan. If equity securities granted under our 2021 Equity Incentive Plan are sold or it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially. These sales also could impede our ability to raise future capital.

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws, and of Delaware law, may prevent or delay an acquisition of Consensus, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain, and Delaware law contains, provisions that are intended to deter coercive takeover practices and inadequate takeover bids and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions will, among other things:

- permit our Board of Directors to issue one or more series of preferred stock with such powers, rights and preferences as the Board of Directors shall determine;
- subject to a five-year sunset from the date of the distribution, provide for a classified Board of Directors, with each class serving a staggered three-year term, which could have the effect of making the replacement of incumbent directors more time consuming and difficult;
- provide that, as long as our Board of Directors is classified, our directors can be removed for cause only;
- prohibit stockholder action by written consent;
- limit the ability of stockholders to call a special meeting of stockholders;
- provide that vacancies on the Board of Directors could be filled only by a majority vote of directors then in office, even if less than a quorum, or by a sole remaining director; and
- establish advance notice requirements for stockholder proposals and nominations of candidates for election as directors.

These provisions may prevent or discourage attempts to remove and replace incumbent directors. In addition, these limitations may adversely affect the prevailing market price and market for our common stock if they are viewed as limiting the liquidity of our stock or discouraging takeover attempts in the future.

Because we have not chosen to be exempt from Section 203 of the Delaware General Corporation Law (“DGCL”), this provision could also delay or prevent a change of control that stockholders may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or their affiliates becomes the holder of more than 15% of the corporation’s outstanding voting stock.

In addition, an acquisition or further issuance of our common stock could trigger the application of Section 355(e) of the Code, causing the distribution to be taxable to Ziff Davis. Under the tax matters agreement, we would be required to indemnify Ziff Davis for the resulting tax, and this indemnity obligation might discourage, delay or prevent a change of control that you may consider favorable.

Our amended and restated bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, and the United States federal district courts as the exclusive forum for claims under the Securities Act, which could limit our stockholders’ ability to obtain what such stockholders believe to be a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that, unless Consensus consents in writing to the selection of an alternative forum, the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of Consensus, (b) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or other employee, agent or stockholder of Consensus to Consensus or its stockholders, (c) any action asserting a claim against Consensus or any current or former director, officer or other employee of Consensus arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware or (d) any action asserting a claim against Consensus or any current or former director, officer or other

employee of Consensus governed by the internal affairs doctrine shall, in each case to the fullest extent permitted by law, be the Court of Chancery of the State of Delaware, or if such court does not have subject matter jurisdiction, a the federal district court for the District of Delaware. Furthermore, unless Consensus consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act or the rules or regulations thereunder. Our exclusive forum provision will not apply to suits brought to enforce any liability or duty created by the Exchange Act or the rules and regulations thereunder, and investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. These exclusive provisions may limit a stockholder's ability to bring a claim in a judicial forum that he, she or it believes to be favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. It is possible that a court could find these exclusive forum provisions inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, and we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially 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 of directors.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for Consensus' common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. We currently have six research analysts covering Consensus' common stock. If one or more of the analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of the analysts ceases coverage of Consensus' common stock or fails to publish reports on us regularly, demand for Consensus' common stock could decrease, which could cause Consensus' common stock price or trading volume to decline.

Risks Related To the Separation

If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, Ziff Davis, Consensus and Ziff Davis stockholders could be subject to significant tax liabilities, and, in certain circumstances, Consensus could be required to indemnify Ziff Davis for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.

Prior to the completion of the separation and distribution the Parent Company received (i) a private letter ruling from the IRS regarding certain U.S. federal income tax matters relating to the separation and related transactions and (ii) an opinion from its tax advisors regarding the qualification of the distribution, together with certain related transactions, as generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) of the Code. Such opinions and IRS private letter ruling are based, among other things, on various facts and assumptions, as well as certain representations, statements and undertakings of Ziff Davis and Consensus. If any of these facts, assumptions, representations, statements or undertakings is, or becomes, inaccurate or incomplete, or if Ziff Davis or Consensus breach any of their respective covenants contained in any of the separation-related agreements or in the documents relating to the IRS private letter ruling and/or any tax opinion, the IRS private letter ruling and/or any tax opinion may be invalid. Accordingly, notwithstanding receipt of the IRS private letter ruling and/or opinions of counsel or other external tax advisors, the IRS could determine that the distribution and certain related transactions should be treated as taxable transactions for U.S. federal income tax purposes if it determines that any of the facts, assumptions, representations, statements or undertakings that were included in the request for the IRS private letter ruling or on which any opinion was based are false or have been violated. In addition, the IRS private letter ruling does not address all of the issues that are relevant to determining whether the distribution, together with certain related transactions, qualifies as a transaction that is generally tax-free for U.S. federal income tax purposes, and an opinion of outside counsel or other external tax advisor represents the judgment of such counsel or advisor which is not binding on the IRS or any court. Accordingly, notwithstanding receipt by of the IRS private letter ruling and the tax opinions referred to above, there can be no assurance that the IRS will not assert that the distribution and/or certain related transactions do not qualify for tax-free treatment for U.S. federal income tax purposes or that a court would not sustain such a challenge. In the event the IRS were to prevail with such challenge, Ziff Davis, Consensus and Ziff Davis's stockholders could be subject to significant U.S. federal income tax liability.

If the distribution, together with certain related transactions, fails to qualify as a transaction that is generally tax-free under Sections 355 and 368(a)(1)(D) of the Code, in general, for U.S. federal income tax purposes, Ziff Davis would recognize taxable gain as if it has sold the Consensus common stock in a taxable sale for its fair market value and Ziff Davis stockholders who received shares of Consensus common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

Under the tax matters agreement entered into by Ziff Davis and Consensus in connection with the separation, Consensus generally is required to indemnify Ziff Davis for any taxes resulting from the separation (and any related costs and other damages) to the extent such amounts resulted from (i) an acquisition of all or a portion of the equity securities or assets of Consensus, whether by merger or otherwise (and regardless of whether Consensus participated in or otherwise facilitated the acquisition), (ii) other actions or failures to act by Consensus or (iii) any of the representations or undertakings of Consensus contained in any of the separation-related agreements or in the documents relating to the IRS private letter ruling and/or any tax opinion being incorrect or violated. Any such indemnity obligations could be material.

In addition, Ziff Davis, Consensus and their respective subsidiaries may incur certain tax costs in connection with the separation, including non-U.S. tax costs resulting from separations in multiple non-U.S. jurisdictions that do not legally provide for tax-free separations, which may be material.

We may not be able to engage in desirable strategic or capital-raising transactions following the separation.

To preserve the tax-free treatment of the separation and the distribution for U.S. federal income tax purposes, for the three-year period following the separation, we are prohibited under the tax matters agreement, except in specific circumstances, from: (i) entering into any transaction pursuant to which all or a portion of the shares of Consensus common stock would be acquired, whether by merger or otherwise, (ii) issuing equity securities beyond certain thresholds, (iii) repurchasing shares of our common stock other than in certain open-market transactions, (iv) ceasing to actively conduct certain of our businesses or (v) taking or failing to take any other action that would prevent the distribution and certain related transactions from qualifying as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code. These restrictions may limit for a period of time our ability to pursue certain strategic transactions, equity issuances or repurchases or other transactions that we may believe to be in the best interests of our stockholders or that might increase the value of our business.

We have a limited history of operating as an independent company and have incurred and expect to continue to incur increased administrative and other costs following the separation by virtue of our status as an independent public company. Our historical financial information is not necessarily representative of the results that we would have achieved as a separate, publicly traded company and may not be a reliable indicator of our future results.

Our historical financial information for periods prior to the separation included in this Annual Report on Form 10-K is derived from the consolidated financial statements and accounting records of J2 Cloud Services, LLC (now Consensus Cloud Solutions, LLC) (“Historical Cloud Services”), previously a wholly owned subsidiary of J2 Global, Inc. (now Ziff Davis). As a result, the historical financial information for periods prior to the separation included in this Annual Report on Form 10-K does not necessarily reflect the financial position, results of operations or cash flows of Consensus following the separation or what Consensus’ financial position, results of operations and cash flows would have been had Consensus been a separate, standalone business during such periods. Furthermore, the Historical Cloud Services financial information does not necessarily reflect the financial condition, results of operations or cash flows that we would have achieved as a separate, publicly traded company during the periods presented or those that we will achieve in the future primarily as a result of the following factors, among others:

- Prior to the separation, while our business operated on a relatively standalone basis, Ziff Davis or one of its affiliates performed various corporate functions for us such as legal, treasury, accounting, internal auditing, human resources and corporate affairs, and also provided our IT and other corporate infrastructure. Our historical financial results for periods prior to the separation reflect allocations of corporate expenses from Ziff Davis for such functions were likely less than the expenses we would have incurred had we operated as a separate publicly traded company. Following the separation, our costs related to such functions previously performed by Ziff Davis have increased.
- To some extent historically, we shared certain economies of scope and scale with Ziff Davis. Although we have entered into certain agreements (including a transition services agreement) with Ziff Davis in connection with the separation, these arrangements may not fully capture the benefits that we enjoyed as a result of being with a subsidiary of Ziff Davis and could result in us paying higher charges than in the past for these services.
- While Historical Cloud Services has engaged in some debt financing transactions specifically for its business, a substantial portion of its working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, were historically satisfied as part of the corporate-wide cash management policies of Ziff Davis. In connection with the separation, we have entered into certain financing arrangements. We

may also need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements.

- Following the separation, the cost of capital for our business may be higher than Ziff Davis's cost of capital prior to the separation.
- Other significant changes may occur in our cost structure, management, financing and business operations as a result of operating as a company separate from Ziff Davis.

Our debt obligations could adversely affect our business and our ability to meet our obligations and pay dividends.

As of December 31, 2022, Consensus has total outstanding indebtedness of approximately \$805 million. We may also incur additional indebtedness in the future. This significant amount of debt could have important adverse consequences to us and our investors, including:

- requiring a substantial portion of our cash flow from operations to make principal and interest payments;
- making it more difficult to satisfy other obligations;
- increasing the risk of a future credit ratings downgrade of our debt, which could increase future debt costs and limit the future availability of debt financing;
- increasing our vulnerability to general adverse economic, competitive and industry conditions;
- reducing the cash flows available to fund capital expenditures and other corporate purposes and to grow our business;
- limiting our flexibility in planning for, or reacting to, changes in our business and industry;
- placing us at a competitive disadvantage compared with our less-leveraged competitors;
- increasing our cost of borrowing; and
- limiting our ability to borrow additional funds as needed or take advantage of business opportunities as they arise, pay cash dividends or repurchase our common stock.

In addition, the indentures governing our indebtedness contain, and the agreements governing any future indebtedness may contain, restrictive covenants that may limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of substantially all of our debt.

Furthermore, we may be able to incur substantial additional indebtedness in the future. The terms of our outstanding indebtedness limit, but do not prohibit, us from incurring additional indebtedness, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions will also not prevent us from incurring obligations that do not constitute "indebtedness." If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments due on our debt obligations or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic, industry, and competitive conditions and to certain financial, business, legislative, regulatory, and other factors beyond our control, including those discussed elsewhere in this "Risk Factors" section. We may be unable to maintain a level of cash flow sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to

implement any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The indentures governing our indebtedness will restrict, and the agreements governing any future indebtedness may restrict, our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

If we cannot make payments on our debt obligations, we will be in default and all outstanding principal and interest on our debt may be declared due and payable and we could be forced into bankruptcy or liquidation.

In addition, any event of default or declaration of acceleration under one debt instrument could result in an event of default under one or more of our other debt instruments.

We or Ziff Davis may fail to perform under the transition services agreement and other transaction agreements that were executed as part of the separation.

In connection with the separation, we entered into several agreements with Ziff Davis, including among others a transition services agreement, a separation agreement, a tax matters agreement, an employee matters agreement, an intellectual property license agreement and a stockholder and registration rights agreement with respect to Ziff Davis' continuing ownership of Consensus common stock. The transition services agreement provides for the performance of certain services by each company for the benefit of the other for a transition period after the separation. The separation agreement, tax matters agreement, employee matters agreement and intellectual property license agreement determine the allocation of assets and liabilities between the companies following the separation for those respective areas and include any necessary indemnifications related to liabilities and obligations. We rely on Ziff Davis to satisfy its performance and payment obligations under these agreements. If Ziff Davis is unable to satisfy its obligations under these agreements, including its obligations with respect to the provision of transition services, we could incur operational difficulties or losses that could have a material and adverse effect on our business, financial condition and results of operations.

In addition, if we do not have in place our own systems and services, or if we do not have agreements with other providers of these services in place once certain transition services expire, we may not be able to operate our business effectively and our profitability may decline. We are in the process of creating our own, or engaging third parties to provide, systems and services to replace many of the systems and services that Ziff Davis currently provides to us and/or will provide to us under the transition services agreement. However, we may not be successful in implementing these systems and services or in transitioning from Ziff Davis's systems to our own systems, and may pay more for such systems and services that we currently pay or that we will pay under the transition services agreement.

Potential indemnification liabilities to Ziff Davis pursuant to the separation agreement could materially and adversely affect our business, financial condition, results of operations and cash flows.

The separation agreement provide for, among other things, indemnification obligations generally designed to make us financially responsible for (i) liabilities primarily associated with the Consensus business; (ii) our failure to pay, perform or otherwise promptly discharge any such liabilities or contracts, in accordance with their respective terms, whether prior to, at or after the distribution; (iii) any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment or understanding by Ziff Davis for our benefit, unless related to liabilities primarily associated with the Ziff Davis business; (iv) any breach by us of the separation agreement or any of the ancillary agreements or any action by us in contravention of our amended and restated certificate of incorporation or amended and restated bylaws; and (v) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the registration statement of which this Form 10-K forms a part (as amended or supplemented) or any other disclosure document that describes the separation or the distribution or Consensus and its subsidiaries or primarily relates to the transactions contemplated by the separation agreement, subject to certain exceptions. If we are required to indemnify Ziff Davis under the circumstances set forth in the separation agreement, we may be subject to substantial liabilities.

In connection with the separation, Ziff Davis is required to indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that Ziff Davis's ability to satisfy its indemnification obligation will not be impaired in the future. Additionally, third parties could also seek to hold us responsible for any of the liabilities that Ziff Davis has agreed to retain. In addition, Ziff Davis's insurers may attempt to deny us coverage for liabilities associated with certain occurrences of indemnified liabilities prior to the separation.

Moreover, even if we ultimately succeed in recovering from Ziff Davis or such insurance providers any amounts for which we are held liable, we may be temporarily required to bear these losses. Each of these risks could negatively affect our business, financial position, results of operations and cash flows.

We are subject to continuing contingent liabilities following the separation.

Following the separation, there are several significant areas where the liabilities of Ziff Davis may become our obligations. For example, under the Code and the related rules and regulations, each corporation that was a member of the Ziff Davis consolidated U.S. federal income tax return group during a taxable period or portion of a taxable period ending on or before the effective date of the distribution is severally liable for the U.S. federal income tax liability of the Ziff Davis consolidated U.S. federal income tax return group for that taxable period. Consequently, if Ziff Davis is unable to pay the consolidated U.S. federal income tax liability for a pre-separation period, we could be required to pay the amount of such tax, which could be substantial and in excess of the amount allocated to us under the tax matters agreement. Other provisions of federal law establish similar liability for other matters, including laws governing tax-qualified pension plans, as well as other contingent liabilities.

Potential liabilities may arise due to fraudulent transfer considerations, which would adversely affect our financial condition and results of operations.

In connection with the separation and distribution, Ziff Davis undertook several corporate reorganization transactions involving its subsidiaries which, along with the separation and distribution, may be subject to federal and state fraudulent conveyance and transfer laws. If, under these laws, a court were to determine that, at the time of the separation and distribution, any entity involved in these reorganization transactions or the separation and distribution:

- was insolvent;
- was rendered insolvent by reason of the separation and distribution;
- had remaining assets constituting unreasonably small capital; or
- intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured, then the court could void the separation and distribution, in whole or in part, as a fraudulent conveyance or transfer.

The court could then require our stockholders to return to Ziff Davis some or all of the shares of Consensus common stock issued in the distribution, or require Ziff Davis or Consensus, as the case may be, to fund liabilities of the other company for the benefit of creditors. The measure of insolvency will vary depending upon the jurisdiction whose law is being applied. Generally, however, an entity would be considered insolvent if the fair value of its assets was less than the amount of its liabilities, or if it incurred debt beyond its ability to repay the debt as it matures.

Certain members of management, directors and shareholders hold stock in both Ziff Davis and Consensus, and as a result may face actual or potential conflicts of interest.

Certain members of management and directors own both Ziff Davis common stock and Consensus common stock. This ownership overlap could create, or appear to create, potential conflicts of interest when our management and directors face decisions that could have different implications for us and Ziff Davis. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between Ziff Davis and us regarding the terms of the agreements governing the distribution and our relationship with Ziff Davis thereafter. Potential conflicts of interest may also arise out of any commercial arrangements that we or Ziff Davis may enter into in the future.

As an independent, publicly traded company, we may not enjoy the same benefits that were available to us as a business unit of Ziff Davis. It may be more costly for us to separately obtain or perform the various corporate functions that Ziff Davis performed for us prior to the separation, such as legal, treasury, accounting, auditing, human resources, investor relations, public affairs, finance and cash management services.

Historically, our business was operated as one of Ziff Davis's business units, and Ziff Davis performed certain of the corporate functions for our operations. Following the distribution, Ziff Davis provided support to us with respect to certain of these functions on a transitional basis. We have replicated, and must continue to replicate, certain systems, infrastructure and

personnel to which we no longer have access and have incurred, and expect to continue to incur, capital and other costs associated with developing and implementing our own support functions in these areas. Such costs could be material.

As an independent, publicly traded company, we may become more susceptible to market fluctuations and other adverse events than we would have been were we still a part of Ziff Davis. As part of Ziff Davis, we were able to enjoy certain benefits from Ziff Davis's operating diversity and available capital for investments and other uses. As an independent, publicly traded company, we do not have similar operating diversity and may not have similar access to capital markets, which could have a material adverse effect on our business, results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at 700 S. Flower Street, Los Angeles, California 90017. This location is under a lease that expires on January 31, 2031 and has approximately 48,000 square feet of office space. In 2021, the Company recorded an impairment of this location primarily due to a "partial remote" work model for a significant number of employees, see Note 10 - Leases in Item 8, Notes to Consolidated Financial Statements. We believe that our existing facilities are adequate to meet our current requirements.

Item 3. Legal Proceedings

See Note 11 - Commitments and Contingencies to our accompanying consolidated financial statements for a description of our legal proceedings.

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

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol “CCSI”.

Holders

We have 170 registered stockholders as of March 24, 2023. That number excludes the beneficial owners of shares held in “street” name or held through participants in depositories.

Dividends

We have no present intention to pay cash dividends on our common stock. Any determination to pay dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our existing and any future debt and other factors that our board of directors deems relevant. Our current debt agreements could trigger restriction on dividend payments under certain circumstances.

Recent Sales of Unregistered Securities

Not applicable.

Issuer Purchases of Equity Securities

Not applicable.

Performance Graph

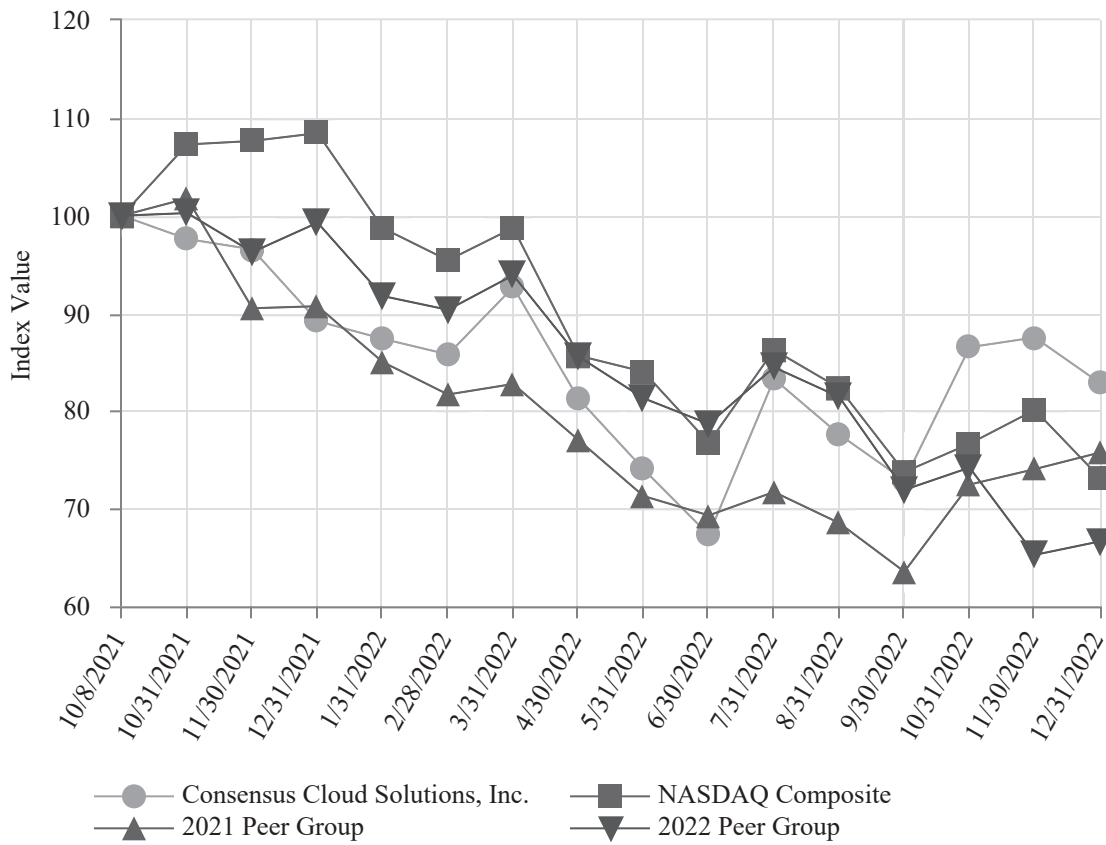
This performance graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act of 1934, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Consensus under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total stockholder return for Consensus, the Nasdaq Composite and an index of companies that Consensus has selected as its peer group in the cloud services for business space.

Consensus’ peer group index for 2021 consists of Bottomline Technologies, Inc., Box, Inc. CommonVault Systems, Inc., Computer Programs and Systems, Inc., Ebix, Inc., HealthStream, Inc. LiveRamp, Inc., NextGen Healthcare, Inc. OneSpan, Inc. Phreesia, Inc., Progress Software Corp., SecureWorks Corp., Tabula Rasa HealthCare, Inc., Vocera Communications, Inc. and Yext, Inc.

Consensus’ peer group index for 2022 consists of Box, Inc. CommonVault Systems, Inc., Computer Programs and Systems, Inc., Ebix, Inc., Evolent Health, Inc., HealthStream, Inc., NextGen Healthcare, Inc., Omnicell, Inc., OneSpan, Inc., Phreesia, Inc., Progress Software Corp., R1 Rcm Holdco, Inc., SecureWorks Corp., Tabula Rasa HealthCare, Inc., Verint Systems, Inc., Veradigm, Inc. and Yext, Inc. Given our businesses’ continued focus on developing healthcare interoperability solutions we removed LiveRamp, Inc. Both Vocera Communications, Inc. and Bottomline Technologies, Inc. were removed because they were acquired during 2022.

Consensus common stock has been listed on the Nasdaq under the symbol “CCSI” since October 8, 2021. Prior to that time, there was no public market for our common stock. Measurement points for the performance graph are October 8, 2021 and the last trading day of each month from October 2021 to December 2022. The graph assumes that \$100 was invested on October 8, 2021 in Consensus’ common stock and in each of the indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



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Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, the following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. These forward-looking statements involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed in Part I, Item 1A - “Risk Factors” in this Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Readers should carefully review the Risk Factors and the risk factors set forth in other documents we file from time to time with the SEC.

Overview

Consensus is a leading provider of secure information delivery services with a scalable Software-as-a-Service (“SaaS”) platform. Consensus serves approximately 1 million customers of all sizes, from enterprises to individuals, across approximately 50 countries and multiple industry verticals including healthcare, government, financial services, law and education. Beginning as an online fax company over two decades ago, Consensus has evolved into a leading global provider of enterprise secure communication solutions. Consensus is well positioned to capitalize on advancements in how people and businesses share private documents and information. Its mission is to democratize secure information interchange across technologies and industries, and solve the healthcare interoperability challenge. Consensus’s communication and interoperability solutions enable its customers to securely and cooperatively access, exchange and use information across organizational, regional and national boundaries.

The global economy continues to be impacted by macroeconomic uncertainty and volatility resulting from the COVID-19 pandemic, Russia’s invasion of Ukraine, inflationary pressures, supply chain disruptions and challenges and labor market pressures. During fiscal 2022 and 2021, we have observed an increasingly competitive labor market. Increased employee turnover, changes in the availability of our employees, including as a result of COVID-19-related absences and labor shortages generally have resulted in, and could continue to result in, increased costs, and could adversely impact the efficiency of our operations. We continue to actively monitor the situation and will continue to adapt our business operations as necessary.

Key Performance Metrics

We use the following metrics to evaluate our business, including the growth of our business, the value provided by customers to our business and our customer retention.

The following table sets forth certain key operating metrics for our continuing operations for the years ended December 31, 2022, 2021 and 2020 (in thousands, except for percentages):

	Years ended December 31,		
	2022	2021	2020
<u>Revenue (\$ in thousands)</u>			
Corporate	\$ 192,195	\$ 169,732	\$ 148,981
SoHo	170,199	182,390	181,784
	<u>362,394</u>	<u>352,122</u>	<u>330,765</u>
Other Revenues	28	542	403
Consolidated	<u>\$ 362,422</u>	<u>\$ 352,664</u>	<u>\$ 331,168</u>
<u>Average Revenue per Customer Account (“ARPA”)⁽¹⁾⁽²⁾</u>			
Corporate	\$ 331.77	\$ 308.42	\$ 276.46
SoHo	14.32	14.40	14.32
Consolidated	<u>\$ 29.07</u>	<u>\$ 26.65</u>	<u>\$ 24.99</u>
<u>Customer Accounts (in thousands)⁽¹⁾</u>			
Corporate	52	45	47
SoHo	942	1,039	1,072
Consolidated	<u>994</u>	<u>1,084</u>	<u>1,119</u>
<u>Paid Adds (in thousands)⁽³⁾</u>			
Corporate	15	13	12
SoHo	364	411	423
Consolidated	<u>379</u>	<u>424</u>	<u>435</u>
<u>Monthly Churn %⁽⁴⁾</u>			
Corporate	1.78 %	2.68 %	1.64 %
SoHo	3.70 %	3.37 %	3.21 %
Consolidated	<u>3.61 %</u>	<u>3.34 %</u>	<u>3.15 %</u>

(1) Consensus customers are defined as paying Corporate and SoHo customer accounts.

(2) Represents a monthly ARPA for the quarter or year calculated as follows. Monthly ARPA on a quarterly basis is calculated using our standard convention of dividing revenue for the quarter by the average of the quarter’s beginning and ending customer base and dividing that amount by 3 months. Monthly ARPA on an annual basis is calculated by dividing revenue for the year by the average customer base for the applicable four quarters and dividing that amount by 12 months. We believe ARPA provides investors an understanding of the average monthly revenues we recognize per account associated within the Consensus’ customer base. As ARPA varies based on fixed subscription fee and variable usage components, we believe it can serve as a measure by which investors can evaluate trends in the types of services, levels of services and the usage levels of those services across Consensus’ customers.

(3) Paid Adds represents paying new Consensus customer accounts added during the annual period.

(4) Monthly churn is defined as Consensus paying customer accounts that cancelled its services during the period divided by the average number of customers over the period. This measure is calculated monthly and expressed as an average over the applicable period.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements and related disclosures in accordance with U.S. generally accepted accounting principles (“GAAP”) and our discussion and analysis of our financial condition and operating results require us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies of the notes to consolidated financial statements in Part II, Item 8 of this Form 10-K, which describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ significantly from those estimates under different assumptions and conditions and may be material.

We believe that our most critical accounting policies are those related to revenue recognition, share-based compensation expense, impairment or disposal of long-lived and intangible assets, fair value of assets acquired and liabilities assumed in connection with business combinations, income taxes, contingencies and allowance for doubtful accounts. We consider these policies critical because they are those that are most important to the portrayal of our financial condition and results and require management’s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of the Company’s Board of Directors.

Revenue Recognition

Our revenues substantially consist of monthly recurring subscription and usage-based fees, a significant portion of which are paid in advance by credit card. We defer the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance of the satisfaction of performance obligations and recognize them in the period earned.

Along with our numerous proprietary solutions, we also generate revenues by reselling various third-party solutions. These third-party solutions, along with our proprietary products, allow us to offer customers a variety of solutions to better meet their needs. We record revenue on a gross basis with respect to reseller revenue because we have control of the specified good or service prior to transferring control to the customer.

Share-Based Compensation Expense

We account for share-based awards to employees and non-employees in accordance with the provisions of FASB ASC Topic No. 718, Compensation - Stock Compensation (“ASC 718”). Accordingly, we measure share-based compensation expense at the grant date, based on the fair value of the award, and recognize the expense over the employee’s requisite service period using the straight-line method. The measurement of share-based compensation expense is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate, dividend rate and award cancellation rate. These inputs are subjective and are determined using management’s judgment. If differences arise between the assumptions used in determining share-based compensation expense and the actual factors, which become known over time, we may change the input factors used in determining future share-based compensation expense. Any such changes could materially impact our results of operations in the period in which the changes are made and in periods thereafter. The Company estimates the expected term based upon the contractual term of the award.

Impairment or Disposal of Long-lived and Intangible Assets

We account for long-lived assets, which include property and equipment, operating lease right-of-use assets and identifiable intangible assets with finite useful lives (subject to amortization), in accordance with the provisions of FASB ASC Topic No. 360, Property, Plant, and Equipment (“ASC 360”), which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to the expected undiscounted future net cash flows generated by the asset. If it is determined that the asset may not be recoverable, and if the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized to the extent of the difference.

We assess the impairment of identifiable definite-lived intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could individually or in combination trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization relative to net book value.

If we determined that the carrying value of definite-lived intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would record an impairment equal to the excess of the carrying amount of the asset over its estimated fair value. We have assessed whether events or changes in circumstances have occurred that potentially indicate the carrying amount of definite-lived intangibles and long-lived assets may not be recoverable. We recorded total impairment of \$7.5 million related to operating lease right-of-use assets, of which \$6.5 million is related to continuing operations and \$1.0 million is related to discontinued operations for the year ended December 31, 2021. Additionally, we recorded an impairment charge of \$1.7 million for associated property and equipment for the year ended December 31, 2021. The impairment is related to the Company's decision to exit and seek subleases for certain leased facilities, primarily due to a distributed workforce as a result of the pandemic. As we seek to return to offices, we will seek a hybrid return to office model. No impairment was recorded for the years ended December 31, 2022 and 2020.

The Company classifies its long-lived assets to be sold as held for sale in the period (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable, (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. Upon designation as an asset held for sale, the Company stops recording depreciation expense on the asset. The Company assesses the fair value of a long-lived asset less any costs to sell at each reporting period and until the asset is no longer classified as held for sale.

Business Combinations and Valuation of Goodwill and Intangible Assets

We apply the acquisition method of accounting for business combinations in accordance with GAAP and use estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the assets, including identifiable intangible assets and liabilities acquired. Such estimates may be based on significant unobservable inputs and assumptions such as, but not limited to, revenue growth rates, gross margins, customer attrition rates, royalty rates, discount rates and terminal growth rates. We use established valuation techniques and may engage reputable valuation specialists to assist with the valuations. 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. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the acquisition method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. Intangible assets subject to amortization are amortized over the period of estimated economic benefit ranging from one to 20 years and are included in general and administrative expenses on the Consolidated Statements of Income. We evaluate our goodwill and indefinite-lived intangible assets for impairment pursuant to FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), which provides that goodwill and other intangible assets with indefinite lives are not amortized but tested for impairment annually or more frequently if we believe indicators of impairment exist. In connection with the annual impairment test for goodwill, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then we perform the impairment test upon goodwill. The

impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. We generally determine the fair value of our reporting units using the income approach methodology of valuation. If the carrying value of a reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized for the difference.

Income Taxes

For historical periods, we are included in the federal consolidated and state consolidated income tax returns with Ziff Davis and its other subsidiaries. For purposes of the Consolidated Financial Statements, our taxes were determined using the separate return method as if we had filed separate tax returns. In addition, our income is subject to taxation in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves for tax contingencies are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or lapse of a statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

We account for income taxes in accordance with FASB ASC Topic No. 740, Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. GAAP also requires that deferred tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. Our valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, we review historical and future expected operating results and other factors to determine whether it is more likely than not that deferred tax assets are realizable.

Income Tax Contingencies

We calculate current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the following year. Adjustments based on filed returns are recorded when identified in the subsequent year.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax position is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the income tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. We recognize accrued interest and penalties related to uncertain income tax positions in income tax expense on our Consolidated Statements of Income. On a quarterly basis, we evaluate uncertain income tax positions and establish or release reserves as appropriate under GAAP.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities. In addition, we may be subject to examination of our tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities.

Non-Income Tax Contingencies

The Company historically did not collect sales tax in states where it was not able to quantify the appropriate sales tax to be collected. For periods from 2017 through 2021, the Company believed it was probable that a sales tax liability existed for its corporate accounts; however, it could not estimate the sales tax liability for its corporate customers until the third quarter of

2022. Prior to the third quarter of 2022, the Company was unable to determine which of these customers were either exempt organizations or resellers and were thus exempt from sales tax.

In the third quarter of 2022, the Company completed an analysis of the pool of corporate customers subject to sales tax in order to estimate the range of sales tax liability on its corporate revenues. As a result, the Company recorded an accrual of \$8.0 million during the quarter ended September 30, 2022 within accounts payable and accrued expenses on the Company's Consolidated Balance Sheets, as the exposure was then probable and estimable. Additionally, the Company started sales tax collection and remittance on corporate sales in applicable states in August 2022. See Note 11 - Commitments and Contingencies of the notes to consolidated financial statements in Part II, Item 8 of this Form 10-K.

In the year ended December 31, 2021, the Company determined that a sales tax liability is probable and it developed a methodology to estimate the liability for the sales tax for the SoHo revenue stream during the affected periods 2017 through 2021. Accordingly, the Company has recorded a sales tax expense in 2021 of \$8.6 million for all periods affected.

In conjunction with the state voluntary disclosure agreement process the company is remitting sales tax for SoHo and corporate sales for current and prior periods. Taxing authorities may successfully assert that the Company should have collected, or in the future should collect sales and use, telecommunications or similar taxes, and could be subject to liability with respect to past or future tax, which could adversely affect the Company's operating results.

The Company will continue to review and monitor the impact of sales tax rules in order to mitigate any associated risks on its business. As such, the Company has a \$13.1 million and \$8.6 million sales tax liability within accounts payable and accrued expenses on the Company's Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively.

Allowances for Doubtful Accounts

We maintain an allowance for credit losses for accounts receivable, which is recorded as an offset to accounts receivable and changes in such are classified as general and administrative expenses in the Consolidated Statements of Income. We assess collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when we identify specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, we consider historical collectability based on past due status. We also consider customer-specific information, current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. On an ongoing basis, management evaluates the adequacy of these reserves.

Recent Accounting Pronouncements

See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies, to our accompanying consolidated financial statements for a description of recent accounting pronouncements and our expectations of their impact on our consolidated financial position and results of operations.

Results of Operations

Years Ended December 31, 2022, 2021 and 2020

The main strategic focus of our Consensus offerings is to enable our customers to securely and cooperatively access, exchange and use information across organizational, regional and national boundaries. As a result, we expect to continue to take steps to enhance our existing offerings and offer new services to continue to satisfy the evolving needs of our customers.

We expect our business to primarily grow organically and inorganically through the use of capital for re-investment in the business and opportunistic acquisitions that expedite our product roadmap in the interoperability space should they arise.

The following table sets forth information derived from our Statements of Income as a percentage of revenues for the years ended December 31, 2022, 2021 and 2020. This information should be read in conjunction with the accompanying financial statements and the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

	Years ended December 31,		
	2022	2021	2020
Revenues	100%	100%	100%
Cost of revenues	17	16	16
Gross profit	83	84	84
Operating expenses:			
Sales and marketing	18	15	14
Research, development and engineering	3	2	2
General and administrative	20	17	8
Total operating expenses	41	34	24
Income from operations	42	50	60
Interest expense	(14)	(4)	(23)
Interest income	—	—	—
Other (expense) income, net	—	—	10
Income before income taxes	28	46	47
Income tax expense	7	11	9
Income from continuing operations	21	35	38
(Loss) income from discontinued operations, net of income tax	—	(3)	9
Net income	21%	32%	47%

Revenues

(in thousands, except percentages)	2022	2021	2020	Percentage Change 2022 versus 2021	Percentage Change 2021 versus 2020
Revenues	\$ 362,422	\$ 352,664	\$ 331,168	3%	6%

Consensus revenues primarily consist of revenues from “fixed” customer subscription revenues and “variable” revenues generated from actual usage of our services. We also generate an immaterial amount of Consensus revenues from intellectual property licensing.

Revenues increased \$9.8 million in the year ended December 31, 2022 over the prior year primarily due to organic growth in our corporate business. Our total revenue increased by \$9.8 million as a result of an increase of approximately \$15.6 million in corporate revenues due to organic growth in existing customer usage and new customer acquisitions, as well as acquired revenue of \$6.8 million from our acquisition of Summit Healthcare Services, Inc. (“Summit”), partially offset by a \$12.2 million decline in Small office home office (“SoHo”) and \$0.4 million in other revenue.

Revenues increased \$21.5 million in the year ended December 31, 2021 over the prior comparable period primarily due to growth in our corporate business. Our total revenue increased primarily as a result of an increase of approximately \$20.0 million in corporate revenues due to organic growth in existing customer usage and new customer acquisitions.

Cost of Revenues

(in thousands, except percentages)	2022	2021	2020	Percentage Change 2022 versus 2021	Percentage Change 2021 versus 2020
Cost of revenues	\$ 61,951	\$ 58,000	\$ 53,379	7%	9%
As a percent of revenues	17%	16%	16%		

Cost of revenues is primarily comprised of costs associated with data transmission, network operations, customer service, software licenses for resale, online processing fees and equipment depreciation. The increase in cost of revenues for the year ended December 31, 2022 was primarily due to an increase in revenues, compensation for additional acquisition and organic headcount and higher software licensing and infrastructure / database hosting costs as a result of moving our data storage from physical storage into the cloud.

The increase in cost of revenues for the year ended December 31, 2021 compared to the prior comparable period was primarily due to an increase in revenues and higher software licensing and infrastructure / database hosting costs as a result of moving our data storage from physical storage into the cloud.

Operating Expenses

Sales and Marketing

(in thousands, except percentages)	2022	2021	2020	Percentage Change 2022 versus 2021	Percentage Change 2021 versus 2020
Sales and marketing	\$ 64,413	\$ 53,648	\$ 47,116	20%	14%
As a percent of revenues	18%	15%	14%		

Our sales and marketing costs consist primarily of internet-based advertising, personnel costs and other business development-related expenses. Our internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. Our sales personnel consist of a combination of inside sales and outside sales professionals.

The increase in sales and marketing expenses of \$10.8 million for the year ended December 31, 2022 versus the prior year was primarily due to an increase in third party advertising of \$4.7 million, primarily in SoHo, as well as an increase of \$5.0 million in personnel expenses due to continued investment in the corporate sales team.

The increase in sales and marketing expenses of \$6.5 million for the year ended December 31, 2021 versus the prior comparable period was primarily due to an increase in third party advertising of \$3.0 million, primarily in SoHo, as well as an increase of \$3.5 million in personnel expenses due to continued investment in the corporate sales team.

Research, Development and Engineering

(in thousands, except percentages)	2022	2021	2020	Percentage Change 2022 versus 2021	Percentage Change 2021 versus 2020
Research, development and engineering	\$ 10,018	\$ 7,652	\$ 7,146	31%	7%
As a percent of revenues	3%	2%	2%		

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs for the year ended December 31, 2022 was mostly due to our continued focus on developing our platform, products and solutions to primarily support corporate revenue growth as well as additional personnel from our Summit acquisition.

The increase in research, development and engineering costs for the year ended December 31, 2021 versus the prior comparable period was mostly due to our continued focus on developing our platform, products and solutions to primarily support corporate revenue growth.

General and Administrative

(in thousands, except percentages)	2022	2021	2020	Percentage Change 2022 versus 2021	Percentage Change 2021 versus 2020
General and administrative	\$ 74,122	\$ 58,228	\$ 26,852	27%	117%
As a percent of revenues	20%	17%	8%		

Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, share-based compensation expense, bad debt expense, professional fees, severance and insurance costs.

The increase in general and administrative expense for the year ended December 31, 2022 versus the prior year was primarily due to increased expenses related to operating as a standalone public company, included increases of \$26.6 million in salary and benefits (inclusive of \$15.7 million of share-based compensation) and \$6.3 million in professional fees, partially offset by a \$4.8 million reduction in bad debt expense and the absence \$11.5 million in non-recurring expenses related to the spin-off from Ziff Davis in 2021.

The increase in general and administrative expense for the year ended December 31, 2021 versus the prior comparable period was primarily due to \$11.5 million in non-recurring expenses related to the spin-off from Ziff Davis, approximately \$5.0 million increase in the fourth quarter of 2021 operational expense due to standalone public company costs, an \$8.2 million impairment of our downtown LA office space and an \$8.6 million sales tax expense related to 2017-2021, of which \$0.6 million was related to post spin in the fourth quarter 2021.

Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying Consolidated Statements of Income for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	Years ended December 31,		
	2022	2021	2020
Cost of revenues	\$ 874	\$ 72	\$ 203
Operating expenses:			
Sales and marketing	988	92	442
Research, development and engineering	746	(19)	383
General and administrative	17,447	1,711	457
Continuing operations	20,055	1,856	1,485
(Loss) income from discontinued operations	—	602	4,138
Total	<u>\$ 20,055</u>	<u>\$ 2,458</u>	<u>\$ 5,623</u>

Non-Operating Income and Expenses

Interest expense. Our interest expense is due to outstanding debt. Interest expense was \$51.4 million, \$14.3 million and \$75.8 million for the years ended December 31, 2022, 2021 and 2020, respectively. The increase from 2021 to 2022 is primarily due to twelve months of interest associated with the 2026 and 2028 Senior Notes compared to three months in 2021. Interest expense decreased between 2020 and 2021 due to the Company redeeming all of its outstanding \$650 million 6% Senior Notes in 2020, as a result of which, the Company recorded a loss on extinguishment of \$38.0 million included in interest expense for the year ended December 31, 2020. This is coupled with the Company recording three months of interest associated with the 2026 and 2028 Senior Notes in 2021, in comparison to nine months of interest associated with the 6% Senior Notes in 2020.

Interest income. Our interest income is generated by interest income earned on cash and cash equivalents. Interest income was not material for the years ended December 31, 2022, 2021 and 2020.

Other (expense) income, net. Our other (expense) income, net is generated primarily from miscellaneous items and gain or losses on currency exchange. Other (expense) income, net was \$(1.6) million, \$0.2 million and \$31.6 million for the years ended December 31, 2022, 2021 and 2020, respectively. The change in our gains (losses) recognized in earnings from 2021 to 2022 was primarily attributable to exchange rate fluctuations on inter-company balances between periods in foreign subsidiaries that were in functional currencies other than the U.S. Dollar and exchange rate fluctuations. The change in our gains (losses) recognized in earnings from 2020 to 2021 was primarily attributable to lower inter-company balances between periods in foreign subsidiaries that were in functional currencies other than the U.S. Dollar and exchange rate fluctuations.

Income Taxes

Significant judgment is required in determining our provision for income taxes and in evaluating our tax positions on a worldwide basis. We believe our tax positions, including intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business. Certain of these tax positions have in the past been, and may be challenged in the future, and this may have a significant impact on our effective tax rate if our tax reserves are insufficient.

Our effective tax rate is based on pre-tax income, statutory tax rates, tax regulations (including those related to transfer pricing) and different tax rates in the various jurisdictions in which we operate. The tax bases of our assets and liabilities reflect our best estimate of the tax benefits and costs we expect to realize. When necessary, we establish valuation allowances to reduce our deferred tax assets to an amount that will more likely than not be realized.

As of December 31, 2022 and 2021, the Company has interest expense limitation carryovers of \$23.4 million and \$4.9 million, respectively, which last indefinitely. The Company has no federal net operating loss or capital loss limitation carryforwards as of December 31, 2022 or 2021. The Company has \$0.5 million and \$0.2 million of foreign tax credit carryforwards as of December 31, 2022 and 2021, respectively, which will expire between 2031 and 2032. In addition, the Company also has \$1.0 million and \$0.1 million state research and development tax credits carryforwards, respectively. If unused, \$1 million of the credits as of December 31, 2022 can be carried over indefinitely.

Income tax expense (benefit) amounted to \$26.2 million, \$39.9 million and \$30.0 million for the years ended December 31, 2022, 2021 and 2020, respectively. Our effective tax rates for 2022, 2021 and 2020 were 26.5%, 24.8% and 19.8%, respectively.

The increase in our annual effective income tax rate from 2021 to 2022 was primarily attributable to an increase in tax expense relating to certain non-deductible expenses incurred in the year, such as stock based compensation, officer's compensation, an increase in the reserves for uncertain tax positions and foreign income currently taxed in the U.S., partially offset by increased tax credits and change in the geographical mix of the income.

The increase in our annual effective income tax rate from 2020 to 2021 was primarily attributable to an increase in the state tax expenses due to our expanded state footprints and a reduction in the foreign rate differential due to the change in the geographical mix of earnings.

Quarterly Results of Operations (Unaudited)

The following tables contain selected unaudited Statements of Operation information for each quarter of 2022 and 2021 (in thousands, except share and per share data). The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period. This data should be read in conjunction with our consolidated financial statements included elsewhere in this Report. Historical results are not necessarily indicative of the results that may be expected for the full fiscal year or any other period.

	Year ended December 31, 2022			
	Fourth Quarter	Third Quarter ⁽¹⁾	Second Quarter ⁽¹⁾	First Quarter ⁽¹⁾
Revenues	\$ 90,232	\$ 91,777	\$ 91,115	\$ 89,298
Gross profit	74,391	76,358	75,528	74,194
Net income from continuing operations	16,902	15,370	21,921	18,521
Net income from continuing operations per common share:				
Basic	\$ 0.85	\$ 0.78	\$ 1.10	\$ 0.93
Diluted	\$ 0.85	\$ 0.77	\$ 1.10	\$ 0.92
Weighted average shares outstanding				
Basic	19,814,405	19,791,019	19,928,316	19,921,375
Diluted	19,939,806	19,873,137	19,968,340	20,035,827

	Year ended December 31, 2021 ⁽²⁾			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 89,004	\$ 89,198	\$ 87,842	\$ 86,620
Gross profit	74,132	74,594	73,288	72,650
Net income from continuing operations	1,953	41,132	38,854	39,235
Net income from continuing operations per common share:				
Basic	\$ 0.10	\$ 2.07	\$ 1.95	\$ 1.97
Diluted	\$ 0.10	\$ 2.07	\$ 1.95	\$ 1.97
Weighted average shares outstanding				
Basic	19,908,135	19,902,924	19,902,924	19,902,924
Diluted	19,990,787	19,902,924	19,902,924	19,902,924

⁽¹⁾ The quarterly results for the third quarter of 2022 reflect the restated amounts in the Q3 Form 10-Q/A filed on March 31, 2023. The quarterly results for the first and second quarters of 2022 reflect the revised amounts presented within the Q3 Form 10-Q/A filed on March 31, 2023.

⁽²⁾ On October 7, 2021, the separation of Consensus into an independent publicly traded company was completed. The Former Parent distributed 19,902,924 shares of Consensus common stock to holders of J2 Global common stock as of the close of business on October 1, 2021, the record date for the distribution. This share amount was utilized for the computation of basic and diluted earnings per share for those quarters prior to the spin because the number of shares issued simply reflect a recharacterization of the capital account previously held by the former parent, see Note 1 - The Company in Item 8, Notes to Consolidated Financial Statements. As a result, the full year 2021 basic and diluted earnings per common share is not comparable to the quarterly results.

Liquidity and Capital Resources

Cash and Cash Equivalents

At December 31, 2022, we had cash and cash equivalents of \$94.2 million compared to \$66.8 million at December 31, 2021. The increase in cash and cash equivalents resulted primarily from cash provided by operations, partially offset by cash used for purchases of property and equipment (including software development costs), acquisitions of businesses and cash used to repurchase our common stock. As of December 31, 2022, cash and cash equivalents held within domestic and foreign jurisdictions were \$37.6 million and \$56.6 million, respectively.

On October 7, 2021, the Company issued \$305 million of 6.0% senior notes due in 2026 (the “2026 Senior Notes”), in a private placement offering exempt from the registration requirements of the Securities Act of 1933. Consensus received proceeds of \$301.2 million, after deducting the initial purchasers’ discounts, commissions and offering expenses. The 2026 Senior Notes are presented as long-term debt, net of deferred issuance costs, on the Consolidated Balance Sheets as of December 31, 2022 and 2021. The 2026 Senior Notes bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, which commenced on April 15, 2022.

On October 7, 2021, Consensus issued \$500 million of 6.5% senior notes due in 2028 (the “2028 Senior Notes”), in a private placement offering exempt from the registration requirements of the Securities Act of 1933. In exchange for the equity interest in J2 Cloud Services, LLC, Consensus issued the 2028 Senior Notes to Ziff Davis. Ziff Davis then exchanged the 2028 Senior Notes with lenders under its credit agreement (or their affiliates) in exchange for extinguishment of a similar amount indebtedness under such credit agreement. The 2028 Senior Notes are presented as long-term debt, net of deferred issuance costs, on the Consolidated Balance Sheets as of December 31, 2022 and 2021. The 2028 Senior Notes bear interest at a rate of 6.5% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, which commenced on April 15, 2022.

On March 4, 2022, the Company entered into a Credit Agreement with certain lenders party thereto (collectively, the “Lenders”) and MUFG Union Bank, N.A., as agent (the “Agent”). Pursuant to the Credit Agreement, the Lenders have provided Consensus with a revolving credit facility of \$25.0 million (the “Credit Facility”) with an option held by the Company to obtain an additional commitment of up to a maximum of \$25.0 million. The final maturity of the Credit Facility will occur on March 4, 2027. As of December 31, 2022, no amount has been drawn down on the Credit Facility.

We currently anticipate that our existing cash and cash equivalents and cash generated from operations will be sufficient to meet our anticipated needs for working capital, capital expenditures and stock repurchases, if any, for at least the next 12 months from the issuance of this Annual Report on Form 10-K and the foreseeable future.

Common Stock Repurchase Program

On March 1, 2022, the Company’s Board of Directors approved a share buyback program. Under this program, the Company may purchase in the public market or in off-market transactions up to \$100.0 million worth of the Company’s common stock through February 2025. The timing and amounts of purchases will be determined by the Company, depending on market conditions and other factors it deems relevant. The Company entered into Rule 10b-18 and Rule 10b5-1 trading plans and during the year ended December 31, 2022, the Company repurchased 189,114 shares under this program.

Vested Restricted Stock

At the time of certain vesting events related to restricted stock units or restricted stock awards that are held by participants in the Consensus’ Equity Incentive Plan, a portion of the awards subject to vesting are withheld by the Company to satisfy the employees’ tax withholding obligations that arise upon the vesting of restricted stock. As a result, the number of shares issued upon vesting for these awards is net of the statutory withholding requirements that the Company pays on behalf of its employees. Although shares withheld are not issued, they are treated as common share repurchases in the Company’s consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting. These shares do not count against the authorized capacity under the Company’s share repurchase program described above. During the year ended December 31, 2022, the Company withheld shares on its vested restricted stock units relating to its share-based compensation plans of 71,509 shares.

Cash Flows

The prior years include cash flows from discontinued operations of the non-Consensus business. As a result, the prior periods are not comparable.

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents. Net cash provided by operating activities was \$83.1 million, \$233.7 million and \$238.8 million for the years ended December 31, 2022, 2021 and 2020, respectively. Our operating cash flows resulted primarily from cash received from our customers offset by cash payments we made to third parties for their services, employee compensation and lease payments for our offices. The decrease in our net cash provided by operating activities in 2022 compared to 2021 was primarily attributable to decreased income after excluding noncash items, a decrease in other long-term liabilities in 2022 compared to an increase in 2021, and an increase in accounts receivable. The decrease in our net cash provided by operating activities in 2021 compared to 2020 was primarily attributable to a decrease in operating lease liabilities, offset by increased prepaid expenses, accounts payable and other long-term liabilities. Our prepaid tax payments were \$8.0 million and zero at December 31, 2022 and 2021, respectively.

Net cash used in investing activities was \$43.3 million, \$42.5 million and \$60.9 million for the years ended December 31, 2022, 2021 and 2020, respectively. Net cash used in investing activities in 2022 was primarily comprised of capital expenditures associated with the purchase of property and equipment (including capitalized software development costs) and business acquisitions. Net cash used in investing activities in 2021 and 2020 was related to business acquisitions and capital expenditures associated with the purchase of property and equipment (including capitalized software development costs); partially offset by proceeds from the sale of businesses.

Net cash used in financing activities was \$10.6 million, \$247.8 million and \$179.1 million for the years ended December 31, 2022, 2021 and 2020, respectively. Net cash used in financing activities in 2022 included the repurchase of common stock and shares withheld to cover employee income taxes. Net cash used in financing activities in 2021 increased over 2020 primarily due to distributions to the Former Parent in 2021 compared to contributions from the Former Parent in 2020. Partially offsetting these amounts, the Company had cash inflows related to the issuance of debt in 2021, compared to repayment of debt in 2020.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2022:

Contractual Obligations	Payment Due by Period (in thousands)						Total
	2023	2024	2025	2026	2027	Thereafter	
Long-term debt - principal ^(a)	\$ —	\$ —	\$ —	\$ 305,000	\$ —	\$ 500,000	\$ 805,000
Long-term debt - interest ^(b)	50,800	50,939	50,800	50,800	32,500	32,589	268,428
Operating leases ^(c)	2,939	2,842	2,389	2,461	2,534	8,167	21,332
Telecom services and co-location facilities ^(d)	895	577	282	—	—	—	1,754
Other ^(e)	480	—	—	—	—	—	480
Total	<u>\$ 55,114</u>	<u>\$ 54,358</u>	<u>\$ 53,471</u>	<u>\$ 358,261</u>	<u>\$ 35,034</u>	<u>\$ 540,756</u>	<u>\$1,096,994</u>

(a) These amounts represent principal on long-term debt.

(b) These amounts represent interest on long-term debt.

(c) These amounts represent undiscounted future minimum rental commitments under noncancellable operating leases.

(d) These amounts represent service commitments to various telecommunication providers.

(e) These amounts represent certain agreements associated with the Summit acquisition and Board of Directors fee arrangements.

As of December 31, 2022, our liability for uncertain tax positions was \$6.7 million. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. Consensus undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Readers should carefully review the risk factors described in this document as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2023.

Interest Rate Risk

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2022, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

As of December 31, 2022 and 2021, we had cash and cash equivalent investments primarily in cash and checking accounts of \$94.2 million and \$66.8 million, respectively. We do not have interest rate risk on our outstanding long-term debt as these arrangements have fixed interest rates.

We cannot ensure that future interest rate movements will not have a material adverse effect on our future business, prospects, financial condition, operating results and cash flows. To date, we have not entered into interest rate hedging transactions to control or minimize certain of these risks.

Foreign Currency Risk

We conduct business in certain foreign markets, primarily in Canada, Australia, the European Union and Japan. Our principal exposure to foreign currency risk relates to investment and inter-company debt in foreign subsidiaries that transact business in functional currencies other than the U.S. Dollar, primarily the Euro and the Japanese Yen. If we are unable to settle our short-term intercompany debts in a timely manner, we remain exposed to foreign currency fluctuations.

As we expand our international presence, we become further exposed to foreign currency risk by entering new markets with additional foreign currencies. The economic impact of currency exchange rate movements is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies.

As currency exchange rates change, translation of the income statements of the international businesses into U.S. Dollars affects year-over-year comparability of operating results, the impact of which is immaterial to the comparisons set forth in this Annual Report on Form 10-K.

Historically, we have not hedged translation risks because cash flows from international operations were generally reinvested locally; however, we may do so in the future. Our objective in managing foreign exchange risk is to minimize the potential exposure to changes that exchange rates might have on earnings, cash flows and our financial position. We currently do not have derivative financial instruments for hedging, speculative or trading purposes and therefore are not subject to such hedging risk. However, we may, in the future, engage in hedging transactions to manage our exposure to fluctuations in foreign currency exchange rates.

For the years ended December 31, 2022, 2021 and 2020, foreign exchange (losses) gains amounted to \$(1.6) million, \$0.2 million and \$31.6 million, respectively. The change in our gains (losses) recognized in earnings from 2021 to 2022 was primarily attributable to the translation of certain intra-entity balances in foreign currencies. The change in our gains (losses) recognized in earnings from 2020 to 2021 was primarily attributable to the settlement of certain intra-entity transactions of \$33.1 million in 2020 that was not present in 2021.

Cumulative translation losses included in other comprehensive income for the years ended December 31, 2022, 2021 and 2020, were \$2.3 million, \$14.4 million and \$11.1 million, respectively.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Consensus Cloud Solutions, Inc.
Los Angeles, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Consensus Cloud Solutions, Inc. (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, stockholders’ deficit, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 31, 2023 expressed an adverse opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the 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 consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue recognition – Small Office Home Office (SoHo)

As discussed in Note 3 to the Company’s consolidated financial statements, the Company’s small office home office (“SoHo”) revenue stream consist substantially of monthly recurring subscription and usage-based fees for access to the SaaS platform. The Company’s process for recognizing SoHo revenue is automated as it relates to the initiation and processing of transactions. However, SoHo revenue is recorded in the general ledger through manual journal entries. Total SoHo revenue recognized for the year ended December 31, 2022 was approximately \$170 million.

We identified the manual nature of how SoHo revenue is recorded as a critical audit matter. The recording of SoHo revenue is dependent upon the effective design and operation of certain management review controls. Certain errors were identified by management relating to the manual journal entries used to record SoHo revenue in the general ledger, resulting in a material weakness related to the precision of management's review of the manual journal entries to record SoHo revenue, including the completeness and accuracy of the underlying data from system generated reports. Based on these factors, performing audit procedures to evaluate the existence and accuracy of SoHo revenue, including the completeness and accuracy of underlying data from system generated reports, was especially challenging due to increased extent of our audit effort.

The primary procedures we performed to address this critical audit matter included:

- Testing the system generated reports used to record SoHo revenue, including testing: (i) IT general controls over the billing systems, (ii) the automated application controls within those billing systems by tracing the activity for a selection of customer accounts through each billing system to the general ledger, and (iii) the custom report queries related to the billing system reports.
- Reconciling (i) certain billing system reports to SoHo revenue recorded in the general ledger, and (ii) certain billing system reports to cash receipts reports for certain geographies; and testing the completeness and accuracy of the underlying data of the cash receipts reports.

Sales tax accrual – Corporate customers

As described in Note 11 to the consolidated financial statements, the Company recorded sales tax expense of \$9.4 million within general and administrative expenses for the year ended December 31, 2022. The Company did not collect and remit sales taxes for its U.S. corporate revenue (“Corporate”) customers in prior periods because the Company had not yet completed its analysis of Corporate customers subject to sales tax, which was necessary to reasonably estimate the sales tax liability on its Corporate revenue.

We identified the estimation of the Corporate sales tax accrual as a critical audit matter. The estimation of the Corporate sales tax accrual is complex as each state has specific rules and regulations regarding the taxability of products and services sold in its jurisdiction. Performing procedures to audit the reasonableness of the Corporate sales tax accrual required especially subjective auditor judgment due to the nature and extent of audit effort required, including the need to involve professionals with expertise in state and local taxes.

The primary procedures we performed to address this critical audit matter included:

- Utilizing internal state and local sales tax professionals to assess legal opinions obtained by management related to the taxability of the Company's services in certain states and local jurisdictions with material sales.
- Testing management's estimate of the Corporate sales tax accrual in states and local jurisdictions where the Company's services are taxable by validating (i) the completeness and accuracy of system generated revenue reports, and (ii) the tax rates, interest and penalties applicable to each state and local jurisdiction.

/s/ BDO USA, LLP

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

Los Angeles, California

March 31, 2023

CONSENSUS CLOUD SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(In thousands, except share and per share data)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 94,164	\$ 66,778
Accounts receivable, net of allowances of \$4,681 and \$4,743, respectively	28,029	24,829
Prepaid expenses and other current assets	14,335	4,650
Total current assets	136,528	96,257
Property and equipment, net	54,958	33,849
Operating lease right-of-use assets	7,875	7,233
Intangibles, net	49,156	43,549
Goodwill	346,585	339,209
Deferred income taxes	35,981	41,842
Other assets	2,816	873
TOTAL ASSETS	\$ 633,899	\$ 562,812
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable and accrued expenses	\$ 41,246	\$ 40,206
Income taxes payable, current	2,548	5,227
Deferred revenue, current	24,579	24,370
Operating lease liabilities, current	2,793	2,421
Due to Former Parent	156	5,739
Total current liabilities	71,322	77,963
Long-term debt	793,865	792,040
Deferred revenue, noncurrent	2,319	184
Operating lease liabilities, noncurrent	13,877	14,108
Liability for uncertain tax positions	6,725	4,795
Deferred income taxes	728	6,027
Other long-term liabilities	324	360
TOTAL LIABILITIES	889,160	895,477
Commitments and contingencies (Note 11)	—	—
Common stock, \$0.01 par value. Authorized 120,000,000; total issued is 20,105,545 and 19,978,580 shares and total outstanding is 19,916,431 and 19,978,580 shares at December 31, 2022 and December 31, 2021, respectively	201	200
Treasury stock, at cost (189,114 and zero shares at December 31, 2022 and December 31, 2021, respectively)	(7,596)	—
Additional paid-in capital	21,650	2,878
Accumulated deficit	(250,408)	(318,886)
Accumulated other comprehensive loss	(19,108)	(16,857)
TOTAL STOCKHOLDERS' DEFICIT	(255,261)	(332,665)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 633,899	\$ 562,812

See Notes to Consolidated Financial Statements

CONSENSUS CLOUD SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2022, 2021 and 2020
(In thousands, except share and per share data)

	2022	2021	2020
Revenues	\$ 362,422	\$ 352,664	\$ 331,168
Cost of revenues ⁽¹⁾	61,951	58,000	53,379
Gross profit	300,471	294,664	277,789
Operating expenses:			
Sales and marketing ⁽¹⁾	64,413	53,648	47,116
Research, development and engineering ⁽¹⁾	10,018	7,652	7,146
General and administrative ⁽¹⁾	74,122	58,228	26,852
Total operating expenses	148,553	119,528	81,114
Income from operations	151,918	175,136	196,675
Interest expense	(51,423)	(14,272)	(75,788)
Interest income	—	60	—
Other (expense) income, net	(1,582)	160	31,569
Income before income taxes	98,913	161,084	152,456
Income tax expense	26,199	39,910	30,043
Income from continuing operations	72,714	121,174	122,413
(Loss) income from discontinued operations, net of income tax ⁽¹⁾	—	(12,173)	30,500
Net income	\$ 72,714	\$ 109,001	\$ 152,913
Net income per common share from continuing operations:			
Basic	\$ 3.65	\$ 6.07	\$ 6.15
Diluted	\$ 3.64	\$ 6.04	\$ 6.15
Net (loss) income per common share from discontinued operations:			
Basic	\$ —	\$ (0.61)	\$ 1.53
Diluted	\$ —	\$ (0.61)	\$ 1.53
Net income per common share			
Basic	\$ 3.65	\$ 5.46	\$ 7.68
Diluted	\$ 3.64	\$ 5.44	\$ 7.68
Weighted average shares outstanding:			
Basic	19,863,286	19,904,237	19,902,924
Diluted	19,953,785	19,986,889	19,902,924
⁽¹⁾ Includes share-based compensation expense as follows:			
Cost of revenues	\$ 874	\$ 72	\$ 203
Sales and marketing	988	92	442
Research, development and engineering	746	(19)	383
General and administrative	17,447	1,711	457
(Loss) income from discontinued operations, net of income tax	—	602	4,138
Total	\$ 20,055	\$ 2,458	\$ 5,623

See Notes to Consolidated Financial Statements

CONSENSUS CLOUD SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2022, 2021 and 2020
(In thousands)

	2022	2021	2020
Net income	\$ 72,714	\$ 109,001	\$ 152,913
Other comprehensive loss:			
Foreign currency translation adjustment	(2,251)	(14,397)	(11,093)
Other comprehensive loss	(2,251)	(14,397)	(11,093)
Comprehensive income	<u>\$ 70,463</u>	<u>\$ 94,604</u>	<u>\$ 141,820</u>

See Notes to Consolidated Financial Statements

CONSENSUS CLOUD SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022, 2021 and 2020
(In thousands)

	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 72,714	\$ 109,001	\$ 152,913
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,302	51,811	79,754
Amortization of financing costs and discounts	1,889	442	1,217
Non-cash operating lease costs	1,332	4,396	5,602
Share-based compensation	20,055	2,458	5,623
Provision for doubtful accounts	1,157	7,194	10,133
Deferred income taxes	(1,653)	7,155	13,256
Loss (gain) on sale of businesses	—	21,797	(17,122)
Lease asset impairments and other charges	—	9,149	—
Changes in fair value of contingent consideration	—	642	(161)
Foreign currency remeasurement loss (gain)	—	181	(35,142)
Goodwill impairment on business	—	32,629	—
Loss on extinguishment of debt	—	—	37,969
Decrease (increase) in:			
Accounts receivable	(2,908)	(2,788)	(4,909)
Prepaid expenses and other current assets	(9,489)	(12,049)	717
Other assets	(1,944)	(3,259)	731
Increase (decrease) in:			
Accounts payable and accrued expenses	(940)	5,831	(13,369)
Income taxes payable	(2,797)	(230)	(1,269)
Deferred revenue	(2,203)	(1,797)	(2,401)
Operating lease liabilities	(1,677)	(5,197)	(3,345)
Liability for uncertain tax positions	1,930	(1,730)	8,438
Other long-term liabilities	(7,619)	8,039	154
Net cash provided by operating activities	<u>83,149</u>	<u>233,675</u>	<u>238,789</u>
Cash flows from investing activities:			
Purchases of property and equipment	(30,045)	(32,998)	(32,463)
Proceeds from sale of assets	—	—	507
Acquisition of businesses, net of cash received	(12,230)	(56,838)	(50,208)
Proceeds from sale of businesses, net of cash divested	—	48,876	24,353
Purchases of intangible assets	(1,000)	(1,511)	(3,110)
Net cash used in investing activities	<u>(43,275)</u>	<u>(42,471)</u>	<u>(60,921)</u>
Cash flows from financing activities:			
Debt issuance cost	(232)	(10,849)	—
Payment of debt	—	(593)	(650,000)
Debt extinguishment costs	—	—	(29,250)
Issuance of long-term debt	—	305,000	—
Issuance of common stock under employee stock purchase plan	1,284	519	—
Repurchase of common stock	(7,596)	—	—
Shares withheld related to net share settlement	(4,079)	—	—
Notes payable from related parties	—	—	(819)
Deferred payments for acquisitions	—	(6,267)	(6,571)
Contributions from Former Parent	—	21,238	508,938
Distribution to Former Parent - Separation	—	(290,282)	—
Distribution of non-fax cash to Former Parent	—	(266,539)	—
Other	—	—	(1,387)
Net cash used in financing activities	<u>(10,623)</u>	<u>(247,773)</u>	<u>(179,089)</u>
Effect of exchange rate changes on cash and cash equivalents	(1,865)	(4,842)	6,635
Net change in cash and cash equivalents	27,386	(61,411)	5,414
Cash and cash equivalents at beginning of year	66,778	128,189	122,775
Cash and cash equivalents at end of year	\$ 94,164	\$ 66,778	\$ 128,189
Less cash and cash equivalents at end of year, discontinued operations	—	—	61,979
Cash and cash equivalents at end of year, continuing operations	<u>\$ 94,164</u>	<u>\$ 66,778</u>	<u>\$ 66,210</u>

See Notes to Consolidated Financial Statements

CONSENSUS CLOUD SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
Years Ended December 31, 2022, 2021 and 2020
(in thousands, except share amounts)

	Common stock		Additional paid-in capital		Treasury stock		Accumulated Deficit	Accumulated other comprehensive loss	Net parent investment	Total Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, January 1, 2020	—	\$ —	—	\$ —	—	\$ —	—	\$ (44,873)	\$ 511,034	\$ 466,161
Net income	—	—	—	—	—	—	—	—	152,913	152,913
Other comprehensive loss	—	—	—	—	—	—	(11,093)	—	—	(11,093)
Share-based compensation	—	—	—	—	—	—	—	—	5,623	5,623
Parent contribution	—	—	—	—	—	—	—	—	508,938	508,938
Balance, December 31, 2020	—	\$ —	—	\$ —	—	\$ —	—	\$ (55,966)	\$ 1,178,508	\$ 1,122,542
Foreign currency translation adjustment prior to Separation	—	—	—	—	—	—	—	(13,555)	—	(13,555)
Net income prior to Separation	—	—	—	—	—	—	—	—	102,510	102,510
Share-based compensation prior to Separation	—	—	—	—	—	—	—	—	99	99
Parent contribution prior to Separation	—	—	—	—	—	—	—	—	21,238	21,238
Recapitalization of J2 Cloud Services	19,902,924	—	—	1,302,156	—	—	—	—	(1,302,355)	—
Transfer of 2028 Notes to Former Parent	—	—	—	(500,000)	—	—	—	—	—	(500,000)
Distribution to Former Parent	—	—	—	(290,282)	—	—	—	—	—	(290,282)
Transfer of non-fax business to Former Parent	—	—	—	(837,251)	—	—	—	53,506	—	(783,745)
Reclassification to accumulated deficit	—	—	—	325,377	—	—	(325,377)	—	—	—
Issuance of shares under ESPP	10,421	—	—	519	—	—	—	—	—	519
Share-based compensation after Separation	65,235	—	1	2,359	—	—	—	—	—	2,360
Foreign currency translation adjustment after Separation	—	—	—	—	—	—	—	(842)	—	(842)
Net income after Separation	—	—	—	—	—	—	6,491	—	—	6,491
Balance, December 31, 2021	19,978,580	\$ 200	\$ 2,878	\$ —	\$ —	\$ (318,886)	\$ —	\$ (16,857)	\$ —	\$ (332,665)
Net income	—	—	—	—	—	72,714	—	—	—	72,714
Other comprehensive loss	—	—	—	—	—	—	—	(2,251)	—	(2,251)
Vested restricted stock	166,378	2	(2)	—	—	—	—	—	—	—
Shares withheld related to net share settlement	(71,509)	(1)	(4,078)	—	—	—	—	—	—	(4,079)
Repurchase of common stock	—	—	—	(189,114)	(7,596)	—	—	—	—	(7,596)
Issuance of shares under ESPP	32,096	—	1,284	—	—	—	—	—	—	1,284
Share-based compensation	—	—	—	21,568	—	—	—	—	—	21,568
Adjustments related to the Separation (Note 2)	—	—	—	—	—	(4,236)	—	—	—	(4,236)
Balance, December 31, 2022	20,105,545	\$ 201	\$ 21,650	(189,114)	\$ (7,596)	\$ (250,408)	\$ (19,108)	\$ —	\$ —	\$ (255,261)

See Notes to Consolidated Financial Statements

CONSENSUS CLOUD SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021 and 2020

1. The Company

Consensus Cloud Solutions, Inc., together with its subsidiaries (“Consensus Cloud Solutions”, “Consensus”, the “Company”, “our”, “us” or “we”), is a provider of secure information delivery services with a scalable Software-as-a-Service (“SaaS”) platform. Consensus serves approximately 1 million customers of all sizes, from enterprises to individuals, across approximately 50 countries and multiple industry verticals including healthcare, government, financial services, law and education. Beginning as an online fax company over two decades ago, Consensus has evolved into a global provider of enterprise secure communication solutions. Our communication and digital signature solutions enable our customers to securely and cooperatively access, exchange and use information across organizational, regional and national boundaries.

Consensus Cloud Solutions, Inc. Spin-Off

On September 21, 2021, J2 Global, Inc., known since October 7, 2021 as Ziff Davis, Inc. (“Ziff Davis” or the “Former Parent”) announced that its Board of Directors approved its separation of the cloud fax business (the “Separation” or the “Spin-Off”), into an independent publicly traded company, Consensus Cloud Solutions, Inc. On October 7, 2021, the Separation was completed and the Former Parent transferred certain assets and liabilities associated with its Cloud Fax business to Consensus, including the equity interests in J2 Cloud Services, LLC (“J2 Cloud Services”), in exchange for approximately \$259.1 million in cash, an asset related to \$500.0 million in aggregate principal amount of the 6.5% Senior Notes due 2028, and the return of the assets and liabilities related to the non-fax business back to Ziff Davis. On October 8, 2021, Consensus began trading on the Nasdaq Stock Market LLC (“Nasdaq”) under the stock symbol “CCSI”. Ziff Davis retained a 19.9% interest in Consensus following the Separation. Subsequently Ziff Davis has sold, or otherwise disposed of, a portion of its Consensus shares, reducing its beneficial ownership in the Company to under 10% as of December 31, 2022 (see Note 21 - Related Party Transactions).

2. Basis of Presentation and Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Consensus and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

(b) Basis of Presentation

The consolidated financial statements of Consensus for periods prior to the completion of the Separation are those of J2 Cloud Services, which were derived from the consolidated financial statements of Ziff Davis on a carve-out basis using the historical assets, liabilities, and results of operations attributable to the legal entities and business units which comprised historical J2 Cloud Services.

J2 Cloud Services was a wholly-owned subsidiary of Ziff Davis, and together with its subsidiaries, was a provider of internet services, including cloud-based subscription services to consumers and businesses including cloud fax, voice, cybersecurity, privacy and marketing technology.

For periods prior to the Separation, the Consensus consolidated financial statements included an allocation of certain corporate expenses related to services provided to J2 Cloud Services by Ziff Davis. These expenses included the cost of executive management, information technology, legal, treasury, risk management, human resources, accounting and financial reporting, investor relations, public relations, and internal audit services provided by the Former Parent company personnel to J2 Cloud Services. The cost of these services had been allocated to J2 Cloud Services based on specific identification when possible or, when the expenses were determined to be global in nature, based on the percentage of J2 Cloud Services’ relative revenue to total Ziff Davis revenue for the periods presented. Management believes that these allocations were reasonable representations of the costs incurred for the services provided; however, these allocations may not be indicative of the actual expenses that would have been incurred by J2 Cloud Services had it been operating as an independent company for the periods presented.

For periods prior to the Separation, interest expense relates to interest incurred on third-party debt issued by historical J2 Cloud Services. No interest expense incurred by Ziff Davis was allocated to J2 Cloud Services as Ziff Davis' third-party debt was not specifically related to historical operations of J2 Cloud Services.

As the Cloud Fax business was not historically held by a single legal entity, "net parent investment" in the Consolidated Statements of Stockholders' Deficit is shown to represent Ziff Davis' interest in the recorded net assets of historical J2 Cloud Services. Other comprehensive income or loss attributable to J2 Cloud Services is presented as a separate component of equity. In the period in which the Separation occurred, the net parent investment is recharacterized as share capital and additional-paid-in-capital to reflect the capital structure of Consensus upon the legal formation of Consensus and the contribution of the Cloud Fax business with any excess of distributions over net parent investment shown within accumulated deficit.

(c) Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about the reported amounts of net revenue and expenses during the reporting period. The Company believes that its most significant estimates are those related to revenue recognition, share-based compensation expense, impairment or disposal of long-lived and intangible assets, fair value of assets acquired and liabilities assumed in connection with business combinations, income taxes, contingencies and allowances for doubtful accounts. On an ongoing basis, management evaluates its estimates based on historical experience and on various other factors that the Company believes to be reasonable under the circumstances. Actual results could materially differ from those estimates due to risks and uncertainties, including uncertainty in the current economic environment due to the novel coronavirus pandemic ("COVID-19").

(d) Discontinued Operations

The accounting requirements for reporting the Company's non-fax business as a discontinued operation were met when the Separation was completed. Accordingly, the consolidated financial statements reflect the results of the non-fax business as a discontinued operation for the years ended December 31, 2021 and 2020 (see Note 5 - Discontinued Operations and Disposition of Businesses).

(e) Allowances for Doubtful Accounts

The Company maintains an allowance for credit losses for accounts receivable, which is recorded as an offset to accounts receivable and changes in such are classified as general and administrative expenses in the Consolidated Statements of Income. The Company assesses collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when it identifies specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, the Company considers historical collectability based on past due status. It also considers customer-specific information, current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. On an ongoing basis, management evaluates the adequacy of these reserves.

(f) Revenue Recognition

The Company recognizes revenue when the Company satisfies its obligation by transferring control of the goods or services to its customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services (see Note 3 - Revenues).

Principal vs. Agent

The Company determines whether revenue should be reported on a gross or net basis by assessing whether the Company is acting as the principal or an agent in the transaction. If the Company is acting as the principal in a transaction, the Company reports revenue on a gross basis. If the Company is acting as an agent in a transaction, the Company reports revenue on a net basis. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance under Financial Accounting Standards Board ("FASB") ASC Topic No. 606, Revenue from Contracts with Customers

(“Topic 606”), for principal-agent considerations and assesses: (i) if another party is involved in providing goods or services to the customer and (ii) whether the Company controls the specified goods or services prior to transferring control to the customer.

Sales Taxes

The Company has made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are (i) both imposed on and concurrent with a specific revenue-producing transaction and (ii) collected by the Company from a customer.

(g) Fair Value Measurements

Consensus complies with the provisions of FASB ASC Topic No. 820, Fair Value Measurements and Disclosures (“ASC 820”), in measuring fair value and in disclosing fair value measurements. ASC 820 provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities (see Note 6 - Fair Value Measurements).

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and long-term debt are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value due to the short-term nature of such instruments. The fair value of the Company’s outstanding debt was determined using the quoted market prices of debt instruments with similar terms and maturities when available. As of the same dates, the carrying value of other long-term liabilities approximated fair value as the related interest rates approximate rates currently available to the Company.

(h) Cash and Cash Equivalents

The Company considers cash equivalents to be only those investments that are highly liquid, readily convertible to cash and with maturities of three months or less at the purchase date.

(i) Debt Issuance Costs

The Company capitalizes costs incurred with borrowing and issuance of debt securities and records debt issuance costs as a reduction to the debt amount. These costs are amortized and included in interest expense over the life of the borrowing using the effective interest method.

(j) Concentration of Credit Risk

All of the Company’s cash and cash equivalents are invested at major financial institutions primarily within the United States, the United Kingdom and Canada. These institutions are required to invest the Company’s cash in accordance with the Company’s investment policy with the principal objectives being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. At December 31, 2022, the Company’s cash and cash equivalents were maintained in accounts in qualifying financial institutions that are insured up to the limit determined by the applicable governmental agency. These institutions are primarily in the United States, the United Kingdom and Canada, however, the Company has accounts within several other countries including Australia, France, Hong Kong, Ireland, Japan, New Zealand and Switzerland.

(k) Foreign Currency

Some of Consensus’ foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities of those subsidiaries are translated into U.S. Dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses of those subsidiaries are translated into U.S. Dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive loss. Net translation loss was \$2.3 million, \$14.4 million and \$11.1 million for the years ended December 31, 2022, 2021 and 2020, respectively. In 2022, the Company recorded a \$5.5 million out of period correction that increased goodwill with an offset to the cumulative translation adjustment. It was deemed to be an out of period correction that was not material to 2022 or any prior period. Realized gains and losses from foreign currency transactions are recognized within other (expense) income, net. Foreign exchange (losses) gains amounted to \$(1.6) million, \$0.2 million and \$31.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

(l) Property and Equipment

Property and equipment are stated at cost. Equipment under finance leases is stated at the present value of the minimum lease payments. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets and is recorded in cost of revenues and general and administrative expenses on the Consolidated Statements of Income. The estimated useful lives of property and equipment range from 1 to 10 years. Fixtures, which are comprised primarily of leasehold improvements and equipment under finance leases, are amortized on a straight-line basis over their estimated useful lives or for leasehold improvements, the related lease term, if less. The Company has capitalized certain internal-use software and website development costs which are included in property and equipment. Costs to develop internal-use software incurred during the application development stage are capitalized and amortized over their estimated useful lives. Costs related to preliminary project activities and post implementation activities are expensed as incurred. The estimated useful life of costs capitalized is evaluated for each specific project and ranges from 1 to 5 years (see Note 7 - Property and Equipment).

(m) Impairment or Disposal of Long-Lived and Intangible Assets

The Company accounts for long-lived assets, which include property and equipment, operating lease right-of-use assets and identifiable intangible assets with finite useful lives (subject to amortization), in accordance with the provisions of FASB ASC Topic No. 360, Property, Plant, and Equipment (“ASC 360”), which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to the expected undiscounted future net cash flows generated by the asset. If it is determined that the asset may not be recoverable, and if the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized to the extent of the difference.

The Company assesses the impairment of identifiable definite-lived intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors it considers important which could individually or in combination trigger an impairment review include the following:

- Significant underperformance relative to historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for Consensus’ overall business;
- Significant negative industry or economic trends;
- Significant decline in the Company’s stock price for a sustained period; and
- The Company’s market capitalization relative to net book value.

If the Company determined that the carrying value of definite-lived intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, it would record an impairment equal to the excess of the carrying amount of the asset over its estimated fair value.

The Company assessed whether events or changes in circumstances have occurred that potentially indicate the carrying amount of definite-lived assets may not be recoverable. There were no impairments recorded in 2022. In the year ended December 31, 2021, the Company recorded an impairment of \$1.7 million in property and equipment (see Note 7 - Property and Equipment) and an impairment of \$6.5 million in operating right-of-use assets (see Note 10 - Leases) in connection with the downtown Los Angeles lease. Additionally, the Company recorded an impairment of \$1.0 million in operating right-of-use assets included in discontinued operations in relation to exiting a lease. There were no impairments recorded in 2020.

The Company classifies its long-lived assets to be sold as held for sale in the period (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable, (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. Upon designation as an asset held for sale, the Company stops recording

depreciation expense on the asset. The Company assesses the fair value of a long-lived asset less any costs to sell at each reporting period and until the asset is no longer classified as held for sale.

(n) Business Combinations and Valuation of Goodwill and Intangible Assets

The Company applies the acquisition method of accounting for business combinations in accordance with GAAP and uses estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the assets, including identifiable intangible assets, and liabilities acquired. Such estimates may be based on significant unobservable inputs and assumptions such as, but not limited to, future revenue growth rates, gross and operating margins, customer attrition rates, royalty rates, discount rates and terminal growth rate assumptions. The Company uses established valuation techniques and may engage reputable valuation specialists to assist with the valuations. 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. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the acquisition method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. Intangible assets subject to amortization are amortized over the period of estimated economic benefit ranging from 1 to 20 years and the amortization expense is included in general and administrative expenses on the Consolidated Statements of Income.

The Company evaluates its goodwill and indefinite-lived intangible assets for impairment pursuant to FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), which provides that goodwill and other intangible assets with indefinite lives are not amortized but tested for impairment annually or more frequently if the Company believes indicators of impairment exist. In connection with the annual impairment test for goodwill, the Company has the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it was more likely than not that the fair value of the reporting unit is less than its carrying amount, then it performs the impairment test on goodwill. The impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company generally determines the fair value of its reporting units using the income approach methodology of valuation. If the carrying value of a reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized for the difference. In the fourth quarter of 2022, the Company performed the annual impairment test for goodwill for the year ended December 31, 2022 using a qualitative assessment, primarily taking into consideration macroeconomic, industry and market conditions, overall financial performance and any other relevant company-specific events. The Company performed the annual impairment test for intangible assets with indefinite lives for the year ended December 31, 2022 using a qualitative assessment primarily taking into consideration macroeconomic, industry and market conditions, overall financial performance and any other relevant company-specific events. The Company concluded that there were no impairments in 2022, 2021 and 2020.

(o) Income Taxes

Historically, J2 Cloud Services was included in the federal consolidated and state combined income tax returns with the Former Parent and its other subsidiaries. For purposes of the prior year consolidated Statement of Income prior to Separation, the Company's taxes were determined using the separate return method as if the Company had filed separate tax returns as a C-Corporation. In addition, J2 Cloud Services' income was subject to taxation in both the U.S. and numerous foreign jurisdictions. Significant judgment was required in evaluating the J2 Cloud Services' tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain.

The Company's income is subject to taxation in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves for tax contingencies are established when the Company believes that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or lapse of a statute of

limitations. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate (see Note 13 - Income Taxes).

The Company accounts for income taxes in accordance with FASB ASC Topic No. 740, Income Taxes (“ASC 740”), which requires that deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. The valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, the Company reviews historical and future expected operating results and other factors, including its recent cumulative earnings experience, expectations of future taxable income by taxing jurisdiction and the carryforward periods available for tax reporting purposes, to determine whether it is more likely than not that deferred tax assets are realizable.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax benefit is required to meet before it can be recognized in the financial statements and applies to all income tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. The Company recognized accrued interest and penalties related to uncertain income tax positions in income tax expense on its Consolidated Statements of Income.

In addition, on March 27, 2020, the “Coronavirus Aid, Relief and Economic Security (“CARES”) Act” was enacted into law providing for changes to various tax laws that impact business. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was enacted into law and is effective for taxable years beginning after December 31, 2022. The IRA includes a new corporate alternative minimum tax of 15% on adjusted financial statement income of corporations with profits greater than \$1 billion, a 1% excise tax on the fair market value of net share buy-backs, in addition to multiple incentives to the clean energy industry.

The Company does not believe these provisions have a significant impact to our current and deferred income tax balances. The Company benefited from the technical correction to tax depreciation related to qualified improvement property and has elected to defer the employer side social security payments where eligible. The Company remitted the deferred employer side social security payments during the year ended December 31, 2022. The Company will continue to evaluate the impact of these provisions on its financial statements.

(p) Share-Based Compensation

The Company accounts for share-based awards to employees and non-employees in accordance with the provisions of FASB ASC Topic No. 718, Compensation - Stock Compensation (“ASC 718”). Accordingly, the Company measures share-based compensation expense at the grant date, based on the fair value of the award, and recognizes the expense over the employee’s requisite service period using the straight-line method. The measurement of share-based compensation expense is based on several criteria, including but not limited to the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate, dividend rate and award cancellation rate. These inputs are subjective and are determined using management’s judgment. If differences arise between the assumptions used in determining share-based compensation expense and the actual factors, which become known over time, the Company may change the input factors used in determining future share-based compensation expense. Any such changes could materially impact the Company’s results of operations in the period in which the changes are made and in periods thereafter. The Company estimates the expected term based upon the contractual term of the award (see Note 15 - Equity Incentive and Employee Stock Purchase Plan).

(q) Earnings Per Common Share (“EPS”)

EPS is calculated pursuant to the two-class method as defined in ASC Topic No. 260, Earnings per Share (“ASC 260”), which specifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities and should be included in the computation of EPS pursuant to the two-class method.

Basic EPS is calculated by dividing net distributed and undistributed earnings allocated to common shareholders, excluding participating securities, by the weighted-average number of common shares outstanding. The Company’s participating securities consist of its unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the impact of other potentially dilutive shares outstanding during the period. The dilutive effect of participating securities is calculated under the more dilutive of either the treasury method or the two-class method.

In periods prior to the Separation, EPS is calculated using the number of shares issued to the Former Parent upon the legal formation of Consensus and the contribution of the Cloud Fax business. The dilutive effect of Consensus stock-based compensation awards that were exchanged for the Former Parent stock-based compensation awards is included in the denominator of diluted EPS on a prospective basis.

(r) Research, Development and Engineering

Research, development and engineering costs are expensed as incurred.

(s) Segment Reporting

FASB ASC Topic No. 280, Segment Reporting (“ASC 280”), establishes standards for the way that public business enterprises report information about operating segments in their annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company’s business segment is based on the organization’s structure used by the chief operating decision maker for making operating and investment decisions and for assessing performance. The chief operating decision maker views the Company as one reportable segment known as Cloud Fax (see Note 18 - Segment Information).

(t) Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2022, 2021 and 2020 was \$55.4 million, \$45.7 million and \$47.1 million, respectively.

(u) Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The accommodations are available for all entities through December 31, 2022, with early adoption permitted. In December 2022, the FASB issued ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, that extends the period of time preparers can utilize the reference rate reform relief guidance. To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024. The Company does not expect the adoption of this standard to have a material impact on the Company’s consolidated financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity’s own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. The amendments in this ASU reduce the number of accounting models for convertible debt instruments and convertible preferred stock in order to simplify the accounting for convertible instruments

and reduce complexity. In addition, it amends the guidance for scope exception surrounding derivatives for contracts in an entity's own equity. In each case, the related guidance surrounding EPS has also been amended. The amendments in this ASU are effective for the Company for the year ended December 31, 2022. This amendment may be adopted using either a modified or fully retrospective method of transition. The Company adopted ASU 2020-06 in the fourth quarter of 2022 using a modified retrospective method of transition. The adoption of this standard did not have an impact on the Company's consolidated financial statements and related disclosures.

In October 2021, the FASB issued ASU No. 2021-08, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments in this ASU improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability, and payment terms and their effect on subsequent revenue recognized by the acquirer. The Company early adopted ASU 2021-08 in the second quarter of 2022 and applied it to the Summit acquisition as disclosed within Note 4 - Business Acquisitions. As a result of this adoption, the Company recognized \$0.9 million in deferred revenue with a corresponding increase in Goodwill.

In June 2022, the FASB issued ASU No. 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. This ASU clarifies the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security and introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this ASU are effective for fiscal years beginning after December 15, 2023, including the interim periods within those fiscal years. Early adoption is permitted. This amendment should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements and related disclosures.

In September 2022, the FASB issued ASU 2022-04, Liabilities—Supplier Finance Programs (Subtopic 405-50). This ASU enhances the transparency of supplier finance programs. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. This amendment should be applied retrospectively to each period in which a balance sheet is presented, except for the amendment on rollforward information, which should be applied prospectively. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements and related disclosures.

(w) Adjustments related to the Spin-off

During 2022, the Company identified certain improper classifications related to executive bonuses, other corporate charges incurred prior to the Separation that were incorrectly treated as equity contributions at the time of the Spin-off rather than liabilities, and certain intangible assets post Separation that were incorrectly included in the opening balance at the time of the Spin-off which belonged to the Former Parent. The Company recorded a reclassification of \$0.6 million from equity to accrued expenses to correct the prior period classification and \$0.8 million from intangible assets to equity to correct the opening balance on the balance sheet for the year ended December 31, 2022. The Company determined that the impact of these reclassifications were not material to the current or prior period financial statements.

Additionally, on September 27, 2022, the Company reached a settlement agreement with the Former Parent and agreed to pay \$2.6 million during the third quarter of 2022 to close out transaction fees related to the Spin-Off. This payment to the Former Parent as part of the Spin-off and a related adjustment of \$0.3 million was recorded as an adjustment to equity during year ended December 31, 2022.

3. Revenues

The Company's revenues substantially consist of monthly recurring subscription and usage-based fees from customers accessing the Company's cloud-based subscription (the "Cloud Fax Services"), a significant portion of which are paid in advance by credit card. The Company defers the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance of the satisfaction of performance obligations and recognizes them in the period earned. The Cloud Fax Services allow customers to access the Company's software without taking possession.

Revenues from external customers classified by revenue source are as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Corporate	\$ 192,195	\$ 169,732	\$ 148,981
Small office home office (“SoHo”)	170,199	182,390	181,784
Other	28	542	403
Total revenues	\$ 362,422	\$ 352,664	\$ 331,168
Timing of revenue recognition			
Point in time	\$ 557	\$ —	\$ —
Over time	361,865	352,664	331,168
Total revenues	\$ 362,422	\$ 352,664	\$ 331,168

The Company has recorded \$22.9 million and \$24.5 million of revenue for the years ended December 31, 2022 and 2021, respectively, which was previously included in the deferred revenue balance as of the beginning of each respective year.

As of December 31, 2022 and 2021, the Company acquired \$4.8 million and zero, respectively, of deferred revenue in connection with the Company’s business acquisitions (see Note 4 - Business Acquisitions).

Performance Obligations

Generally, the Company’s contracts with customers include one performance obligation, however, certain contracts may include multiple performance obligations. For such arrangements, revenues are allocated to each performance obligation based on their relative standalone selling price. The Company accounts for these arrangements as a single performance obligation as the performance obligations related to a specific arrangement are all consumed simultaneously.

The Company satisfies its performance obligations upon delivery of services to its customers. Payment terms vary by type and location of the Company’s customers and the services offered. The time between invoicing and when payment is due is not significant. Due to the nature of the services provided, there are no obligations for returns.

Significant Judgments

Determining whether products and services are considered distinct performance obligations may require significant judgment. When a cloud-based service includes both on-premises software licenses and cloud-based services, judgment is required to determine whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the cloud-based service and recognized over time. The Cloud Fax Services and related licenses depend on a significant level of integration between the desktop applications and cloud-based services and are accounted for together as one performance obligation.

Judgment is also required to determine the standalone selling price for each distinct performance obligation when there are multiple performance obligations. In certain cases, the Company is able to establish the standalone selling price based on observable prices of products or services sold or priced separately in comparable circumstances to similar customers. The Company uses a range of amounts to estimate the standalone selling price when each of the products and services is sold separately to determine whether there is a discount to be allocated based on the relative standalone selling price of the various products and services.

Performance Obligations Satisfied Over Time

The Company’s business consists primarily of performance obligations that are satisfied over time. This has been determined based on the fact that the nature of services offered are subscription based where the customer simultaneously receives and consumes the benefit of the services provided regardless of whether the customer uses the services or not. Depending on the individual contracts with the customer, revenue for these services is recognized over the contract period when faxing capabilities are provided. The Company expects to recognize revenue for Corporate contracts in a range from month-to-month up to 36 months and recognize revenue for SOHO contracts in a range from month-to-month up to one year.

The Company has concluded that the best measure of progress toward the complete satisfaction of the performance obligation over time is a time-based measure. The Company recognizes revenue on a straight-line basis throughout the subscription period and believes that the method used is a faithful depiction of the transfer of goods and services.

Practical Expedients

Existence of a Significant Financing Component in a Contract

As a practical expedient, the Company has not assessed whether a contract has a significant financing component because the Company expects at contract inception that the period between payment by the customer and the transfer of promised goods or services by the Company to the customer will be one year or less. In addition, the Company has determined that the payment terms the Company provides to its customers are structured primarily for reasons other than the provision of finance to the Company. The Company typically charges a single upfront amount for services, as other payment terms would affect the nature of the risk assumed by the Company due to the costs of the customer acquisition and the highly competitive and commoditized nature of the business Consensus operates.

Costs to Fulfill a Contract

The Company's revenues are primarily generated from customer contracts that are for one year or less. Costs primarily consist of incentive compensation paid based on the achievements of sales targets in a given period for related revenue streams and are recognized in the month when the revenue is earned. Incentive compensation is paid on the issuance or renewal of the customer contract. As a practical expedient, for amortization periods which are determined to be one year or less, the Company expenses any incremental costs of obtaining the contract with a customer when incurred. For those customer contracts greater than one year, the Company capitalizes and amortizes the expenses over the period of benefit.

Revenues Invoiced

The Company has applied the practical expedient for certain revenue streams to exclude the value of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which the Company recognizes revenue in proportion to the amount it has the right to invoice for services performed.

4. Business Acquisitions

The Company uses acquisitions as a strategy to grow its customer base by increasing its presence in new and existing markets, expand and diversify its service offerings, enhance its technology and acquire skilled personnel.

Summit Healthcare Acquisition

On February 4, 2022, in a cash transaction, the Company acquired certain assets of Summit Healthcare Services, Inc. ("Summit"), a Massachusetts based provider of secure interoperability solutions within the healthcare industry.

The Consolidated Statement of Income since the date of acquisition and the Consolidated Balance Sheet as of December 31, 2022, reflect the results of operations of this 2022 acquisition. For the year ended December 31, 2022, this acquisition contributed \$6.8 million to the Company's revenues. Net income contributed by this acquisition was not separately identifiable due to the Company's integration activities and is not material. Total consideration for this transaction was \$12.2 million, net of cash acquired, and was subject to certain post-closing adjustments through the measurement period.

The following table summarizes the allocation of the purchase consideration, net of cash acquired, for this acquisition (in thousands):

Assets and Liabilities	Valuation
Accounts receivable	\$ 1,248
Prepaid expenses and other current assets	30
Property and equipment	9
Operating lease right-of-use assets, non-current	413
Trademarks	800
Customer relationships	8,600
Goodwill	5,677
Other intangibles	1,000
Accounts payable and accrued expenses	(295)
Deferred revenue	(4,839)
Operating lease liabilities, non-current	(413)
Total	\$ 12,230

The Company has finalized the accounting for the Summit acquisition. During 2022, the Company recorded a working capital adjustment of \$2.1 million, which reduced the purchase price of the acquisition by the same amount. Since the date of acquisition, the Company has recorded \$1.3 million in additional deferred revenue with a corresponding increase in Goodwill as a measurement period adjustment. Additionally, as a result of the early adoption of ASU 2021-08 in the second quarter of 2022, the Company recognized \$0.9 million in deferred revenue with a corresponding increase in Goodwill. All adjustments are reflected in the table above.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with this acquisition during the year ended December 31, 2022 is \$5.7 million, of which \$5.7 million is expected to be deductible for income tax purposes.

SRFax Acquisition

On February 18, 2020, the Company completed an asset purchase of EDC Systems, Inc. (operating under the name “SRFax”), a Canadian-based provider of fax solutions. The purchase price accounting for this acquisition was completed in 2021.

The Consolidated Statement of Income since the date of acquisition reflects the results of operations of SRFax. For the year ended December 31, 2020, SRFax contributed \$7.3 million to the Company’s revenues. Net income contributed by SRFax is not separately identifiable due to the Company’s integration activities and is impracticable to provide. Total consideration was \$25.0 million, net of cash acquired and assumed liabilities for SRFax.

Unaudited Pro Forma Financial Information

The following unaudited pro forma information is not necessarily indicative of the Company’s consolidated results of operations in future periods or the results that actually would have been realized had the Company and the acquired business been combined companies during the periods presented. These pro forma results exclude any savings or synergies that would have resulted from the business acquisition had it occurred on January 1, 2020 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization, income tax expense, and interest income as a result of the acquisitions, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of the Company and SRFax as if the acquisition had occurred on January 1, 2020 (in thousands, except per share amounts):

	Year ended	
	December 31, 2020	
	(unaudited)	
Revenues	\$	332,431
Net income from continuing operations	\$	122,912
EPS - Basic ⁽¹⁾	\$	6.18
EPS - Diluted ⁽¹⁾	\$	6.18

⁽¹⁾ Basic and Diluted EPS are calculated based on net income from continuing operations attributable to common shareholders.

Business Acquisitions Classified in Discontinued Operations

SEOmoz Acquisition

During the year ended December 31, 2021, the Company completed a share purchase of SEOmoz, acquired on June 4, 2021, a Seattle-based provider of search engine optimization (“SEO”) solutions. As part of the Separation, the Company transferred all of the assets and liabilities acquired to the Former Parent.

The Consolidated Statement of Income for the year ended December 31, 2021 reflects the results of operations of SEOmoz, which contributed \$14.4 million to revenue within discontinued operations. Total consideration for SEOmoz was \$66.5 million, net of cash acquired and assumed liabilities.

2020 Acquisitions

On November 2, 2020, the Company completed a share purchase of the entire issued capital of Inspired eLearning, LLC, a Texas-based platform for cybersecurity awareness and compliance training, as well as the purchase of two other immaterial businesses. As part of the Separation, the Company transferred the Inspired eLearning assets and the two immaterial businesses acquired to the Former Parent.

The Consolidated Statement of Income, since the date of acquisition, reflects the results of operations of Inspired eLearning. For the year ended December 31, 2020, Inspired eLearning contributed \$1.6 million to revenue within discontinued operations. Total consideration for Inspired eLearning was \$20.5 million, net of cash acquired and assumed liabilities.

The two other immaterial businesses acquired during the year ended December 31, 2020 are also included in discontinued operations.

5. Discontinued Operations and Disposition of Businesses

On October 7, 2021, the Former Parent transferred certain assets and liabilities associated with its Cloud Fax business to Consensus, including the equity interests in J2 Cloud Services, in exchange for approximately \$259.1 million in cash, an asset related to the \$500 million aggregate principal amount of the 6.5% Senior Notes due 2028 and the return of the assets and liabilities related to the non-fax business back to Ziff Davis. The transfer to the Former Parent of the non-fax business met the accounting requirements to be presented as a discontinued operation once the Separation was completed as the disposition of the non-fax business constitutes a strategic shift that had a major effect on the Company’s operations relative to the historical operations of J2 Cloud Services.

Accordingly, the consolidated financial statements reflect the results of the non-fax business as a discontinued operation for all periods presented. The Consolidated Statements of Income report discontinued operations separate from continuing operations. The Consolidated Statements of Comprehensive Income, Consolidated Statements of Cash Flows (including Note 19 - Supplemental Cash Flows Information) and Consolidated Statements of Stockholders’ Deficit combine continuing and discontinued operations. The Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Cash Flows and Consolidated Statements of Stockholders’ Deficit includes the non-fax business activity through October 7, 2021.

The key components of (loss) income from discontinued operations that were included in the Company's Consolidated Statement of Income are as follows (in thousands):

	Year ended December 31	
	2021	2020
Revenues	\$ 271,571	\$ 347,293
Cost of revenues	74,294	100,871
Gross profit	197,277	246,422
Operating expenses:		
Sales and marketing	72,425	72,080
Research, development and engineering	16,756	15,681
General and administrative	84,213	118,608
Goodwill impairment on business	32,629	—
Total operating expenses	206,023	206,369
(Loss) income from discontinued operations	(8,746)	40,053
Interest expense	(235)	(939)
Interest income	693	963
(Loss) gain on sale of businesses	(21,797)	17,122
Other income (expense)	1,752	(1,606)
(Loss) income from discontinued operations before income taxes	(28,333)	55,593
Income tax (benefit) expense	(16,160)	25,093
(Loss) income from discontinued operations, net of income taxes	\$ (12,173)	\$ 30,500

The key components of cash flows from discontinued operations are as follows (in thousands):

	Year ended December 31	
	2021	2020
Depreciation and amortization	\$ 39,727	\$ 67,995
Capital expenditure	14,322	19,633
Share-based compensation expense	602	4,138
Non-cash operating lease costs	2,814	4,364
Deferred taxes	554	7,723
Foreign currency remeasurement gain	(9)	3,574
Lease asset impairments and other charges	990	—
Loss (gain) on sale of businesses	21,797	(17,122)
Goodwill impairment on business	32,629	—

Prior to the Separation, the Company completed the following dispositions that did not meet the criteria for discontinued operations by themselves but were subsequently classified as discontinued operations as they are part of the non-fax business transferred back to the Former Parent.

Voice Asset Sales (Non-Consensus)

During the first quarter of 2021, the Company committed to a plan to sell certain Voice assets in the United Kingdom as they were determined to be non-core assets. On February 9, 2021, in a cash transaction, the Company sold the Voice assets. For the year ended December 31, 2021, the total gain recognized on the sale was \$2.8 million, which was recorded in discontinued operations on the Consolidated Statement of Income.

During the second quarter of 2020, the Company committed to a plan to sell certain Voice assets in Australia and New Zealand as they were determined to be non-core assets. On August 31, 2020, in a cash transaction, the Company sold the Voice assets. For the year ended December 31, 2020, the total gain recognized on the sale was \$17.1 million, which was recorded in discontinued operations on the Consolidated Statement of Income.

B2B Back-up (Non-Consensus)

During the first quarter of 2021, the Company committed to a plan to sell its B2B Backup business as it was determined to be a non-core business. During the second quarter of 2021, the Company received an offer to purchase the business. Management determined that the fair value of the business less cost to sell was lower than its carrying amount. As a result, the Company recorded an impairment to goodwill of \$32.6 million which was recorded in the second quarter of 2021, and is included within discontinued operations on the Consolidated Statement of Income. On September 17, 2021, in a cash transaction, the Company sold the B2B Backup business. For the year ended December 31, 2021, the total loss recognized on the sale was \$24.6 million, which is included within discontinued operations on the Consolidated Statement of Income.

6. Fair Value Measurements

The Company complies with the provisions of ASC 820, which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- § Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- § Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, 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 which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value of long-term debt is determined using recent quoted market prices or dealer quotes for each of the Company's instruments, which are Level 1 inputs (see Note 9 - Long-Term Debt).

During the year ended December 31, 2021, the Company recorded an increase in the fair value of the contingent consideration of \$0.7 million using Level 3 inputs and reported such increase in general and administrative expenses. The contingent consideration was fully paid during 2021.

Assets Measured on a Non-Recurring Basis

The Company's non-financial assets, which primarily consist of goodwill, other intangible assets and fixed assets, are reported at carrying value, or at fair value as of the date of the Company's acquisition of Summit on February 4, 2022, and are not required to be measured at fair value on a recurring basis. However, on a periodic basis (at least annually for goodwill and indefinite-lived intangibles or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable), non-financial assets are assessed for impairment. If impaired, the carrying values of the assets are written down to fair value using Level 3 inputs.

During the year ended December 31, 2021, the Company recorded total non-cash impairment charges of \$7.5 million related to its operating lease right-of-use assets, based on their fair value determined using Level 3 inputs (see Note 10 - Leases).

7. Property and Equipment

Property and equipment, stated at cost, at December 31, 2022 and 2021 consisted of the following (in thousands):

	2022	2021
Computers, equipment and software	\$ 54,372	\$ 36,319
Furniture and equipment	828	846
Leasehold improvements	1,717	1,718
Internal software in development	28,442	15,092
	<u>85,359</u>	<u>53,975</u>
Less: Accumulated depreciation and amortization	(30,401)	(20,126)
Total property and equipment, net	<u>\$ 54,958</u>	<u>\$ 33,849</u>

Prior year balances of certain property and equipment categories have been reclassified to conform to the current year's presentation.

Depreciation and amortization expense was \$10.6 million, \$7.3 million and \$7.1 million for the years ended December 31, 2022, 2021 and 2020, respectively.

During the fourth quarter of 2021, the Company recorded a non-cash impairment charge of \$1.7 million for property and equipment related to the impairment of the Downtown Los Angeles lease (see Note 10 - Leases for further details). No impairment was recorded in 2022 or 2020.

8. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the acquisition method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. The fair values of these identified intangible assets are based upon expected future cash flows or income, which take into consideration certain assumptions such as customer turnover, trade names and patent lives. These determinations are primarily based upon the Company's historical experience and expected benefit of each intangible asset. If it is determined that such assumptions are not accurate, the resulting change will impact the fair value of the intangible asset. Identifiable intangible assets are amortized over the period of estimated economic benefit, which ranges from 1 year to 20 years.

The changes in carrying amounts of goodwill attributable to continuing operations for the years ended December 31, 2022 and 2021 are as follows (in thousands):

	Amount
Balance as of January 1, 2021	\$ 342,430
Foreign exchange translation	(3,221)
Balance as of December 31, 2021	<u>\$ 339,209</u>
Goodwill acquired (Note 4)	5,677
Foreign exchange translation ⁽¹⁾	1,699
Balance as of December 31, 2022	<u>\$ 346,585</u>

⁽¹⁾ In 2022, the Company recorded a \$5.5 million out of period correction that increased goodwill with an offset to the cumulative translation adjustment. It was deemed to be an out of period correction that was not material to 2022 or any prior period.

There has not previously been an impairment charge of goodwill related to continuing operations.

Intangible Assets with Indefinite Lives:

Intangible assets are summarized as of December 31, 2022 and 2021 as follows (in thousands):

	2022	2021
Trade names	\$ 27,337	\$ 27,388
Other	4,045	3,683
Total	<u>\$ 31,382</u>	<u>\$ 31,071</u>

Intangible Assets Subject to Amortization:

In addition to the intangible assets related to Summit (refer to Note 4 - Business Acquisitions) the Company acquired technology for jSign, a corporate solution that provides electronic signature and digital signature solutions to businesses, offering document markup and end-user signing services via mobile-aware web application and enterprise API during the year ended December 31, 2022. The purchase price was \$1.0 million and the asset is included in Intangibles, net on the Consolidated Balance Sheets and other purchased intangibles in the table below.

As of December 31, 2022, intangible assets subject to amortization are summarized as follows (in thousands):

	Weighted-Average Remaining Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	0.5 years	\$ 8,151	\$ 7,605	\$ 546
Patent and patent licenses	0.0 years	54,341	54,341	—
Customer relationships ⁽¹⁾	3.1 years	107,175	92,573	14,602
Other purchased intangibles	2.0 years	11,937	9,311	2,626
Total		<u>\$ 181,604</u>	<u>\$ 163,830</u>	<u>\$ 17,774</u>

⁽¹⁾ Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace in which the assets' benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first four to five years, despite the overall life of the asset.

As of December 31, 2021, intangible assets subject to amortization are summarized as follows (in thousands):

	Weighted-Average Remaining Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	1.6 years	\$ 12,219	\$ 10,633	\$ 1,586
Patent and patent licenses ⁽¹⁾	0.0 years	54,341	53,930	411
Customer relationships ⁽²⁾	4.3 years	99,571	90,050	9,521
Other purchased intangibles	3.8 years	13,160	12,200	960
Total		<u>\$ 179,291</u>	<u>\$ 166,813</u>	<u>\$ 12,478</u>

⁽¹⁾ The December 31, 2021 patent and patent licenses historical cost and accumulated amortization balance was adjusted to conform with presentation of the December 31, 2022 balance for comparability purposes. There was no impact to the net balance.

⁽²⁾ Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace in which the assets' benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first four to five years, despite the overall life of the asset.

Expected amortization expenses for intangible assets subject to amortization at December 31, 2022 are as follows (in thousands):

Fiscal Year:	Amount
2023	\$ 4,220
2024	3,496
2025	2,645
2026	2,206
2027	1,410
Thereafter	3,797
Total expected amortization expense	\$ 17,774

Amortization expense was \$4.7 million, \$4.8 million and \$4.7 million for the years ended December 31, 2022, 2021 and 2020, respectively.

9. Long-Term Debt

Long-term debt as of December 31, 2022 and 2021 consists of the following (in thousands):

	2022	2021
2026 Senior Notes	\$ 305,000	\$ 305,000
2028 Senior Notes	500,000	500,000
Total Notes	805,000	805,000
Less: Deferred issuance costs	(11,135)	(12,960)
Total long-term debt	\$ 793,865	\$ 792,040

At December 31, 2022, future principal payments for debt were as follows (in thousands):

Fiscal year:	Total
2023	\$ —
2024	—
2025	—
2026	305,000
2027	—
Thereafter	500,000
	\$ 805,000

Interest expense was \$51.4 million, \$14.3 million, and \$75.8 million for the years ended December 31, 2022, 2021 and 2020, respectively. Interest expense for the year ended December 31, 2022 includes \$0.8 million related to sales tax (refer to Note 11 - Commitments and Contingencies). The \$75.8 million interest expense for the year ended December 31, 2020 includes a loss on debt extinguishment of \$38.0 million related to the redemption of all of its outstanding \$650.0 million 6.0% Senior Notes in 2020.

2026 Senior Notes

On October 7, 2021, Consensus issued \$305.0 million of senior notes due in 2026 (the “2026 Senior Notes”), in a private placement offering exempt from the registration requirements of the Securities Act of 1933. Consensus received proceeds of \$301.2 million, after deducting the initial purchasers’ discounts, commissions and offering expenses. The 2026 6.0% Senior Notes are presented as long-term debt, net of deferred issuance costs, on the Consolidated Balance Sheet as of December 31, 2022 and 2021. The 2026 Senior Notes bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, which commenced on April 15, 2022.

The 2026 Senior Notes mature on October 15, 2026, and are senior unsecured obligations of the Company which are guaranteed, jointly and severally, on an unsecured basis by certain of the Company’s existing and future domestic direct and indirect wholly-owned subsidiaries (collectively, the “Guarantors”). If Consensus Cloud Solutions, Inc. or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an Insignificant Subsidiary (as defined in the indenture pursuant to which the 2026 Senior Notes were issued (the “2026 Indenture”)), after the issue date, or any Insignificant Subsidiary ceases to fit within the definition of Insignificant Subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, the Company’s obligations under the 2026 Senior Notes.

The Company may redeem some or all of the 2026 Senior Notes at any time on or after October 15, 2023 at specified redemption prices, plus accrued and unpaid interest, if any, to, but excluding the redemption date. Before October 15, 2023, and following certain equity offerings, the Company also may redeem up to 40% of the 2026 Senior Notes at a price equal to 106.0% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding the redemption date. The Company may make such redemption only if, after such redemption, at least 50% of the aggregate principal amount of the 2026 Senior Notes remains outstanding. In addition, at any time prior to October 15, 2023, the Company may redeem some or all of the 2026 Senior Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus an applicable “make-whole” premium.

The Indenture contains covenants that restrict the Company’s ability to (i) pay dividends or make distributions on the Company’s common stock; (ii) make certain restricted payments; (iii) create liens or enter into sale and leaseback transactions; (iv) enter into transactions with affiliates; (v) merge or consolidate with another company; and (vi) transfer and sell assets. These covenants contain certain exceptions. Restricted payments are applicable only if Consensus Cloud Solutions, Inc. and subsidiaries designated as restricted subsidiaries has a net leverage ratio of greater than 3.0 to 1.0. In addition, if such net leverage ratio is in excess of 3.0 to 1.0, the restriction on restricted payments is subject to various exceptions, including the total aggregate amount not to exceed the greater of (A) \$100.0 million and (B) 50.0% of EBITDA for the most recently ended four fiscal quarter period ended immediately prior to such date for which internal financial statements are available. The Company is in compliance with its debt covenants as of December 31, 2022.

As of December 31, 2022 and 2021, the estimated fair value of the 2026 Senior Notes was approximately \$282.8 million and \$316.1 million, respectively, and was based on quoted market prices or dealer quotes for the 2026 Senior Notes which are Level 1 inputs in the fair value hierarchy.

The following table provides additional information related to our 2026 Senior Notes as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Principal amount of 2026 Senior Notes	\$ 305,000	\$ 305,000
Less: Debt issuance costs	(3,748)	(4,582)
Net carrying amount of 2026 Senior Notes	<u>\$ 301,252</u>	<u>\$ 300,418</u>

2028 Senior Notes

On October 7, 2021, Consensus issued \$500.0 million of 6.5% senior notes due in 2028 (the “2028 Senior Notes”), in a private placement offering exempt from the registration requirements of the Securities Act of 1933. In exchange for the equity interest in the Company, Consensus issued the 2028 Senior Notes to Ziff Davis (see Note 21 - Related Party Transactions). Ziff Davis then exchanged the 2028 Senior Notes with lenders under its credit agreement (or their affiliates) in exchange for extinguishment of a similar amount indebtedness under such credit agreement for a total amount of \$483.8 million, after deducting the initial purchasers’ discounts, commissions and offering expenses. The 2028 Senior Notes were presented as long-term debt, net of deferred issuance costs, on the Consolidated Balance Sheets as of December 31, 2022 and 2021. The 2028 Senior Notes bear interest at a rate of 6.5% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, which commenced on April 15, 2022.

The 2028 Senior Notes mature on October 15, 2028, and are senior unsecured obligations of the Company that are guaranteed, jointly and severally, on an unsecured basis by certain of the Company’s existing and future domestic direct and indirect wholly-owned subsidiaries (collectively, the “Guarantors”). If Consensus Cloud Solutions, Inc. or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an Insignificant Subsidiary (as defined in the indenture pursuant to which the 2028 Senior Notes were issued (the “2028 Indenture”)), after the issue date, or any Insignificant

Subsidiary ceases to fit within the definition of Insignificant Subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, the Company's obligations under the 2028 Senior Notes.

The Company may redeem some or all of the 2028 Senior Notes at any time on or after October 15, 2026 at specified redemption prices plus accrued and unpaid interest, if any, to, but excluding the redemption date.

The Indenture contains covenants that restrict the Company's ability to (i) pay dividends or make distributions on the Company's common stock; (ii) make certain restricted payments; (iii) create liens or enter into sale and leaseback transactions; (iv) enter into transactions with affiliates; (v) merge or consolidate with another company; and (vi) transfer and sell assets. These covenants contain certain exceptions. Restricted payments are applicable only if Consensus Cloud Solutions, Inc. and subsidiaries designated as restricted subsidiaries has a net leverage ratio of greater than 3.0 to 1.0. In addition, if such net leverage ratio is in excess of 3.0 to 1.0, the restriction on restricted payments is subject to various exceptions, including the total aggregate amount not to exceed the greater of (A) \$100.0 million and (B) 50.0% of EBITDA for the most recently ended four fiscal quarter period ended immediately prior to such date for which internal financial statements are available. The Company is in compliance with its debt covenants as of December 31, 2022.

As of December 31, 2022 and 2021, the estimated fair value of the 2028 Senior Notes was approximately \$459.4 million and \$521.2 million, respectively, and was based on quoted market prices or dealer quotes for the 2028 Senior Notes which are Level 1 inputs in the fair value hierarchy.

The following table provides additional information related to our 2028 Senior Notes as of December 31, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Principal amount of 2028 Senior Notes	\$ 500,000	\$ 500,000
Less: Debt issuance costs	(7,387)	(8,378)
Net carrying amount of 2028 Senior Notes	<u>\$ 492,613</u>	<u>\$ 491,622</u>

2025 Senior Notes

On June 27, 2017, J2 Cloud Services, LLC ("J2 Cloud") and J2 Cloud Co-Obligor, Inc. (the "Co-Issuer" and together with J2 Cloud, the "Issuers"), wholly-owned subsidiaries of the Company, completed the issuance and sale of \$650.0 million aggregate principal amount of their 6.0% senior notes due in 2025 (the "2025 Senior Notes") in a private placement offering exempt from the registration requirements of the Securities Act of 1933. The Company received proceeds of \$636.5 million, after deducting the initial purchasers' discounts, commissions and offering expenses. The 6.0% Senior Notes bore interest at a rate of 6.0% per annum, payable semi-annually in arrears on January 15 and July 15 of each year.

On October 7, 2020, the Company redeemed all of its outstanding \$650.0 million 2025 Senior Notes for \$694.6 million, including an early redemption premium of \$29.2 million and accrued and unpaid interest of \$15.4 million. The Company recorded a loss on extinguishment of \$38.0 million, which is recorded in interest expense, net in the Consolidated Statements of Income.

Credit Agreement

On March 4, 2022, the Company entered into a Credit Agreement (the "Credit Agreement") with certain lenders party thereto (the "Lenders") and MUFG Union Bank, N.A., as agent (the "Agent"). Pursuant to the Credit Agreement, the Lenders have provided Consensus with a senior secured revolving credit facility of \$25.0 million (the "Credit Facility") with an option held by the Company to obtain an additional commitment of up to a maximum of \$25.0 million. The final maturity of the Credit Facility will occur on March 4, 2027. As of December 31, 2022, no amount has been drawn down on the Credit Facility. The Credit Facility is guaranteed by each wholly-owned material domestic subsidiary of Consensus, and secured by substantially all assets of Consensus and the guarantors. The loans made under the Credit Facility are subject to a Secured Overnight Financing Rate ("SOFR") base interest rate plus a SOFR margin between 1.75% - 2.50%, with stepdowns subject to the total net leverage ratio.

The Credit Facility is subject to a total net leverage ratio covenant and a minimum EBITDA requirement, in each case tested on a quarterly basis. The Credit Agreement contains covenants that restrict the Company's ability to (i) pay dividends or make distributions on the Company's common stock; (ii) make certain restricted payments; (iii) create liens or enter into sale and leaseback transactions; (iv) enter into transactions with affiliates; (v) merge or consolidate with another company; and (vi)

transfer and sell assets. These covenants contain certain exceptions. Unsecured indebtedness may be incurred, assets may be disposed of, restricted payments may be made and investments may be made, in each case subject to compliance with the Company's financial covenants. The Company is in compliance with its covenants as of December 31, 2022.

10. Leases

Consensus leases certain facilities and equipment under non-cancelable operating and finance leases which expire at various dates through 2031. Office and equipment leases are typically for terms of three to ten years and generally provide renewal options for terms up to an additional five years. The Company determines if an arrangement is a lease at inception. Short-term leases are defined as leases that have a term of 12 months or less and do not include an option to purchase the underlying asset or include an option to purchase the underlying asset that the Company is not reasonably certain to exercise.

The Company accounts for short-term leases by recognizing the lease payments in general and administrative expenses in the Consolidated Statements of Income. Short-term lease expense is recognized on a straight-line basis over the term of the lease and associated variable lease payments are recognized in the period in which the obligation for the payments is incurred.

Operating lease assets represent the right to use an underlying asset for the lease term, and operating lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. The Company uses a collateralized incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. Operating leases typically require payment of certain non-lease costs, such as real estate taxes, common area maintenance and insurance. These components comprise the majority of the Company's variable lease costs and are excluded from the present value of lease liabilities unless an event occurs that results in the payments becoming fixed for the remaining term. The remaining lease and non-lease components are accounted for together as a single lease component for all underlying classes of assets. Operating lease assets are adjusted for lease incentives, initial direct costs, impairments and exit or disposal costs.

The Company accounts for operating leases greater than one year by recognizing the lease payments in general and administrative expenses in the Consolidated Statements of Income. Operating lease costs are recognized on a straight-line basis from the commencement date to the end of the lease term. Amortization on finance lease right-of-use assets are included in general and administrative expenses in the Consolidated Statements of Income. Interest on finance lease right-of-use assets, if any, is included in interest expense in the Consolidated Statements of Income. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company recorded total non-cash impairment charges of \$7.5 million related to its operating lease right-of-use assets during the year ended December 31, 2021. The \$7.5 million in impairment charge during 2021 consists of \$6.5 million recognized in continuing operations and \$1.0 million recognized in discontinued operations. For the impairment charge recognized in continuing operations, the Company decided to exit and seek subleases for certain leased facilities primarily due to a "partial remote" work model for a significant number of employees. The Company recorded a non-cash impairment charge of \$6.5 million related to operating lease right-of-use assets for the affected facility. The impairment was determined by comparing the fair value of the impacted right-of-use asset to the carrying value of the asset as of the impairment measurement date, as required under ASC Topic 360, Property, Plant, and Equipment. The fair value of the right-of-use asset was based on the estimated sublease income for the affected facilities, taking into consideration the time it will take to obtain a sublease tenant, the applicable discount rate and the sublease rate, which represent Level 3 unobservable inputs. The carrying value of the asset was remeasured to exclude a five year optional lease term that was originally included in the initial assessment. The impairment is presented in general and administrative expenses on the Consolidated Statements of Income. No impairment was recorded in 2022 or 2020.

The components of lease expense, recorded in cost of revenues and general and administrative expenses on the Consolidated Statements of Income, were as follows for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	Years ended December 31,		
	2022	2021	2020
Operating lease cost	\$ 2,121	\$ 2,675	\$ 3,002
Short-term lease cost	1,656	875	186
Finance lease cost			
Amortization of right-of-use assets	1,182	834	160
Total lease cost	\$ 4,959	\$ 4,384	\$ 3,348

Supplemental balance sheet information related to leases as of December 31, 2022 and 2021 was as follows (in thousands):

Lease-Related Assets and Liabilities	December 31, 2022	December 31, 2021
Operating lease right-of-use assets	\$ 7,875	\$ 7,233
Finance lease right-of-use assets ⁽¹⁾	1,427	2,648
Total right-of-use assets	\$ 9,302	\$ 9,881
Operating lease liabilities, current	\$ 2,793	\$ 2,421
Operating lease liabilities, noncurrent	13,877	14,108
Total operating lease liabilities	\$ 16,670	\$ 16,529

⁽¹⁾ The full amount of the finance leases were prepaid. Therefore, there is no corresponding lease liability associated with the finance right-of-use assets.

Supplemental cash flow information related to leases for the years ended December 31, 2022, 2021 and 2020 was as follows (in thousands):

	Years ended December 31,		
	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 2,784	\$ 2,501	\$ 1,344
Operating cash flows from finance leases	\$ —	\$ 2,719	\$ 959
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	\$ 1,316	\$ 259	\$ 356
Finance leases	\$ —	\$ 2,719	\$ 959

Other supplemental operating lease information consists of the following:

	December 31, 2022	December 31, 2021
Operating leases:		
Weighted average remaining lease term	7.6 years	8.8 years
Weighted average discount rate	4.6 %	4.8 %

Maturities of lease liabilities as of December 31, 2022 were as follows (in thousands):

	Total
Fiscal Year:	
2023	\$ 2,939
2024	2,842
2025	2,389
2026	2,461
2027	2,534
Thereafter	8,167
Total lease payments	\$ 21,332
Less: Imputed interest	(4,662)
Present value of operating lease liabilities	<u>\$ 16,670</u>

Significant Judgments

Discount Rate

The majority of the Company's leases are discounted using the Company's incremental borrowing rate as the rate implicit in the lease is not readily determinable. Rates are obtained from various large banks to determine the appropriate incremental borrowing rate each quarter for collateralized loans with a maturity similar to the lease term.

Options

The lease term is generally the minimum noncancelable period of the lease. The Company does not include option periods unless the Company determined it is reasonably certain of exercising the option at inception or when a triggering event occurs.

Facility Lease

On October 28, 2021, Ziff Davis (the "Assignor") and Consensus (the "Assignee") entered into the Assignment and First Amendment to Office Lease (the "Amendment") with the NREA-TRC 700 LLC (the "Landlord"), in regards to the lease that was previously entered into on April 24, 2019 between the Assignor and the Landlord for certain office space located at 700 South Flower Street, Los Angeles, California (the "Lease"). The lease has an expiration date of January 31, 2031. The Amendment granted the Landlord's consent to the assignment of the lease by the Assignor to Assignee.

11. Commitments and Contingencies

Litigation

From time to time, the Company and its affiliates are involved in litigation and other legal disputes or regulatory inquiries that arise in the ordinary course of business. Any claims or regulatory actions against the Company and its affiliates, whether meritorious or not, could be time consuming and costly, and could divert significant operational resources. The outcomes of such matters are subject to inherent uncertainties, carrying the potential for unfavorable rulings that could include monetary damages and injunctive relief.

The Company does not believe, based on current knowledge, that any legal proceedings or claims currently exist which, after giving effect to existing accrued liabilities, are likely to have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows. It is the Company's policy to expense as incurred legal fees related to any litigation.

Non-Income Related Taxes

The Company historically did not collect sales tax in states where it was not able to quantify the appropriate sales tax to be collected. For the periods 2017 through 2021, the Company believed it was probable that a sales tax liability existed for its corporate accounts; however, the sales tax liability for its corporate customers was not estimable until the third quarter of 2022.

Prior to the third quarter of 2022, the Company was unable to determine which of these customers were either exempt organizations or resellers and were thus exempt from sales tax.

In the third quarter of 2022, the Company completed an analysis of the pool of corporate customers subject to sales tax in order to estimate the range of sales tax liability on its corporate revenues. As a result, the Company recorded an accrual of \$8.0 million during the quarter ended September 30, 2022 within accounts payable and accrued expenses on the Company's Consolidated Balance Sheets, as the exposure became both probable and estimable. Additionally, the Company started sales tax collection and remittance on corporate sales in applicable states in August 2022.

In the year ended December 31, 2021, the Company determined that a sales tax liability was probable and it developed a methodology to estimate the sales tax liability for the SoHo revenue stream during the affected periods from 2017 through 2021. The Company has taken the same approach in estimating the SoHo liability for the year ended December 31, 2022.

Accordingly, the Company has recorded a sales tax expense within general and administrative expenses in the Consolidated Statements of Income of \$9.4 million for both SoHo and Corporate sales for the year ended December 31, 2022, and \$8.6 million the year ended December 31, 2021 for SoHo sales only.

The Company has initiated a Voluntary Disclosure Agreement ("VDA") process in the third quarter of 2022, to voluntarily report the prior period sales tax liability. The process is expected to be completed within 6-12 months. While the Company believes that it has sufficiently reserved for historical sales tax liabilities under ASC 450, some state taxing authorities may still challenge the Company's sales tax position, the methodology used to calculate the sales tax liability, and may also impose other taxes on our business. Taxing authorities may successfully assert that the Company should have collected, or in the future should collect sales and use, telecommunications or similar taxes, and could be subject to liability with respect to past or future tax, which could adversely affect the Company's operating results.

The Company will continue to review and monitor the impact of sales tax rules in order to mitigate any associated risks on its business. As such, the Company has a \$13.1 million and \$8.6 million sales tax liability within accounts payable and accrued expenses on the Company's Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively.

In conjunction with the state voluntary disclosure agreement process the Company is remitting sales tax for SoHo and corporate sales for current and prior periods.

12. Other Balance Sheet Account Details

Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Prepaid insurance	\$ 1,004	\$ 1,191
Prepaid income taxes	8,033	—
Other prepaid expenses	4,884	3,233
Other current assets	414	226
Total	<u>\$ 14,335</u>	<u>\$ 4,650</u>

Accounts payable and accrued expenses

Accounts payable and accrued expenses consisted of the following as of December 31, 2022 and 2021 (in thousands):

	2022	2021
Accounts payable	\$ 6,288	\$ 4,905
Accrued sales and other taxes	13,865	8,721
Accrued interest	10,717	12,559
Accrued compensation	2,755	4,401
Accrued advertising expenses	3,545	3,001
Other accrued expenses	4,076	6,619
Total	<u>\$ 41,246</u>	<u>\$ 40,206</u>

13. Income Taxes

Income from continuing operations before income taxes for the years ended December 31, 2022, 2021 and 2020 was as follows (in thousands):

	Years Ended December 31,		
	2022	2021	2020
Domestic	\$ 7,772	\$ 80,655	\$ 49,673
Foreign	91,141	80,429	102,783
Income before income taxes	<u>\$ 98,913</u>	<u>\$ 161,084</u>	<u>\$ 152,456</u>

Income tax expense (benefit) related to continuing operations consisted of the following (in thousands):

	Years Ended December 31,		
	2022	2021	2020
Current:			
Federal	\$ 13,327	\$ 22,368	\$ 5,831
State	1,941	1,445	923
Foreign	12,669	9,496	17,756
Total current	<u>27,937</u>	<u>33,309</u>	<u>24,510</u>
Deferred:			
Federal	(5,851)	(4,902)	(151)
State	(1,359)	3,575	762
Foreign	5,472	7,928	4,922
Total deferred	<u>(1,738)</u>	<u>6,601</u>	<u>5,533</u>
Income tax expense	<u>\$ 26,199</u>	<u>\$ 39,910</u>	<u>\$ 30,043</u>

A reconciliation of the statutory federal income tax rate with Consensus' effective income tax rate is as follows:

	Years Ended December 31,		
	2022	2021	2020
Statutory tax rate	21 %	21 %	21 %
State income taxes, net	1.2	2.9	0.9
Foreign rate differential	(1.8)	(0.1)	(2.8)
Foreign income inclusion	6.3	4.9	4.3
Foreign tax credit	(3.6)	(4.0)	(3.5)
Reserve for uncertain tax positions	2.1	0.5	0.1
Impact on deferred taxes of enacted tax law and rate changes	0.1	—	—
Tax credits and incentives	(2.4)	(0.1)	(0.1)
Executive compensation	3.1	0.2	—
Return to provision adjustments	0.8	—	1.3
Other	(0.3)	(0.5)	(1.4)
Effective tax rates	<u>26.5 %</u>	<u>24.8 %</u>	<u>19.8 %</u>

The effective tax rate for the year ended December 31, 2022 differs from the federal statutory rate primarily due to the Global Intangible Low-Taxes Income inclusion, impact of jurisdictional mix of earnings, an increase in the net reserve for uncertain tax positions during 2022, various tax credits and certain expenses not deductible for tax purposes, such as, non-deductible executive compensation.

The effective tax rate for the year ended December 31, 2021 differs from the federal statutory rate primarily due to impacts of the Global Intangible Low-Taxed Income inclusion, an increase in the reserve for uncertain tax positions during 2021 and various tax credits.

The effective tax rate for the year ended December 31, 2020 differs from the federal statutory rate primarily due to the Global Intangible Low-Taxes income inclusion, impact of jurisdictional mix of earnings and various tax credits.

Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows (in thousands):

	Years Ended December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	\$ 44	\$ 48
Tax credit carryforwards	503	173
Accrued expenses	3,586	2,669
Allowance for bad debt	1,414	860
Share-based compensation expense	611	245
Basis difference in intangibles	20,056	30,887
Basis difference in developed software	1,089	—
Deferred revenue	425	—
Operating lease	4,269	4,196
State taxes	187	135
Section 163(j) interest limitation	5,521	1,144
Other	974	1,530
	<u>\$ 38,679</u>	<u>\$ 41,887</u>
Less: valuation allowance	(45)	(45)
Total deferred tax assets	<u>\$ 38,634</u>	<u>\$ 41,842</u>
Deferred tax liabilities:		
Basis difference in property and equipment	\$ (487)	\$ (3,304)
ROU asset	(1,987)	(1,773)
Prepaid insurance	(907)	(312)
Other	—	(638)
Total deferred tax liabilities	<u>\$ (3,381)</u>	<u>\$ (6,027)</u>
Net deferred tax assets	<u>\$ 35,253</u>	<u>\$ 35,815</u>

The Company had approximately \$35.3 million and \$35.8 million in net deferred tax assets as of December 31, 2022 and 2021, respectively, related primarily to basis differences in tangible and intangible assets. Based on the weight of available evidence, the Company assesses whether it is more likely than not that some portion or all of a deferred tax asset will not be realized. If necessary, the Company records a valuation allowance sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. As of December 31, 2022 and 2021, the Company has a minimal amount of valuation allowance against its deferred tax assets of foreign net operating losses.

As of December 31, 2022 and 2021, the Company has interest expense limitation carryovers of \$23.4 million and \$4.9 million, respectively, which carries forward indefinitely.

As of December 31, 2022 and 2021, the Company had \$0.5 million and \$0.2 million foreign tax credit carryforward, respectively. If unused, these credits expire between 2031 and 2032.

In addition, as of December 31, 2022 and 2021, the Company had state research and development tax credits of \$1.0 million and \$0.1 million, respectively, which can be carried forward indefinitely.

Federal and state laws can impose substantial restrictions on the utilization of tax credit carry-forwards in the event of an “ownership change,” as defined in Section 382 of the Internal Revenue Code. The Company has determined that no significant limitation would be placed on the utilization of its tax credit carry-forwards due to ownership changes.

The Company has not provided deferred taxes on approximately \$330.9 million of undistributed earnings from foreign subsidiaries as of December 31, 2022. The Company has not provided any additional deferred taxes with respect to items such as foreign withholding taxes, state income tax or foreign exchange gain or loss that would be due when cash is actually repatriated to the U.S. because those foreign earnings are considered permanently reinvested in the business or may be remitted substantially free of any additional taxes. Because of the various avenues in which to repatriate the earnings, it is not practicable to determine the amount of the unrecognized deferred tax liability related to the undistributed earnings if eventually remitted.

Certain tax payments are prepaid during the year and included within prepaid expenses and other current assets on the Consolidated Balance Sheets. The Company's prepaid tax payments were \$8.0 million and zero at December 31, 2022 and 2021, respectively.

Uncertain Income Tax Positions

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold, it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheets.

As of December 31, 2022, the total amount of unrecognized tax benefits, excluding interest and penalties, was \$5.7 million, of which \$5.7 million, if recognized, would affect the Company's effective tax rate. As of December 31, 2021, the total amount of unrecognized tax benefits, excluding interest and penalties, was \$3.7 million, of which \$3.7 million, if recognized, would affect the Company's effective tax rate. As of December 31, 2020, the total amount of unrecognized tax benefits, excluding interest and penalties, was \$3.1 million, of which \$3.1 million, if recognized would affect the Company's effective tax rate.

The aggregated changes in the balance of unrecognized tax benefits, which excludes interest and penalties, for 2022, 2021 and 2020, is as follows (in thousands):

	Years Ended December 31,		
	2022	2021	2020
Beginning balance	\$ 3,735	\$ 3,050	\$ 3,015
Decreases related to tax positions taken during a prior year	(863)	—	—
Increases related to tax positions taken in the current year	2,870	685	35
Decreases related to expiration of statute of limitations	—	—	—
Ending balance	<u>\$ 5,742</u>	<u>\$ 3,735</u>	<u>\$ 3,050</u>

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of December 31, 2022, 2021 and 2020, the total amount of interest and penalties accrued was \$1.0 million, \$1.0 million and \$0.9 million, respectively, which is classified as a liability for uncertain tax positions on the Consolidated Balance Sheets. In connection with tax matters, the Company recognized interest and penalty expense in 2022, 2021 and 2020 of \$0.1 million, \$0.2 million and \$0.2 million, respectively.

Uncertain income tax positions are reasonably possible to significantly change during the next 12 months as a result of completion of income tax audits and expiration of statutes of limitations. At this point it is not possible to provide an estimate of the amount, if any, of significant changes in reserves for uncertain income tax positions as a result of the completion of income tax audits that are reasonably possible to occur in the next 12 months. In addition, the Company cannot currently estimate the amount of, if any, uncertain income tax positions which will be released in the next 12 months as a result of expiration of statutes of limitations.

The Company files tax returns in the U.S., Ireland, Netherlands, France, Canada, Japan and Hong Kong. As of December 31, 2022, the Company is not under audit in any jurisdiction that it operates within. The Company has recently filed its first set of post-spin tax returns including some international subsidiaries who have previously filed in their local jurisdictions. In respect to these international subsidiaries, tax returns filed for the years from 2016 onwards are still open to examination by tax authorities.

14. Stockholders' Equity

Recapitalization

On October 7, 2021, the Former Parent transferred certain assets and liabilities associated with its Cloud Fax business to Consensus, including the equity interests in J2 Cloud Services, in exchange for approximately \$259.1 million in cash, an asset related to the \$500 million aggregate principal amount of the 6.5% Senior Notes due 2028, and the return of the assets and liabilities related to the non-fax business back to Ziff Davis.

In connection with the Separation, 19,902,924 shares of common stock were issued to the Former Parent and the historical net parent investment was recharacterized as share capital and additional-paid-in-capital to reflect the new corporate structure of Consensus. Additional-paid-in-capital (APIC) was further adjusted to reflect (i) the distribution of cash to the Former Parent in the amount of \$290.3 million (\$259.1 million base amount plus additional net cash sweeps of \$31.2 million), (ii) the transfer to the parent of the \$500.0 million aggregate principal amount of the 6.5% Senior Notes due 2028, and (iii) the transfer of the net assets of the non-fax business in the amount of \$837.3 million back to Ziff Davis. At the time of the separation, the excess of the distributions to the Former Parent over the remaining net parent investment (i.e., the negative APIC balance) was reclassified to accumulated deficit.

The Separation was achieved when Ziff Davis' distributed 80.1% of the shares of Consensus common stock to holders of Ziff Davis common stock as of the close of business on October 1, 2021, the record date for the distribution. Ziff Davis' stockholders of record received one share of Consensus common stock for every three shares of Ziff Davis' common stock held. Ziff Davis retained a 19.9% investment in Consensus following the Separation. Subsequently Ziff Davis has sold, or otherwise disposed of, a portion of its Consensus shares, reducing its beneficial ownership in the Company to under 10% as of December 31, 2022 (see Note 21 - Related Party Transactions).

Dividends

The Company currently does not issue dividends to Consensus shareholders. Future dividends are subject to Board approval. Our current debt agreements could trigger restrictions on dividend payments under certain circumstances (see Note 9 - Long-Term Debt).

Common Stock Repurchase Program

On March 1, 2022, the Company's Board of Directors approved a share buyback program. Under this program, the Company may purchase, in the public market, or in off-market transactions, up to \$100.0 million of the Company's common stock through February 2025. The timing and amounts of purchases will be determined by the Company, depending on market conditions and other factors it deems relevant. The Company entered into Rule 10b-18 and Rule 10b5-1 trading plans and during the years ended December 31, 2022 and 2021, the Company repurchased 189,114 and zero shares, respectively, under this program. Cumulatively as of December 31, 2022, 189,114 shares have been repurchased at an aggregate cost of \$7.6 million.

Vested Restricted Stock

At the time of certain vesting events related to restricted stock units or restricted stock awards that are held by participants in Consensus' Equity Incentive Plan, a portion of the awards subject to vesting are withheld by the Company to satisfy the employees' tax withholding obligations that arise upon the vesting of restricted stock. As a result, the number of shares issued upon vesting for these awards is net of the statutory withholding requirements that the Company pays on behalf of its employees. Although shares withheld are not issued, they are treated similarly as common share repurchases in the Company's consolidated financial statements, as they reduce the number of shares that would have been issued upon vesting. These shares do not count against the authorized capacity under the Company's share repurchase program described above. During the years ended December 31, 2022 and 2021 the Company withheld shares on its vested restricted stock units relating to its share-based compensation plans of 71,509 and zero shares, respectively.

Refer to Note 15 - Equity Incentive and Employee Stock Purchase Plan, for shares of common stock issued in relation to the Company's equity incentive plan.

15. Equity Incentive and Employee Stock Purchase Plan

Prior to the Separation from Ziff Davis, the Company recorded share-based compensation expense for share-based awards granted to its employees and non-employees for services provided based on expense that was allocated from the Former Parent to the Company for each relevant employee on a monthly basis. The Former Parents' plans included their 2015 Stock Plan and the 2001 Employee Stock Purchase Plan.

In connection with the Separation, the Former Parent terminated awards that were held by Consensus employees. Each award held by a Consensus employee under the Former Parent's compensation plans was converted into 2.21 Consensus awards under the 2021 Equity Incentive Plan, which resulted in 86,460 Ziff Davis awards converted into 191,076 Consensus awards. This modification resulted in no incremental compensation cost.

Consensus Equity Incentive Plans

(a) The 2021 Equity Incentive Plan

In December 2021, Consensus' Board of Directors adopted the Consensus Cloud Solutions, Inc. 2021 Equity Incentive Plan (the "2021 Plan"). The 2021 Plan provides for the grant of incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and share units, and other share-based awards. 4,000,000 shares of common stock are authorized to be used for 2021 Plan purposes.

Restricted Stock and Restricted Stock Units

The Company has awarded restricted stock and restricted stock units to its Board of Directors and certain employees pursuant to the 2021 Plan. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Vesting periods are approximately one year for awards to members of the Company's Board of Directors, four years for employees and five years for the Chief Executive Officer and Chief Operating Officer. The Company issued 884 and 59,175 shares of restricted stock during the years ended December 31, 2022 and 2021, respectively. All of the restricted stock issued in 2021 were exchanged in the Separation. The Company granted 216,959 and 510,128 restricted stock units, which includes 91,203 shares exchanged in the Separation in 2021, during the years ended December 31, 2022 and 2021, respectively.

Restricted Stock and Restricted Stock Units with Market Conditions

The Company has awarded certain key employees market-based restricted stock and restricted stock units pursuant to the 2021 Plan. The market-based awards have vesting conditions that are based on specified stock price targets of the Company's common stock. Market conditions were factored into the grant date fair value using a Monte Carlo valuation model, which utilized multiple input variables to determine the probability of the Company achieving the specified stock price targets for 20 out of 30 trading days or 20 out of 25 trading days (look-back period). Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period using the graded-vesting method unless the market condition has been met and the requisite service period has been completed, then the expense will be accelerated and recognized in the period that the market condition and service period requirement have been met. During the year ended December 31, 2021, the Company issued 6,060 shares of market-based restricted stock, all of which were exchanged in the Separation. The Company granted 503,144 market-based restricted stock units, which includes 34,638 shares exchanged in the Separation, during the year ended December 31, 2021. During the year ended December 31, 2022, the Company granted 42,586 shares of market-based restricted stock units. The per share weighted-average grant-date fair values of the market-based awards granted during the years ended December 31, 2022 and 2021 was \$55.47 and \$46.07, respectively, as determined by the Monte Carlo valuation. Notwithstanding the valuation, for the underlying stock price assumption, all market-based stock awards utilize the market value at the close of business on the date the grant is awarded.

The Monte Carlo valuation model used to estimate the fair value of the market-based awards granted utilized the following weighted-average assumptions:

	December 31, 2022	December 31, 2021
Underlying stock price at valuation date	\$ 59.66	\$ 57.06
Expected volatility	43.8 %	35.1 %
Risk-free interest rate	3.6 %	1.3 %
Contractual term	8 years	6.1 years

Restricted stock activity for the years ended December 31, 2022 and 2021 is set forth below:

	Number of Shares	Weighted- Average Grant-Date Fair Value ⁽¹⁾
Nonvested at January 1, 2021	—	\$ —
Exchanged in Separation	65,235	38.46
Granted	—	—
Vested	—	—
Canceled	—	—
Nonvested at December 31, 2021	<u>65,235</u>	<u>\$ 38.46</u>
Granted	884	37.67
Vested	(30,703)	38.50
Canceled	—	—
Nonvested at December 31, 2022	<u><u>35,416</u></u>	<u><u>\$ 38.42</u></u>

⁽¹⁾ The Company revised the grant date fair value of certain awards which were inaccurately disclosed related to the prior period. The Company determined that the update of this disclosure did not have a material impact to the current or prior period financial statements.

As of December 31, 2022, the Company had unrecognized share-based compensation cost related to its restricted stock awards of \$0.5 million, which is expected to be recognized over a weighted-average period of 1.0 years.

Restricted stock unit activity for the years ended December 31, 2022 and 2021 is set forth below:

	Number of Shares	Weighted-Average Grant-Date Fair Value ⁽¹⁾	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	—	\$ —		
Exchanged in Separation	125,841	47.15		
Granted	887,431	51.22		
Vested	—	—		
Canceled	(175)	57.15		
Outstanding at December 31, 2021	1,013,097	\$ 50.71		
Granted	259,545	57.61		
Vested	(165,494)	54.72		
Canceled	(24,697)	56.20		
Outstanding at December 31, 2022	1,082,451	\$ 51.63	3.9	\$ 58,192,566
Vested and expected to vest at December 31, 2022	710,764	\$ 52.68	3.3	\$ 38,210,673

⁽¹⁾ The Company revised the grant date fair value of certain awards which were inaccurately disclosed related to the prior period. The Company determined that the update of this disclosure did not have a material impact to the current or prior period financial statements.

As of December 31, 2022, the Company had unrecognized share-based compensation cost related to its restricted stock units of \$39.8 million, which is expected to be recognized over a weighted-average period of 4.6 years.

The Company recognized \$1.3 million and \$0.2 million, respectively, of tax benefits related to the share-based compensation costs for the years ending December 31, 2022 and 2021 related to the 2021 Plan.

(b) Employee Stock Purchase Plan (“ESPP”)

In October of 2021, Consensus established the Consensus Cloud Solutions, Inc. 2021 Employee Stock Purchase Plan (the “Purchase Plan”), which provides the issuance of a maximum of 1,000,000 shares of common stock. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of Consensus’ common stock at certain plan-defined dates. The purchase price for each offering period is 85% of the lesser of the fair market value of a share of common stock of the Company (a “Share”) on the first or last day of the offering period, with each offering period being six months.

The plan includes a provision which allows for the more favorable of two exercise prices, commonly referred to as a “look-back” feature. The purchase price discount and the look-back feature cause the Purchase Plan to be compensatory and therefore, the Company is required to recognize compensation expense. The compensation cost is recognized on a straight-line basis over the requisite service period, which is the same as the offering period of the Purchase Plan. The Company used the Black-Scholes option pricing model to calculate the estimated fair value of the purchase right issued under the Purchase Plan. The expected volatility is based on historical volatility of the Company’s common stock. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. The Company uses an annualized dividend yield based upon the per share dividends declared by its Board of Directors. Estimated forfeiture rates were 6.73% and 10.34% as of December 31, 2022 and 2021, respectively.

During 2022 and 2021, 32,096 and 10,421 Consensus shares were purchased under the Purchase Plan for a weighted average purchase price of \$40.39 and \$49.67 per share, respectively. Cash received upon issuance of the Company’s common stock under the Purchase plan was \$1.3 million and \$0.5 million for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, there are 957,483 shares available under the Purchase Plan for future issuance.

The compensation expense related to the Purchase Plan has been estimated utilizing the following assumptions:

	December 31, 2022	December 31, 2021
Risk-free interest rate	4.54%	0.05%
Expected term (in years)	0.5	0.5
Dividend yield	0.00%	0.00%
Expected volatility	48.19%	17.89%
Weighted average volatility	48.19%	17.89%

Historical Cloud Services

(a) The 2015 Stock Option Plan

In May 2015, the Former Parent’s Board of Directors adopted the Ziff Davis 2015 Stock Option Plan (the “2015 Plan”). The 2015 Plan provided for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units and other share-based awards. Options under the 2015 Plan may be granted at exercise prices determined by the Former Parent’s Board of Directors, provided that the exercise prices shall not be less than the higher of the par value or 100% of the fair market value of Ziff Davis’ common stock subject to the option on the date the option is granted.

At December 31, 2021 and 2020, options to purchase were zero and 250 shares, respectively, of common stock that were exercisable under and outside of the 2015 Plan, at weighted average exercise prices of zero and \$29.53, respectively. Stock options generally expire after 10 years and vest over a 5-year period.

All stock option grants are approved by “outside directors” within the meaning of Internal Revenue Code Section 162(m).

Stock Options

The stock option activity attributable to Consensus employees for the years ended December, 2021 and 2020 is summarized as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (In Years)	Intrinsic Value
Options outstanding at January 1, 2020	8,710	\$ 29.53		
Granted	—	—		
Exercised	(250)	\$ 29.53		
Canceled	—	—		
Options outstanding at December 31, 2020	8,460	\$ 29.53		
Granted	—			
Exercised	(250)	29.53		
Canceled	—			
Adjustment due to Separation	(8,210)			
Options outstanding at December 31, 2021	—	\$ —	0.0	\$ —
Exercisable at December 31, 2021	—	\$ —	0.0	\$ —
Vested and expected to vest at December 31, 2021	—	\$ —	0.0	\$ —

For the years ended December 31, 2021 and 2020, the Former Parent granted no options to Consensus employees, respectively, to purchase shares of common stock pursuant to the 2015 Plan. Stock options granted under the 2015 plan vested 20% per year and expired 10 years from the date of grant.

The total intrinsic values of options exercised attributable to Consensus employees during the years ended December 31, 2021 and 2020 was zero. The total fair value of options vested during the period prior the Separation attributable to Consensus employees was zero for the years ended December 31, 2021 and 2020.

Cash received by the Former Parent from options exercised under all share-based payment arrangements for the years ended December 31, 2021 and 2020 was zero. The actual tax benefit realized for the tax deductions from option exercises under the share-based payment arrangements was zero for the years ended December 31, 2021 and 2020.

As of December 31, 2021, there was no unrecognized compensation expense related to nonvested share-based compensation options granted under the 2015 Plan.

Fair Value Disclosure

The Former Parent used the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility was based on historical volatility of the Former Parent's common stock. The Former Parent estimated the expected term based upon the historical exercise behavior of its employees. The risk-free interest rate was based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. The Former Parent used an annualized dividend yield based upon the per share dividends declared by the Former Parent's Board of Directors. Estimated forfeiture rates were 12.4% and 13.0% as of December 31, 2021 and 2020, respectively.

Restricted Stock and Restricted Stock Units

The Former Parent has awarded restricted stock and restricted stock units to the Former Parent's Board of Directors and senior staff pursuant to the 2015 Plan. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Vesting periods are approximately one year for awards to members of the Former Parent's Board of Directors, five years for senior staff (excluding market-based awards discussed below) and eight years for the Chief Executive Officer. The Former Parent granted 2,207 and 2,961 shares of restricted stock and restricted units the years ended December 31, 2021 and 2020, respectively.

Restricted Stock Awards with Market Conditions

The Former Parent awarded certain key employees market-based restricted stock awards pursuant to the 2015 Plan. The market-based awards had vesting conditions that were based on specified stock price targets of the Former Parent's common stock. Market conditions were factored into the grant date fair value using a Monte Carlo valuation model, which utilized multiple input variables to determine the probability of the Former Parent achieving the specified stock price targets with a 20-day and 30-day lookback (trading days). Stock-based compensation expense related awards with a market condition were recognized over the requisite service period using the graded-vesting method, regardless of whether the market condition was satisfied, provided that the requisite service period had been completed. During the nine months ended September 30, 2021 and the year ended December 31, 2020, the Former Parent awarded 73,094 and 82,112 market-based restricted stock awards, respectively. The per share weighted average grant-date fair values of the market-based restricted stock awards granted during the years ended December 31, 2021, 2020 were \$113.27 and \$91.17, respectively.

The Monte Carlo valuation model used by the Former Parent to estimate the fair value of market-based restricted stock awards granted utilized the following weighted-average assumptions:

	December 31, 2021	December 31, 2020
Underlying stock price at valuation	\$ 113.27	\$ 91.17
Expected volatility	30.3 %	27.0 %
Risk-free interest rate	1.3 %	0.7 %
Contractual term	8 years	8 years

The restricted stock award activity for the years ended December 31, 2021 and 2020 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2020	37,674	\$ 75.03
Granted	—	—
Vested	(7,785)	76.43
Canceled	(3,020)	77.37
Nonvested at December 31, 2020	26,869	\$ 57.21
Granted	—	—
Vested	(6,189)	74.52
Canceled	(6,850)	83.14
Adjustment due to Separation	(13,830)	53.72
Nonvested at December 31, 2021	—	\$ —

The restricted stock unit activity attributable to Consensus employees for the years ended December 31, 2021 and 2020 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	10,357		
Granted	5,431		
Vested	(1,734)		
Canceled	(360)		
Outstanding at December 31, 2020	13,694		
Granted	4,416		
Vested	(2,470)		
Canceled	(8,856)		
Adjustment due to Separation	(6,784)		
Outstanding at December 31, 2021	—	0.0	\$ —
Vested and expected to vest at December 31, 2021	—	0.0	\$ —

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2021 and 2020 was \$1.3 million and \$0.7 million, respectively. The actual tax benefit realized for the tax deductions from the vesting of restricted stock awards and units totaled zero, respectively, for the years ended December 31, 2021 and 2020.

(b) Employee Stock Purchase Plan (“ESPP”)

In May of 2001, the Former Parent established the J2 Global, Inc. 2001 Employee Stock Purchase Plan, as amended (the “Purchase Plan”), which provided for the issuance of a maximum of 2,000,000 shares of common stock. Under the Purchase Plan, eligible employees could have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of Ziff Davis’ common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the common stock at the end of the offering period.

On February 2, 2018, the Former Parent approved an amendment to the Former Parent’s Amended and Restated 2001 Employee Stock Purchase Plan, to be effective May 1, 2018, such that (i) the purchase price for each offering period shall be 85% of the lesser of the fair market value of a share of common stock of the Parent (a “Share”) on the beginning or the end of the offering period, and (ii) each offering period will be six months.

The Former Parent performed an analysis of the Amendment terms and determined that a plan provision exists which allows for the more favorable of two exercise prices, commonly referred to as a “look-back” feature. The purchase price discount and the look-back feature cause the Former Parent’s Purchase Plan to be compensatory and the Former Parent to recognize compensation expense. The compensation cost is recognized on a straight-line basis over the requisite service period. The Former Parent used the Black-Scholes option pricing model to calculate the estimated fair value of the purchase right issued under the ESPP. The expected volatility was based on historical volatility of the Former Parent’s common stock. The risk-free interest rate was based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. The Former Parent used an annualized dividend yield based upon the per share dividends declared by the Former Parent’s Board of Directors. Estimated forfeiture rates were 11.15% and 11.15% as of December 31, 2021 and 2020, respectively.

During the years ended December 31, 2021 and 2020, 503 and 1,413 shares were purchased under the Purchase Plan, respectively. Shares purchased under the Purchase Plan were priced at \$72.92 per share during 2021. As of December 31, 2021, zero shares were available under the Purchase Plan for future issuance.

16. Defined Contribution 401(k) Savings Plan

Consensus has a 401(k) Savings Plan that qualifies under Section 401(k) of the Internal Revenue Code. Eligible U.S. employees may contribute a portion of their salary through payroll deductions, subject to certain limitations. The Company may make annual contributions at its sole discretion to these plans. For the years ended December 31, 2022, 2021 and 2020, the Company made contributions of \$0.8 million, \$0.2 million and \$0.2 million, respectively, to this 401(k) Savings Plan.

17. Earnings Per Share

The components of basic and diluted earnings per share for the years ended December 31, 2022, 2021 and 2020 are as follows (in thousands, except share and per share data):

	Years Ended December 31,		
	2022	2021 ⁽¹⁾	2020
Numerator for basic and diluted net income per common share:			
Net income from continuing operations attributable to common shareholders	\$ 72,714	\$ 121,174	\$ 122,413
Net income available to participating securities ⁽²⁾	(143)	(359)	—
Net income available to common shareholders from continuing operations	<u>\$ 72,571</u>	<u>\$ 120,815</u>	<u>\$ 122,413</u>
Denominator:			
Weighted-average outstanding shares of common stock	19,863,286	19,904,237	19,902,924
Dilutive effect of:			
Equity incentive plans	75,351	71,000	—
Employee stock purchase plan	15,148	11,652	—
Common stock and common stock equivalents	<u>19,953,785</u>	<u>19,986,889</u>	<u>19,902,924</u>
Net income per share from continuing operations:			
Basic	\$ 3.65	\$ 6.07	\$ 6.15
Diluted	\$ 3.64	\$ 6.04	\$ 6.15

⁽¹⁾ On October 7, 2021, the separation of Consensus into an independent publicly traded company was completed. The Former Parent distributed 19,902,924 shares of Consensus common stock to holders of J2 Global common stock as of the close of business on October 1, 2021, the record date for the distribution. This share amount was utilized for the computation of basic and diluted earnings per share for the year ended December 31, 2020 because the number of shares issued simply reflect a recharacterization of the capital account previously held by the former parent (see Note 1 - The Company).

⁽²⁾ Represents unvested share-based payment awards that contain certain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid).

For the years ended December 31, 2022 and 2021, 509,280 and 191,076 anti-dilutive shares were excluded from earnings per share calculation, respectively.

18. Segment Information

The Company's businesses are based on the organizational structure used by the chief operating decision maker ("CODM") for making operating and investment decisions and for assessing performance. The CODM views the Company as one business, Cloud Fax.

The Company's Cloud Fax business is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with minor seasonal weakness in the fourth quarter.

The Company evaluates performance based on revenue, gross margin and profit or loss from operations before income taxes, not including nonrecurring gains and losses and foreign exchange gains and losses.

The Company maintains operations in the U.S., Canada, Ireland and other countries. Geographic information about the U.S. and all other countries for the reporting periods is presented below. Such information attributes revenues based on markets where revenues are reported (in thousands):

	Years ended December 31,		
	2022	2021	2020
Revenues:			
United States	\$ 286,044	\$ 274,814	\$ 256,853
Canada	49,392	45,157	40,303
Ireland	17,773	21,913	23,514
All other countries	9,213	10,780	10,498
Foreign countries	76,378	77,850	74,315
Total	<u>\$ 362,422</u>	<u>\$ 352,664</u>	<u>\$ 331,168</u>

The following presents the Company's long-lived assets, excluding finite-lived intangible assets (in thousands):

	December 31,	December 31,
	2022	2021
Long-lived assets:		
United States	\$ 61,858	\$ 39,475
Canada	531	748
Ireland	167	787
All other countries	277	72
Foreign countries	975	1,607
Total	<u>\$ 62,833</u>	<u>\$ 41,082</u>

19. Supplemental Cash Flows Information

Cash paid for interest on outstanding debt during the years ended December 31, 2022, 2021 and 2020 was \$51.9 million, zero and \$54.4 million, respectively.

The Company capitalized \$1.4 million of interest expense within property and equipment, net on the Company's Consolidated Balance Sheets during the year ended December 31, 2022. Zero interest expense was capitalized during the years ended December 31, 2021 and 2020.

The Company capitalized \$1.5 million of share-based compensation cost within property and equipment, net on our Consolidated Balance Sheets during the year ended December 31, 2022. Zero share-based compensation cost was capitalized during the years ended December 31, 2021 and 2020.

Cash paid for income taxes net of refunds received was \$36.5 million, \$3.1 million and \$1.7 million during the years ended December 31, 2022, 2021 and 2020, respectively.

During the year ended December 31, 2021, in a non-cash transaction, an asset related to the \$500.0 million aggregate principal amount of the 6.5% Senior Notes due 2028 (see Note 9 - Long-Term Debt) and \$837.3 million of non-fax business net assets were transferred to Ziff Davis with a corresponding reduction in additional-paid-in-capital.

20. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated other comprehensive loss, which solely comprises of foreign currency translation adjustments, for the years ended December 31, 2022, 2021 and 2020 (in thousands):

	Foreign Currency Translation
Balance as of January 1, 2020	\$ (44,873)
Other comprehensive loss before reclassifications	(11,093)
Net current period other comprehensive loss	(11,093)
Balance as of December 31, 2020	\$ (55,966)
Other comprehensive loss before reclassifications	(14,397)
Transfer of non-fax business to Former Parent	53,506
Net current period other comprehensive income	39,109
Balance as of December 31, 2021	\$ (16,857)
Other comprehensive loss before reclassifications ⁽¹⁾	(2,251)
Net current period other comprehensive loss	(2,251)
Balance as of December 31, 2022	\$ (19,108)

⁽¹⁾ In 2022, the Company recorded a \$5.5 million out of period correction that increased goodwill with an offset to the cumulative translation adjustment. It was deemed to be an out of period correction that was not material to 2022 or any prior period.

There were no reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2022, 2021 and 2020.

21. Related Party Transactions

In preparation for and in executing the Separation, the Company incurred approximately \$11.5 million (excluding costs associated with the deferred issuance costs) of transaction-related costs, before reimbursement by Ziff Davis during the year ended December 31, 2021. These transaction costs primarily relate to professional fees associated with preparation of regulatory filings and transaction execution and separation activities within finance, tax and legal functions. During the year ended December 31, 2021, Consensus paid approximately \$16.1 million to Ziff Davis. These transaction-related costs were recorded in general and administrative expenses within the Consolidated Statement of Income. The Company also reimbursed Ziff Davis for certain costs associated with the issuance of the 2026 and 2028 Senior Notes, totaling \$7.9 million, which was recorded as deferred issuance costs. In addition, the Company paid Ziff Davis approximately \$8.9 million subsequent to the Separation due to excess cash held at the Separation date net of other related items pursuant to the Separation and Distribution Agreement.

In connection with the Separation, Consensus and Ziff Davis entered into several agreements that govern the relationship of the parties following the Separation, including a separation and distribution agreement, a transition services agreement (“TSA”), a tax matters agreement, an employee matters agreement, an intellectual property license agreement and a stockholder and registration rights agreement (the “Agreements”). The TSA governs services including certain information technology services, finance and accounting services and human resource and employee benefit services. The agreed-upon charges, if any, for such services are intended to cover any costs and expenses incurred in providing such services. As of December 31, 2022, a majority of the services provided under TSA were completed or terminated, with a select few services still winding down and set to terminate no later than 24 months following the Separation. Further, as noted in Note 10, Ziff Davis assigned its lease of office space in Los Angeles, California to Consensus. Ziff Davis and Consensus had joint liability under the lease through October 7, 2022, after which time the Company will be the sole lessee under the lease.

During the year ended December 31, 2022, the Company paid approximately \$20.8 million to Ziff Davis, to settle co-mingled cash accounts, costs associated with the transition services agreement and Separation. Additionally, the Company incurred approximately \$0.6 million in costs related to the registration of shares for sale held by Ziff Davis for the year ended

December 31, 2022. These costs were recorded in general and administrative expenses within the Consolidated Statement of Income. Subsequent to the disposition of the shares, Ziff Davis' beneficial ownership in the Company was under 10% as of December 31, 2022. Amounts due to Ziff Davis as of December 31, 2022 and December 31, 2021 were \$0.2 million and \$5.7 million, respectively, related to these items, as well as reimbursement related to certain transaction related costs.

Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our CEO and CFO concluded that, as of December 31, 2022, our disclosure controls and procedures were not effective as of such date due to material weaknesses in internal control over financial reporting, described below.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Consensus' management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for Consensus. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) using the 2013 framework. Our system of internal control over financial reporting is designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to 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.

Because of the timing of acquisition in 2022, pursuant to applicable SEC staff guidance, management was not required to and therefore did not assess the effectiveness of internal control over financial reporting of Summit Healthcare (see Note 4 - Business Acquisitions in the accompanying consolidated financial statements). This acquisition constituted 2.8% of total assets as of December 31, 2022 and 1.9% of revenues for the year then ended.

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 the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weaknesses in internal control over financial reporting described below, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2022.

Previously Reported Material Weakness

During the year ended December 31, 2021, we determined that the Company did not design and maintain effective internal controls over the accounting for certain elements of the spin-off transaction, a significant unusual transaction, which resulted in a material weakness in internal control over financial reporting as of December 31, 2022. The control activities were not designed to allow the Company to timely identify and account for the following aspects of the spin-off transaction (i) changes to stockholders' equity and (ii) the completeness and accuracy of certain amounts classified in discontinued operations in the consolidated financial statements and related disclosures. A lack of sufficient resources and technical capabilities in accounting and finance, coupled with the complexities involved in the spin-off transaction were also contributing factors to the material weakness. Significant additional procedures were required by the Company to mitigate the risks associated with the material weakness.

Remediation Measures

Throughout the year ended December 31, 2022, the Company undertook remediation measures related to the previously reported material weakness in internal control over financial reporting. Specifically, we enhanced existing controls and procedures over our accounting for significant unusual transactions by augmenting internal resources and increasing the deployment of both internal and external subject matter experts to assist our management with the evaluation of our accounting for significant unusual transactions. We completed our remediation procedures in the quarter ended December 31, 2022 including testing the design and confirming the implementation of the related controls. However, as noted below, this material weakness has not been fully remediated as of December 31, 2022.

Material Weaknesses as of December 31, 2022

As previously disclosed, in the Current Report on Form 8-K that the Company filed with the SEC on February 22, 2023, the Company determined that its financial statements for the interim period ended September 30, 2022 ("Quarterly Report") should be restated (the "Restatement") due to unintentional errors primarily relating to (i) its SoHo business that inadvertently grossed up revenue by \$1.9 million and \$5.3 million for the three and nine month periods ended September 30, 2022, respectively, with a corresponding offset to bad debt expense and (ii) the timing of revenue recognition of \$2.2 million and \$2.5 million for the three and nine month periods ended September 30, 2022, respectively, which after review, the Company has concluded should be reclassified as deferred revenue.

In connection with the Restatement and other matters identified during our audits, the Company identified the following material weaknesses in our internal control over financial reporting as of December 31, 2022:

Control Environment and Monitoring

Material weaknesses existed in the design of our entity-level controls impacting the control environment and the effective monitoring of controls to prevent or detect material misstatements to the consolidated financial statements. These deficiencies were primarily caused by a lack of sufficient accounting resources and technical expertise during the first half of the year, which contributed to (i) ineffective structure and accountability over the performance of controls and (ii) ineffective evaluation and determination as to whether the components of internal controls were present and functioning.

These material weaknesses contributed to the following additional material weaknesses:

Control Activities and Information and Communication

- Management did not design and maintain effective internal controls that addressed (i) appropriate revenue recognition accounting policies, (ii) the review of reports used to support manual revenue recognition entries for completeness and accuracy and (iii) precision and documentation of management review controls over transactions and analysis that support revenue recognition and the allowance for bad debt.
- Management did not design and maintain effective internal controls to ensure the complete assessment and timeliness in preparing and reviewing technical accounting documentation relating to significant unusual transactions.
- Management did not design and maintain effective internal controls to ensure the timeliness of balance sheet account reconciliations, including account balances related to the spin-off transaction.
- Management did not design and maintain effective internal controls in the areas of (i) user access and segregation of duties related to systems that track employee related costs, and (ii) the documentation of the review of completeness and accuracy of underlying data used in the operation of certain internal controls that support employee related costs and internally developed software.

Remediation Measures

We have identified and begun to implement several steps, as further described below, designed to remediate the foregoing material weaknesses and to enhance our overall control environment. To remediate these material weaknesses, we began the year ending December 31, 2023 with the appropriate level of resources and technical expertise in finance, accounting, financial reporting and tax departments compared to the first half of the year ended December 31, 2022. During the fourth quarter of 2022, we implemented Blackline's Modern Accounting Playbook software to bolster our internal controls over balance sheet account reconciliations in 2023. As part of the 2022 year end close, we performed enhanced revenue

reconciliation procedures in response to the errors identified and disclosed in our the Current Report on Form 8-K that the Company filed with the SEC on February 22, 2023, and will continue these practices throughout fiscal year 2023. During the first quarter of fiscal year 2023, we implemented new internal controls to properly address the segregation of duties and select system user access findings identified via our audits. Also, we will be expanding the use of our financial reporting team's SEC experts to ensure technical accounting memos and related documentation are prepared and reviewed timely with regard to significant unusual transactions. Lastly, we continue to address and implement new accounting policies and management review controls over analysis, schedules and reports that support revenue recognition, bad debt reserve and financial reporting process to significantly reduce the risk of reporting errors.

While the foregoing measures are intended to effectively remediate the material weaknesses described in this Item 9A, it is possible that additional remediation steps will be necessary. As such, as we continue to evaluate and implement our plan to remediate the material weaknesses, our management may decide to take additional measures to address the material weaknesses or modify the remediation steps described above. The material weaknesses cannot be considered fully remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Following identification of the material weakness and prior to filing this Annual Report on Form 10-K, we completed significant additional procedures for the year ended December 31, 2022. Based on these procedures, management believes that our consolidated financial statements included in this Form 10-K have been prepared in accordance with U.S. GAAP. Our CEO and CFO have certified that, based on their knowledge, the financial statements, and other financial information included in this Form 10-K, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-K.

Our independent registered public accounting firm, BDO USA LLP, has issued an audit report with respect to our internal control over financial reporting, which appears below.

(c) Changes in Internal Control Over Financial Reporting

Except as discussed above, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) which occurred during the fourth quarter of our fiscal year ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Consensus Cloud Solutions, Inc.
Los Angeles, California

Opinion on Internal Control over Financial Reporting

We have audited Consensus Cloud Solutions, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, stockholders’ deficit, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as “the consolidated financial statements”) and our report dated March 31, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Item 9A, Management’s Annual Report on Internal Control over Financial Reporting”. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 the company’s annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses regarding management’s failure to design and maintain controls over (1) entity-level controls impacting the control environment and monitoring of controls; (2) accounting for revenue recognition and related controls; (3) accounting for significant unusual transactions; (4) balance sheet account reconciliations; and (5) user access and segregation of duties related to systems that track employee related costs have been identified and described in management’s assessment. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2022 consolidated financial statements, and this report does not affect our report dated March 31, 2023 on those consolidated financial statements.

As indicated in the accompanying Item 9A, Management’s Annual Report on Internal Control over Financial Reporting, management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Summit Healthcare Services, Inc. (“Summit”), which was acquired on February 4, 2022 and which is included in the consolidated balance sheet of the Company as of December 31, 2022, and the related consolidated statements of income, comprehensive income, stockholders’ deficit, and cash flows for the year then ended. Summit constituted 2.8% of total assets as of December 31, 2022, and 1.9% of revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Summit because of the timing of the acquisition which was completed on February 4, 2022. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Summit.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those 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) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements 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, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to 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.

/s/ BDO USA, LLP
Los Angeles, California
March 31, 2023

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to the information to be set forth in our proxy statement (“2023 Proxy Statement”) for the 2023 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2022.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the information to be set forth in our 2023 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the information to be set forth in our 2023 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the information to be set forth in our 2023 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the information to be set forth in our 2023 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) 1. Financial Statements.

The following financial statements are filed as a part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm
(BDO USA, LLP; Los Angeles, California; PCAOB ID #243)
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income

Consolidated Statements of Stockholders' Deficit
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

2. Financial Statement Schedule

The following financial statement schedule is filed as part of this Annual Report on Form 10-K:

Schedule II-Valuation and Qualifying Accounts for the three years ended December 31, 2022

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

3. Exhibits

The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference as indicated below (numbered in accordance with Item 601 of Regulation S-K). We shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

Exhibit Number	Description
2.1*	Separation and Distribution Agreement, dated as of October 7, 2021, by and between Ziff Davis, Inc. and Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 2.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
3.1	Amended and Restated Certificate of Incorporation of Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 3.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
3.2	Amended and Restated Bylaws of Consensus Cloud Solutions, Inc.(incorporated by reference to Ex. 3.2 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
4.1	2026 Notes Indenture, dated as of October 7, 2021, by and between Consensus Cloud Solutions, Inc. Wilmington Trust, National Associate, and the Guarantors named therein. (incorporated by reference to Ex. 4.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
4.2	2028 Notes Indenture, dated as of October 7, 2021, by and between Consensus Cloud Solutions, Inc. Wilmington Trust, National Associate, and the Guarantors named therein. (incorporated by reference to Ex. 4.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
4.3	Form of 2026 Note (included in Exhibit 4.1).
4.4	Form of 2028 Note (included in Exhibit 4.2).
4.5*	Description of Registrant's securities.
10.1*	Transition Services Agreement, dated as of October 7, 2021, by and between Ziff Davis, Inc. and Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
10.2	Tax Matters Agreement, dated as of October 7, 2021, by and between Ziff Davis, Inc. and Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
10.3*	Employee Matters Agreement, dated as of October 7, 2021, by and between Ziff Davis, Inc. and Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
10.4	Intellectual Property License Agreement, dated as of October 7, 2021, by and between Ziff Davis, Inc. and Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
10.5	Stockholder and Registration Rights Agreement, dated as of October 7, 2021, by and between Ziff Davis, Inc. and Consensus Cloud Solutions, Inc. (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
10.6†	Consensus Cloud Solutions, Inc. 2021 Equity Incentive Plan (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
10.7†	Consensus Cloud Solutions, Inc. 2021 Employee Stock Purchase Plan (incorporated by reference to Ex. 10.1 to Consensus' Current Report on Form 8-K filed with the Commission on October 8, 2021, File No. 001-40750).
21.1*	List of subsidiaries of Consensus Cloud Solutions, Inc.
23.1*	Consent of Independent Registered Public Accounting Firm – BDO USA, LLP
31.1*	Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1**	Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from Consensus Cloud Solutions, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2022, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021, (ii) Consolidated Statements of Income for the years ended December 31, 2022, 2021 and 2020, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2022, 2021 and 2020, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021 and 2020, (v) Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2022, 2021 and 2020, and (vi) the Notes to Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

† Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURE

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, on March 31, 2023.

Consensus Cloud Services, Inc.

By: /s/ R. SCOTT TURICCHI

R. Scott Turicchi

Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities, in each case on March 31, 2023.

Signature	Title
<u>/s/ R. SCOTT TURICCHI</u> R. Scott Turicchi	Chief Executive Officer and a Director (Principal Executive Officer)
<u>/s/ JAMES C. MALONE</u> James C. Malone	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ DOUGLAS Y. BECH</u> Douglas Y. Bech	Director
<u>/s/ ELAINE HEALY</u> Elaine Healy	Director
<u>/s/ STEPHEN ROSS</u> Stephen Ross	Director
<u>/s/ NATE SIMMONS</u> Nate Simmons	Director
<u>/s/ PAMELA SUTTON-WALLACE</u> Pamela Sutton-Wallace	Director

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Deductions: Write-offs ⁽¹⁾ and recoveries	Balance at End of Period
Year Ended December 31, 2022:				
Allowance for doubtful accounts	\$ 4,743	\$ 1,157	\$ (1,219)	\$ 4,681
Deferred tax asset valuation allowance	\$ (45)	\$ —	\$ —	\$ (45)
Year Ended December 31, 2021:				
Allowance for doubtful accounts	\$ 4,110	\$ 6,168	\$ (5,535)	\$ 4,743
Deferred tax asset valuation allowance	\$ (45)	\$ —	\$ —	\$ (45)
Year Ended December 31, 2020:				
Allowance for doubtful accounts	\$ 4,220	\$ 8,046	\$ (8,156)	\$ 4,110
Deferred tax asset valuation allowance	\$ (45)	\$ —	\$ —	\$ (45)

⁽¹⁾ Represents specific amounts written off that were considered to be uncollectible.

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