

DISCO Announces Third Quarter 2022 Financial Results

Total Revenue of \$34.5 Million, a Year-over-Year Increase of 15%

AUSTIN, Texas - November 10, 2022 - CS Disco, Inc. ("DISCO") (NYSE: LAW) today announced financial results for its third quarter ended September 30, 2022.

"This quarter, we saw an increase in the number of customers utilizing our solution as our customer count grew to 1,318, an increase of 26% year over year," said Kiwi Camara, Co-Founder and Chief Executive Officer. "Additionally, our increased focus on operational efficiency has resulted in a substantial beat of the EBITDA guidance we provided last quarter."

Third Quarter 2022 Financial Highlights:

- Total revenue was \$34.5 million, up 15% compared to the third quarter of 2021.
- GAAP net loss was \$20.1 million, compared to \$9.2 million in the third quarter of 2021.
- Adjusted EBITDA was (\$13.1) million, compared to (\$7.5) million in the third quarter of 2021.

Recent Business Highlights:

- **DISCO Named Leader in IDC MarketScape:** DISCO was recognized as a leader in the IDC MarketScape: Worldwide eDiscovery Early Case Assessment Software 2022 Vendor Assessment. IDC MarketScape identified strengths in DISCO's corporate toolkit and ease-of-use for its customers.
- **Austin Business Journal Best CFO Awards 2022:** Michael Lafair, CFO of DISCO, won the public company category in the Austin Business Journal Best CFO Awards 2022.

Full Year 2022 Financial Outlook

As of November 10, 2022, DISCO is issuing the following outlook for the fiscal year 2022:

- Revenue in the range of \$132.0 - \$136.0 million, representing year-over-year growth between 15% and 19%.
- Adjusted EBITDA in the range of (\$54.0) - (\$50.0) million.

DISCO's fiscal year 2022 financial outlook is based on a number of assumptions that are subject to change and many of which are outside of its control. If actual results vary from these assumptions, these expectations may change. There can be no assurance that DISCO will achieve these results.

Reconciliation of Adjusted EBITDA on a forward-looking basis to net loss, the most directly comparable GAAP measure is not available without unreasonable efforts due to the high variability and complexity and low visibility with respect to the charges excluded from this non-GAAP measure; in particular, the effects of stock-based compensation expense specific to equity compensation awards that are directly impacted by unpredictable fluctuations in DISCO's stock price. DISCO expects the variability of the above charges to have a significant, and potentially unpredictable, impact on its future GAAP financial results.

Conference Call Information

DISCO will host a conference call and webcast at 4:00 p.m. CT (5:00 p.m. ET) today, November 10, 2022, to discuss its third quarter 2022 financial results and business highlights. The conference call can be accessed by dialing (888) 550-5431 from the United States or +1 (646) 960-0807 internationally with conference ID 8394292. The live webcast of the conference call and other materials related to DISCO's financial performance can be accessed from DISCO's investor relations website at ir.csdisco.com.

Following the completion of the call until 10:59 p.m. CT (11:59 p.m. ET) on Thursday, December 1, 2022, a telephone replay will be available by dialing (800) 770-2030 from the United States, +1 (647) 362-9199 internationally with conference ID 8394292. A webcast replay will also be available at ir.csdisco.com for 12 months.

About DISCO

DISCO (NYSE: LAW) provides a cloud-native, artificial intelligence-powered legal solution that simplifies ediscovery, legal document review and case management for enterprises, law firms, legal services providers and governments. Our scalable, integrated solution enables legal departments to easily collect, process and review enterprise data that is relevant or potentially relevant to legal matters.

References to “DISCO,” the “Company,” “our” or “we” in this press release refer to CS Disco, Inc. and its subsidiaries on a consolidated basis.

Use of Non-GAAP Financial Measures

DISCO uses the following non-GAAP financial measures: Adjusted EBITDA, Adjusted EBITDA margin; non-GAAP cost of revenue; non-GAAP gross profit; non-GAAP gross margin; non-GAAP research and development expense; non-GAAP research and development expense as a percentage of revenue; non-GAAP sales and marketing expense; non-GAAP sales and marketing expense as a percentage of revenue; non-GAAP general and administrative expense; non-GAAP general and administrative expense as a percentage of revenue; non-GAAP loss from operations; non-GAAP operating margin; non-GAAP net loss attributable to common stockholders, non-GAAP net loss attributable to common stockholders per share (basic and diluted) and non-GAAP net loss attributable to common stockholders as a percent of revenue. Management believes that these non-GAAP financial measures are useful measures of operating performance because they exclude items that DISCO does not consider indicative of its core performance.

In the case of Adjusted EBITDA and Adjusted EBITDA margin, DISCO adjusts net loss for such items as depreciation and amortization expense; income tax provision; interest and other, net; stock-based compensation expense; payroll tax expense on employee stock transactions; CEO Performance Award issuance expense; unoccupied lease expense; and other one-time, non-recurring items, when applicable. In the case of non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP gross margin, non-GAAP research and development expense, non-GAAP research and development expense as a percentage of revenue, non-GAAP sales and marketing expense and non-GAAP sales and marketing expense as a percentage of revenue; DISCO adjusted the respective GAAP balances for stock-based compensation expense. In the case of non-GAAP general and administrative expense, non-GAAP general and administrative expense as a percentage of revenue, non-GAAP loss from operations, non-GAAP operating margin, non-GAAP net loss attributable to common stockholders, non-GAAP net loss attributable to common stockholders per share (basic and diluted) and non-GAAP net loss attributable to common stockholders as a percent of revenue, DISCO adjusts the respective GAAP balances for stock-based compensation expense; CEO Performance Award issuance expense; unoccupied lease expense; and other one-time, non-recurring items, when applicable.

There are limitations associated with the use of these non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with GAAP, do not reflect a comprehensive system of accounting and may not be completely comparable to similarly titled measures of other companies due to potential differences in the exact method of calculation between companies. Certain items that are excluded from these non-GAAP financial measures can have a material impact on operating loss and net loss. As a result, these non-GAAP financial measures have limitations and should be considered in addition to, not as a substitute for or superior to, the closest GAAP measures, or other financial measures prepared in accordance with GAAP.

DISCO's management uses these non-GAAP measures as measures of operating performance; to prepare DISCO's annual operating budget; to allocate resources to enhance the financial performance of DISCO's business; to evaluate the effectiveness of DISCO's business strategies; to provide consistency and comparability with past financial performance; to facilitate a

comparison of DISCO's results with those of other companies, many of which use similar non-GAAP financial measures to supplement their GAAP results; and in communication with DISCO's board of directors concerning financial performance.

Forward-Looking Statements

This press release contains forward-looking statements, including, among other things, statements regarding DISCO's future financial performance. Words such as "may," "should," "will," "believe," "expect," "anticipate," "target," "project," and similar phrases that denote future expectation or intent regarding DISCO's financial results, operations, and other matters are intended to identify forward-looking statements. You should not rely upon forward-looking statements as predictions of future events.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors that may cause DISCO's actual results, performance, or achievements to differ materially, including (i) our history of operating losses; (ii) our limited operating history; (iii) our ability to maintain and advance our innovation and brand; (iv) our ability to effectively add new customers; (v) our ability to effectively increase usage and penetration with our existing customer base; (vi) our ability to expand our sales coverage and establish a digital sales channel; (vii) our ability to expand internationally; (viii) our ability to extend and strengthen our channel partnerships and integrations; (ix) our ability to expand our offering portfolio to a wider range of legal processes outside of our current core offerings; (x) our dependence on revenue from customer usage, which fluctuates based on the timing of and activity driven by legal matters for which our solution is used, and any shortfall of large matters on our platform; (xi) our ability to pursue strategic acquisitions and strategic investments to expand the functionality and value of our solution; (xii) our ability to comply or remain in compliance with laws and regulations that currently apply or become applicable to our business in the jurisdictions in which we operate; (xiii) the potential that our computer or electronic systems, applications or services, or those of any third parties on whom we depend, fail or suffer security or data privacy breaches or other unauthorized or improper access to, use of, or destruction of our proprietary or confidential data, employee data, or personal data; (xiv) our ability to compete effectively with existing competitors and new market entrants; (xv) the impact of fluctuations in general macroeconomic conditions, such as the current inflationary environment and rising interest rates; and (xvi) the impact that global events, such as the ongoing COVID-19 pandemic, including variants of COVID-19 or other public health crises, the Russian military operations in Ukraine and any related economic downturn could have on our or our customers' businesses, financial condition and results of operations.

The forward-looking statements contained in this press release are also subject to additional risks, uncertainties, and factors, including those more fully described in our filings with the Securities and Exchange Commission ("SEC"), including our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, filed with the SEC on August 12, 2022. Further information on potential risks that could affect actual results will be included in the subsequent periodic and current reports and other filings that we make with the SEC from time to time, including our Quarterly Report on Form 10-Q for the quarter ended September 30, 2022.

Forward-looking statements represent DISCO's management's beliefs and assumptions only as of the date such statements are made. We undertake no obligation to update any forward-looking statements made in this press release to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law.

Investor Relations Contact

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CS DISCO, INC.

Condensed Consolidated Balance Sheets
(in thousands, except par value amounts)
(unaudited)

	September 30,	December 31,
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 213,122	\$ 255,477
Accounts receivable, net	22,204	20,740
Other current assets	6,437	4,634
Total current assets	241,763	280,851
Property and equipment, net	7,491	5,335
Operating lease right-of-use assets	10,293	864
Intangible assets, net	1,031	—
Goodwill	5,898	—
Other assets	736	351
Total assets	\$ 267,212	\$ 287,401
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,843	\$ 4,686
Accrued expenses	4,728	2,844
Accrued salary and benefits	6,337	7,955
Deferred revenue	2,741	2,175
Operating leases	1,599	890
Finance leases	31	99
Total current liabilities	22,279	18,649
Operating leases, non-current	9,219	—
Finance leases, non-current	209	—
Other liabilities	723	75
Total liabilities	32,430	18,724
Commitments and contingencies		
Stockholders' equity		
Preferred stock \$0.005 par value, 100,000 shares authorized and no shares issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Common stock \$0.005 par value, 1,000,000 shares authorized as of September 30, 2022 and December 31, 2021; 59,014 and 58,010 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	296	291
Additional paid-in capital	414,028	395,850
Accumulated deficit	(179,542)	(127,464)
Total stockholders' equity	234,782	268,677
Total liabilities and stockholders' equity	\$ 267,212	\$ 287,401

CS DISCO, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 34,475	\$ 29,854	\$ 102,653	\$ 80,533
Cost of revenue	8,634	7,829	26,092	22,312
Gross profit	25,841	22,025	76,561	58,221
Operating expenses:				
Research and development	15,694	9,652	43,193	23,775
Sales and marketing	19,311	13,168	54,661	31,876
General and administrative	10,906	8,270	30,490	17,451
Total operating expenses	45,911	31,090	128,344	73,102
Loss from operations	(20,070)	(9,065)	(51,783)	(14,881)
Other income (expense)				
Interest and other income	364	40	423	74
Interest and other expense	(314)	(169)	(607)	(319)
Loss from operations before income taxes	(20,020)	(9,194)	(51,967)	(15,126)
Income tax provision	(38)	(31)	(110)	(110)
Net loss	\$ (20,058)	\$ (9,225)	\$ (52,077)	\$ (15,236)
Less accretion of redeemable convertible preferred stock	—	(5)	—	(56)
Net loss attributable to common stockholders	\$ (20,058)	\$ (9,230)	\$ (52,077)	\$ (15,292)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.34)	\$ (0.19)	\$ (0.89)	\$ (0.61)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	58,641	47,712	58,322	25,038

CS DISCO, INC.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flow from operating activities:		
Net loss	\$ (52,077)	\$ (15,236)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation and amortization	2,079	1,254
Stock-based compensation	14,393	2,508
Charge to allowance for credit losses	853	517
Loss (gain) on disposal of long-lived assets	(1)	—
Unoccupied lease charges	1,127	—
Non-cash operating lease costs	983	735
Non-cash interest	—	63
Changes in operating assets and liabilities:		
Accounts receivable	(2,317)	(10,786)
Other current assets	(1,831)	(4,391)
Other long-term assets	(387)	(40)
Accounts payable	2,058	3,829
Accrued expenses and other	(1,474)	3,578
Deferred revenue	261	(67)
Operating lease liabilities	(469)	(758)
Other liabilities	149	—
Net cash used in operating activities	(36,653)	(18,794)
Cash flow from investing activities:		
Purchases of property, equipment and capitalized internal-use software development costs	(3,727)	(2,335)
Cash paid for acquisitions	(5,310)	—
Net cash used in investing activities	(9,037)	(2,335)
Cash flow from financing activities:		
Proceeds from public offering, net of underwriting discounts and commissions and other offering costs	(284)	219,819
Proceeds from exercise of stock options	3,923	1,598
Repurchase of common stock related to net share settlement	(264)	(296)
Principal payments on finance lease obligations	(40)	(83)
Net cash provided by financing activities	3,335	221,038
Net increase (decrease) in cash and cash equivalents:	(42,355)	199,909
Cash and cash equivalents at beginning of period	255,477	58,569
Cash and cash equivalents at end of period	<u>\$ 213,122</u>	<u>\$ 258,478</u>
Supplemental disclosure:		
Cash paid for interest	\$ —	\$ 66
Cash paid for taxes	\$ 280	\$ 64
Non-cash investing and financing activities:		
Accretion of preferred stock to redemption value	\$ —	\$ 56
Property and equipment included in accounts payable and accrued liabilities	\$ 105	\$ —
Conversion of preferred stock to common stock upon initial public offering	\$ —	\$ 160,857
Costs related to initial public offering included in accounts payable and accrued liabilities	\$ —	\$ 292
Acquisition holdback	\$ 800	\$ —
Contingent consideration related to acquisition	\$ 593	\$ —

CS DISCO, INC.

Reconciliation from GAAP to Non-GAAP Results
(in thousands, except for percentages and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (20,058)	\$ (9,225)	\$ (52,077)	\$ (15,236)
Depreciation and amortization expense	924	424	2,079	1,254
Income tax provision	38	31	110	110
Interest and other, net	(50)	129	184	245
Stock-based compensation expense	5,665	1,054	14,393	2,508
Payroll tax expense on employee stock transactions	87	80	497	103
CEO Performance Award issuance expense	—	—	386	—
Unoccupied lease expense	329	—	1,127	—
Adjusted EBITDA	\$ (13,065)	\$ (7,507)	\$ (33,301)	\$ (11,016)
Adjusted EBITDA margin	(38)%	(25)%	(32)%	(14)%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 8,634	\$ 7,829	\$ 26,092	\$ 22,312
Non-GAAP adjustments:				
Stock-based compensation expense	(274)	(10)	(668)	(28)
Non-GAAP cost of revenue	\$ 8,360	\$ 7,819	\$ 25,424	\$ 22,284
Non-GAAP gross profit	\$ 26,115	\$ 22,035	\$ 77,229	\$ 58,249
Non-GAAP gross margin	76 %	74 %	75 %	72 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Research and development	\$ 15,694	\$ 9,652	\$ 43,193	\$ 23,775
Non-GAAP adjustments:				
Stock-based compensation expense	(1,916)	(301)	(5,416)	(787)
Non-GAAP research and development	\$ 13,778	\$ 9,351	\$ 37,777	\$ 22,988
Non-GAAP research and development as a % of revenue	40 %	31 %	37 %	29 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sales and marketing	\$ 19,311	\$ 13,168	\$ 54,661	\$ 31,876
Non-GAAP adjustments:				
Stock-based compensation expense	(753)	(245)	(2,954)	(563)
Non-GAAP sales and marketing	\$ 18,558	\$ 12,923	\$ 51,707	\$ 31,313
Non-GAAP sales and marketing as a % of revenue	54 %	43 %	50 %	39 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
General and administrative	\$ 10,906	\$ 8,270	\$ 30,490	\$ 17,451
Non-GAAP adjustments:				
Stock-based compensation expense	(2,722)	(498)	(5,355)	(1,130)
CEO Performance Award issuance expense	—	—	(386)	—
Unoccupied lease expense	(329)	—	(1,127)	—
Non-GAAP general and administrative	\$ 7,855	\$ 7,772	\$ 23,622	\$ 16,321
Non-GAAP general and administrative as a % of revenue	23 %	26 %	23 %	20 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Loss from operations	\$ (20,070)	\$ (9,065)	\$ (51,783)	\$ (14,881)
Operating margin	(58)%	(30)%	(50)%	(18)%
Non-GAAP adjustments:				
Stock-based compensation expense	5,665	1,054	14,393	2,508
CEO Performance Award issuance expense	—	—	386	—
Unoccupied lease expense	329	—	1,127	—
Non-GAAP loss from operations	\$ (14,076)	\$ (8,011)	\$ (35,877)	\$ (12,373)
Non-GAAP operating margin	(41)%	(27)%	(35)%	(15)%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss attributable to common stockholders	\$ (20,058)	\$ (9,230)	\$ (52,077)	\$ (15,292)
Non-GAAP adjustments:				
Stock-based compensation expense	5,665	1,054	14,393	2,508
CEO Performance Award issuance expense	—	—	386	—
Unoccupied lease expense	329	—	1,127	—
Non-GAAP net loss attributable to common stockholders	\$ (14,064)	\$ (8,176)	\$ (36,171)	\$ (12,784)
Non-GAAP net loss per share	\$ (0.24)	\$ (0.17)	\$ (0.62)	\$ (0.51)
Weighted average shares used to compute basic and diluted net loss per share	58,641	47,712	58,322	25,038
Non-GAAP net loss attributable to common stockholders as a % of revenue	(41)%	(27)%	(35)%	(16)%