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DELTA REPORT

10-Q

SYSTEM1, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	2476
CHANGES	78
DELETIONS	1575
ADDITIONS	823

REFINITIV

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023 March 31, 2024

OR

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

For transition period from __________ to __________

Commission file number 001-39331

System1, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**92-3978051**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4235 Redwood Avenue **Marina Del Rey, CA**	**90066**
(Address of Principal Executive Offices)	(Zip Code)

(310) 924-6037
(Registrant’s telephone number including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value $0.0001 per share	SST	The New York Stock Exchange
Redeemable warrants, each whole warrant exercisable for one Class A common stock at an exercise price of $11.50 per share	SST.WS	The New York Stock Exchange

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 and post such files). Yes ☒ No ☐

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

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

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

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

As of November 2, 2023 May 7, 2024, there were 94,411,940 68,901,898 shares of Class A common stock, $0.0001 par value per share, outstanding and 21,512,757 21,203,676 shares issued and outstanding of Class C common stock, $0.0001 par value per share.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

System1, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except for par values) value)

	Successor	
	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,853	$ 8,905
Restricted cash, current	3,370	5,717
Accounts receivable, net of allowance for credit losses	59,393	80,428

Prepaid expenses and other current assets	10,045	11,166
Current assets held for sale from discontinued operations	12,866	20,292
Total current assets	90,527	126,508
Restricted cash, non-current	4,409	5,395
Property and equipment, net	3,238	3,162
Internal-use software development costs, net	11,334	6,948
Intangible assets, net	315,666	371,661
Goodwill	82,407	82,407
Operating lease right-of-use assets	5,154	6,484
Other non-current assets	577	2,812
Assets held for sale from discontinued operations	414,232	555,069
Total assets	$ 927,544	$ 1,160,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,604	$ 6,707
Accrued expenses and other current liabilities	65,851	84,990
Operating lease liabilities, current	2,284	2,149
Debt, net	15,205	15,021
Related-party liabilities	27,175	—
Current liabilities held for sale from discontinued operations	116,572	101,418
Total current liabilities	237,691	210,285
Long-term debt, net	388,068	399,504
Warrant liability	925	7,798
Deferred tax liability	15,009	28,059
Operating lease liabilities, non-current	4,143	5,875
Other liabilities	2,686	1,661
Liabilities held for sale from discontinued operations	38,544	34,476
Total liabilities	687,066	687,658
Commitments and contingencies (Note 8)		
STOCKHOLDERS' EQUITY		
Class A common stock - $0.0001 par value; 500,000 shares authorized, 94,258 and 91,674 Class A shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	9	9
Class C common stock - $0.0001 par value; 25,000 shares authorized, 21,513 and 21,747 Class C shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	2	2
Additional paid-in capital	849,398	829,687
Accumulated deficit	(646,242)	(445,301)
Accumulated other comprehensive loss	(435)	(417)
Total stockholders' equity attributable to System1, Inc.	202,732	383,980
Non-controlling interest	37,746	88,808
Total stockholders' equity	240,478	472,788
Total liabilities and stockholders' equity	$ 927,544	$ 1,160,446

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 69,920	$ 135,343
Restricted cash, current	7,231	3,813
Accounts receivable, net	52,735	56,093
Prepaid expenses and other current assets	9,791	6,754
Total current assets	139,677	202,003
Restricted cash, non-current	533	4,294
Property and equipment, net	2,836	3,084
Internal-use software development costs, net	12,545	11,425

Intangible assets, net	278,336	297,001
Goodwill	82,407	82,407
Operating lease right-of-use assets	4,241	4,732
Other non-current assets	484	524
Total assets	521,059	605,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	7,055	9,499
Accrued expenses and other current liabilities	52,351	59,314
Operating lease liabilities, current	2,375	2,333
Debt, net	16,190	15,271
Total current liabilities	77,971	86,417
Operating lease liabilities, non-current	2,938	3,582
Long-term debt, net	268,597	334,232
Warrant liability	2,438	2,688
Deferred tax liability	7,649	8,307
Other liabilities	1,061	929
Total liabilities	$ 360,654	$ 436,155
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Class A common stock - $0.0001 par value; 500,000 shares authorized, 68,632 and 65,855 Class A shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	$ 7	$ 7
Class C common stock - $0.0001 par value; 25,000 shares authorized, 21,204 and 21,513 Class C shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	2	2
Additional paid-in capital	850,202	843,112
Accumulated deficit	(718,199)	(707,662)
Accumulated other comprehensive loss	(271)	(181)
Total stockholders' equity attributable to System1, Inc.	131,741	135,278
Non-controlling interest	28,664	34,037
Total stockholders' equity	160,405	169,315
Total liabilities and stockholders' equity	$ 521,059	$ 605,470

See notes to unaudited condensed consolidated financial statements.

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System1, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except for per share and per unit data)

share)

		Successor				Predecessor
		Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
	Three Months Ended March 31, 2024			**Three Months Ended March 31, 2024**		**2023**
Revenue	Revenue	$ 87,818	$ 156,895	$ 305,851	$ 472,158	$ 52,712
Operating expenses:	Operating expenses:					

Cost of revenue (excluding depreciation and amortization)						
Cost of revenue (excluding depreciation and amortization)						
Cost of revenue (excluding depreciation and amortization)	Cost of revenue (excluding depreciation and amortization)	50,585	111,217	190,195	$ 341,693	41,507
Salaries and benefits	Salaries and benefits	26,689	30,270	82,484	106,340	31,181
Selling, general, and administrative	Selling, general, and administrative	11,808	11,572	42,004	36,962	15,665
Depreciation and amortization	Depreciation and amortization	19,584	18,923	58,666	50,369	1,000
Impairment of goodwill		—	340,109	—	340,109	—
Total operating expenses	Total operating expenses	108,666	512,091	373,349	875,473	89,353
Operating loss	Operating loss	(20,848)	(355,196)	(67,498)	(403,315)	(36,641)
Other (income) expense:						
Other expense (income):						
Interest expense, net	Interest expense, net	13,053	9,733	36,789	21,987	1,049
Loss on restructure of related-party debt		619	—	619	—	—
Interest expense, net						
Interest expense, net						
Gain from debt extinguishment						
Change in fair value of warrant liabilities	Change in fair value of warrant liabilities	(7,482)	4,489	(6,873)	14,111	—
Total other expense		6,190	14,222	30,535	36,098	1,049
Total other (income) expense, net						
Loss before income tax	Loss before income tax	(27,038)	(369,418)	(98,033)	(439,413)	(37,690)
Income tax benefit	Income tax benefit	(920)	(69,796)	(10,626)	(84,341)	(629)
Net loss from continuing operations	Net loss from continuing operations	(26,118)	(299,622)	(87,407)	(355,072)	(37,061)
Net loss from discontinued operations, net of tax	Net loss from discontinued operations, net of tax	(137,209)	(14,077)	(163,222)	(35,849)	—

Net loss	Net loss	(163,327)	(313,699)	(250,629)	(390,921)	(37,061)
Less: Net loss from continuing operations attributable to noncontrolling interest		(6,328)	(69,269)	(19,543)	(80,336)	—
Less: Net loss from discontinued operations attributable to noncontrolling interest		(25,566)	(2,733)	(30,472)	(7,082)	—
Less: Net loss from continuing operations attributable to non-controlling interest						
Less: Net loss from discontinued operations attributable to non-controlling interest						
Net loss attributable to System1, Inc.	Net loss attributable to System1, Inc.	$ (131,433)	$ (241,697)	$ (200,614)	$ (303,503)	$ (37,061)
Amounts attributable to System1, Inc.:	Amounts attributable to System1, Inc.:					
Amounts attributable to System1, Inc.:						
Amounts attributable to System1, Inc.:						
Net loss from continuing operations						
Net loss from continuing operations						
Net loss from continuing operations	Net loss from continuing operations	$ (19,790)	$ (230,353)	$ (67,864)	$ (274,736)	$ (37,061)
Net loss from discontinued operations	Net loss from discontinued operations	(111,643)	(11,344)	(132,750)	(28,767)	—
Net loss attributable to System1, Inc.	Net loss attributable to System1, Inc.	$ (131,433)	$ (241,697)	$ (200,614)	$ (303,503)	$ (37,061)
Basic and diluted net loss per share:	Basic and diluted net loss per share:					
Basic and diluted net loss per share:						
Basic and diluted net loss per share:						
Continuing operations						
Continuing operations						
Continuing operations	Continuing operations	$ (0.21)	$ (2.53)	$ (0.73)	$ (3.11)	n/a
Discontinued operations	Discontinued operations	(1.19)	(0.13)	(1.42)	(0.32)	n/a
Basic and diluted net loss per share	Basic and diluted net loss per share	$ (1.40)	$ (2.66)	$ (2.15)	$ (3.43)	n/a

Shares used in net loss per share calculations:					
Weighted average shares outstanding - basic and diluted	93,941	91,002	93,281	88,397	n/a
Basic and diluted net loss per unit	n/a	n/a	n/a	n/a	$ (1.81)
Weighted average units outstanding - basic and diluted	n/a	n/a	n/a	n/a	20,488
Weighted average number of shares outstanding - basic and diluted					
Weighted average number of shares outstanding - basic and diluted					
Weighted average number of shares outstanding - basic and diluted					

See notes to unaudited condensed consolidated financial statements.

System1, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss Income (Loss) (Unaudited)
(In thousands)

		Successor				Predecessor
		Three Months Ended September 30, 2023	**Three Months Ended September 30, 2022**	**Nine Months Ended September 30, 2023**	**Period from January 27, 2022 through September 30, 2022**	**Period from January 1, 2022 through January 26, 2022**
	Three Months Ended March 31,					**Three Months Ended March 31,**
	2024					**2024** / **2023**
Net loss	Net loss	$ (163,327)	$ (313,699)	$ (250,629)	$ (390,921)	$ (37,061)
Other comprehensive income (loss):						
Other comprehensive income (loss)						
Foreign currency translation income (loss)						
Foreign currency translation income (loss)						
Foreign currency translation income (loss)	Foreign currency translation income (loss)	(188)	297	(109)	(124)	87
Comprehensive loss	Comprehensive loss	$ (163,515)	$ (313,402)	$ (250,738)	$ (391,045)	$ (36,974)

Comprehensive loss attributable to non-controlling interest	Comprehensive loss attributable to non-controlling interest	$ (31,932)	$ (72,001)	$ (50,019)	$ (87,356)	$ —
Comprehensive loss attributable to System1, Inc.	Comprehensive loss attributable to System1, Inc.	$ (131,583)	$ (241,401)	$ (200,719)	$ (303,689)	$ (36,974)

See notes to unaudited condensed consolidated financial statements.

System1, Inc. and Subsidiaries

3 Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(In thousands)

	Class A Common Stock		Class C Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2023	**65,855**	**$ 7**	**21,513**	**$ 2**	**$ 843,112**	**$ (707,662)**	**$ (181)**	**$ 34,037**	**$ 169,315**
Net loss	—	—	—	—	—	(10,537)	—	(3,254)	(13,791)
Issuance of common stock in connection with settlement of incentive plan	970	—	—	—	2,464	—	—	(757)	1,707
Conversion of Class C shares to Class A shares	309	—	(309)	—	241	—	—	(241)	—
Tax receivable agreement liability and deferred taxes arising from LLC interest ownership exchanges and the issuance of common stock from equity incentive plans	—	—	—	—	(110)	—	—	—	(110)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	1,498	—	—	—	178	—	—	(1,169)	(991)
Other comprehensive income	—	—	—	—	—	—	(90)	(45)	(135)
Stock-based compensation	—	—	—	—	4,317	—	—	88	4,405
Contributions from members, net of distributions	—	—	—	—	—	—	—	5	5
Balance at March 31, 2024	**68,632**	**$ 7**	**21,204**	**$ 2**	**$ 850,202**	**$ (718,199)**	**$ (271)**	**$ 28,664**	**$ 160,405**

	Class A Common Stock		Class C Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2022	**91,674**	**$ 9**	**21,747**	**$ 2**	**$ 831,566**	**$ (439,296)**	**$ (260)**	**$ 78,650**	**$ 470,671**
Net loss	—	—	—	—	—	(33,802)	—	(9,124)	(42,926)
Cumulative-effect of adoption of ASU 2016-13	—	—	—	—	—	(326)	—	—	(326)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	832	—	—	—	(1,449)	—	—	(281)	(1,730)
Issuance of common stock in connection with settlement of incentive plan	407	—	—	—	1,819	—	—	(160)	1,659
Conversion of Class C shares to Class A shares	234	—	(234)	—	1,047	—	—	(1,047)	—
Increase in tax receivable agreement liability	—	—	—	—	(441)	—	—	—	(441)
Other comprehensive income (loss)	—	—	—	—	—	—	(62)	(47)	(109)
Stock-based compensation	—	—	—	—	6,203	—	—	958	7,161
Balance at March 31, 2023	**93,147**	**$ 9**	**21,513**	**$ 2**	**$ 838,745**	**$ (473,424)**	**$ (322)**	**$ 68,949**	**$ 433,959**

See notes to condensed consolidated financial statements.

System1, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders' Equity Cash Flows (Unaudited)

(In thousands)

	Class A Common Stock		Class C Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
Successor:									
For the period from January 1, 2023 to September 30, 2023									
BALANCE—December 31, 2022	$ 91,674	9	$ 21,747	2	$ 829,687	$ (445,301)	$ (417)	$ 88,808	$ 472,788
Net loss	—	—	—	—	—	(33,952)	—	(9,174)	(43,126)
Cumulative-effect of adoption of ASU 2016-13	—	—	—	—	—	(326)	—	—	(326)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	832	—	—	—	(1,730)	—	—	—	(1,730)
Issuance of common stock in connection with settlement of incentive plan	407	—	—	—	1,658	—	—	—	1,658
Conversion of Class C shares to Class A shares	234	—	(234)	—	956	—	—	(956)	—
Increase in tax receivable agreement liability	—	—	—	—	(441)	—	—	—	(441)
Other comprehensive loss	—	—	—	—	—	—	(62)	(46)	(108)
Stock-based compensation	—	—	—	—	6,963	—	—	—	6,963
BALANCE—March 31, 2023	$ 93,147	9	$ 21,513	2	$ 837,093	$ (479,579)	$ (479)	$ 78,632	$ 435,678
Net loss	—	—	—	—	—	(35,230)	—	(8,947)	(44,177)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	455	—	—	—	(314)	—	—	—	(314)
Other comprehensive income (loss)	—	—	—	—	—	—	209	(22)	187
Stock-based compensation	—	—	—	—	5,571	—	—	—	5,571
BALANCE—June 30, 2023	$ 93,602	9	$ 21,513	2	$ 842,350	$ (514,809)	$ (270)	$ 69,663	$ 396,945
Net loss	—	—	—	—	—	(131,433)	—	(31,894)	(163,327)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	656	—	—	—	(54)	—	—	—	(54)
Other comprehensive loss	—	—	—	—	—	—	(165)	(23)	(188)
Stock-based compensation	—	—	—	—	7,102	—	—	—	7,102
BALANCE—September 30, 2023	$ 94,258	9	$ 21,513	2	$ 849,398	$ (646,242)	$ (435)	$ 37,746	$ 240,478

	Three Months Ended March 31,	
	2024	2023
Cash Flows from Operating Activities		
Net loss	$ (13,791)	$ (42,926)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,804	29,374
Stock-based compensation	3,970	14,122
Amortization of debt issuance costs	1,030	—
Noncash lease expense	462	436
Change in fair value of warrant liabilities	(251)	(1,409)
Deferred tax benefits	(656)	(7,869)
Gain from debt extinguishment	(19,676)	—
Other	(517)	686
Changes in operating assets and liabilities		
Accounts receivable	3,387	11,282
Prepaids and other assets	(2,999)	(159)
Accounts payable	(2,444)	(810)
Accrued expenses and other liabilities	(3,654)	(5,057)
Deferred revenue	(65)	6,182
Long-term earnout liabilities	—	(10,000)
Other long-term liabilities	(587)	347
Net cash used in operating activities	(15,987)	(5,801)

Cash Flows from Investing Activities		
Purchases of property and equipment	—	(714)
Capitalized software development costs	(1,622)	(1,678)
Net cash used in investing activities	(1,622)	(2,392)
Cash Flows from Financing Activities		
Repayment of Term Loan	(46,071)	(5,000)
Payment of acquisition holdback	—	(1,250)
Taxes paid related to net settlement of stock awards	(2,092)	(2,837)
Contributions from (distributions to) members	5	(45)
Net cash used in financing activities	(48,158)	(9,132)
Effect of exchange rate changes in cash, cash equivalent and restricted cash	1	(44)
Net decrease in cash, cash equivalents and restricted cash	(65,766)	(17,369)
Cash and cash equivalents and restricted cash, beginning of the period	143,450	39,075
Cash and cash equivalents and restricted cash, end of the period	$ 77,684	$ 21,706
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets:		
Cash and cash equivalents	$ 69,920	$ 8,267
Restricted cash	7,764	13,439
Total cash, cash equivalents and restricted cash	$ 77,684	$ 21,706
Supplemental cash flow information:		
Cash paid for income taxes	$ 634	$ —
Cash paid for interest	$ 8,230	$ —
Capitalized assets financed by accounts payable	$ —	$ 702
Stock-based compensation included in capitalized software development costs	$ 432	$ 561
Settlement of incentive plan through issuance of common stock	$ 1,707	$ 1,658

See notes to unaudited condensed consolidated financial statements.

System1, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(In thousands)

	Class A Common Stock		Class C Common Stock		Class D Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Stockholders' Equity
Successor:											
For the period from January 27, 2022 to September 30, 2022											
BALANCE—January 26, 2022	51,750	$ 5	—	$ —	—	$ —	$ 574,003	$ (107,797)	$ —	$ —	$ 466,211
Effect of the Merger	29,017	3	22,077	2	1,450	—	148,359	—	—	198,691	347,055
BALANCE—January 27, 2022	80,767	$ 8	22,077	$ 2	1,450	$ —	$ 722,362	$ (107,797)	$ —	$ 198,691	$ 813,266
Net loss	—	—	—	—	—	—	—	(36,069)	—	(7,309)	(43,378)
Issuance of common stock in connection with the Merger, net of offering costs, underwriting discounts and commissions	930	—	—	—	—	—	661	—	—	—	661

Issuance of common stock in connection with the acquisition of business	2,000	—	—	—	—	—	25,500	—	—	—	25,500
Issuance of market-based restricted stock units upon vesting	—	—	—	—	1,450	—	—	—	—	—	—
Conversion of Class D shares to Class A shares	2,900	1	—	—	(2,900)	—	—	—	—	—	1
Net deferred tax liability resulting from changes in outside basis difference on investment in S1 Holdco, LLC	—	—	—	—	—	—	(2,596)	—	—	—	(2,596)
Other comprehensive income / (loss)	—	—	—	—	—	—	—	—	103	(184)	(81)
Stock-based compensation	—	—	—	—	—	—	31,398	—	—	—	31,398
Distribution to members	—	—	—	—	—	—	—	—	—	(247)	(247)
BALANCE—March 31, 2022	86,597	$ 9	22,077	$ 2	—	$ —	$ 777,325	$ (143,866)	$ 103	$ 190,951	$ 824,524
Net loss	—	—	—	—	—	—	—	(25,737)	—	(8,107)	(33,844)
Exercise of warrants	3,969	—	—	—	—	—	27,989	—	—	—	27,989
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	21	—	—	—	—	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—	—	—	(524)	(14)	(538)
Stock-based compensation	—	—	—	—	—	—	6,995	—	—	—	6,995
Distribution to members	—	—	—	—	—	—	—	—	—	(1,254)	(1,254)
BALANCE—June 30, 2022	90,587	$ 9	22,077	$ 2	—	$ —	$ 812,309	$ (169,603)	$ (421)	$ 181,576	$ 823,872
Net loss	—	—	—	—	—	—	—	(241,697)	—	(72,002)	(313,699)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	573	—	—	—	—	—	(2,035)	—	—	—	(2,035)
Conversion of Class C shares to Class A shares	330	—	(330)	—	—	—	2,714	—	—	(2,714)	—
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis	—	—	—	—	—	—	(41)	—	—	—	(41)
Other comprehensive income	—	—	—	—	—	—	—	—	297	114	411
Stock-based compensation	—	—	—	—	—	—	8,955	—	—	—	8,955
Distribution to members	—	—	—	—	—	—	—	—	—	(10)	(10)
BALANCE—September 30, 2022	$ 91,490	$ 9	21,747	$ 2	—	$ —	$ 821,902	$ (411,300)	$ (124)	$ 106,964	$ 517,453

See notes to unaudited condensed consolidated financial statements.

System1, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Members' Deficit (Unaudited)
(In thousands)

	Members' Deficit	Accumulated Other Comprehensive Income (Loss)	Total Members' Deficit
Predecessor:			
For the period January 1, 2022 to January 26, 2022			
BALANCE—January 1, 2022	$ (28,829)	$ 428	$ (28,401)
Net loss	(37,061)	—	(37,061)
Accumulated other comprehensive income	—	87	87
Stock-based compensation expense	23,705	—	23,705
BALANCE—January 26, 2022	$ (42,185)	$ 515	$ (41,670)

See notes to unaudited condensed consolidated financial statements.

System1, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Successor		Predecessor
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Cash flows from Operating Activities:			
Net loss	$ (250,629)	$ (390,921)	$ (37,061)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	85,364	86,236	1,000
Stock-based compensation	43,909	88,847	23,705
Impairment of goodwill	115,483	340,109	—
Impairment of assets held for sale	3,276	—	—
Noncash lease expense	1,327	1,102	115
Change in fair value of warrants	(6,873)	14,111	—
Deferred tax benefits	(18,397)	(101,100)	(816)
Amortization of debt issuance costs	4,663	3,540	—
Other	1,750	661	(9)
Loss on restructure of related-party debt	619	—	—
Changes in operating assets and liabilities:			
Accounts receivable	17,786	6,670	11,118
Prepaids and other assets	647	(275)	1,069
Accounts payable	5,223	1,981	(67,600)
Accrued expenses and other liabilities	1,708	(17,369)	57,488
Deferred revenue	12,746	7,133	311
Long-term earnout liabilities	(20,000)	(10,000)	—
Other long-term liabilities	(4,510)	(31,467)	77
Net cash used in operating activities	(5,908)	(742)	(10,603)
Cash flows from Investing Activities:			
Purchases of property and equipment	(2,015)	(3,220)	—
Capitalized software development costs	(4,844)	(5,135)	(441)
Acquisition of businesses, net of cash acquired	—	(444,074)	—
Net cash used in investing activities	(6,859)	(452,429)	(441)
Cash flows from Financing Activities:			
Proceeds from related-party loan	63,000	—	—
Repayment of related-party loan	(44,000)	—	—
Proceeds from term loan and line of credit	—	449,000	—
Repayment of term loan	(15,000)	(182,488)	—
Payments for financing costs	—	(24,845)	—
Payment of acquisition holdback	(1,935)	(1,715)	—
Taxes paid related to net settlement of stock awards	(3,053)	(2,035)	—
Redemptions of Class A common stock	—	(510,469)	—
Proceeds from warrant exercises	—	5,027	—
Cash received from the Backstop	—	246,484	—

Taxes paid on behalf of S1 Holdco partnership members	(66)	(1,511)	—
Net cash used in financing activities	(1,054)	(22,552)	—
Effect of exchange rate changes in cash, cash equivalent and restricted cash	(231)	213	(19)
Net decrease in cash, cash equivalents and restricted cash	(14,052)	(475,510)	(11,063)
Cash and cash equivalents and restricted cash, beginning of the period	39,075	517,553	48,639
Cash and cash equivalents and restricted cash, end of the period	$ 25,023	$ 42,043	$ 37,576
Reconciliation of cash, cash equivalents and restricted cash to the Condensed Consolidated Balance Sheets:			
Cash and cash equivalents	$ 4,853	$ 16,532	$ 36,833
Restricted cash	7,779	8,112	743
Cash and restricted cash included in assets held for sale from discontinued operations	12,391	17,399	—
Total cash, cash equivalents and restricted cash	$ 25,023	$ 42,043	$ 37,576
Supplemental cash flow information:			
Cash paid for operating lease liabilities	$ 1,593	$ 1,580	$ 175
ROU assets obtained in exchange for operating lease liabilities	$ —	$ 2,064	$ 7,987
Capitalized assets financed by accounts payable	$ 53	$ 309	$ —
Stock-based compensation included in capitalized software development costs	$ 1,644	$ 340	$ —
Settlement of incentive plan through issuance of common stock	$ 1,658	$ —	$ —
Equity issuance to settle intercompany loan	$ —	$ —	$ 941
Deferred consideration for acquisition	$ —	$ 7,059	$ —
Restructuring of holdback liability to promissory note	$ 5,156	$ —	$ —

See notes to unaudited condensed consolidated financial statements.

System1, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS Organization and Description of Business

System1, Inc. and subsidiaries (“System1” (the “Company”, “we”, “our” or the “Company” “us”) operates an omnichannel customer acquisition platform, delivering high-intent customers to advertisers. brands, advertisers and publishers.

The Company provides its We provide our omnichannel customer acquisition platform services through its our proprietary responsive acquisition marketing platform (“RAMP”). Operating seamlessly across major advertising networks and advertising category verticals to acquire users, high-intent end-users, RAMP allows the Company us to monetize such these acquired end users through its our relationships with third party advertisers and advertising networks (“Advertising Partners”). RAMP operates across our network of owned and operated websites, allowing us to monetize end-user traffic that we source from various acquisition marketing channels, including (“A Google, Facebook, Zemanta, Taboola, and TikTok. dvertising Partners”). Through RAMP also allows third party advertising platforms and publishers (“(“Network Partners” Partners”) to send user end-user traffic to, and monetize end user traffic on, the Company’s owned and operated websites. RAMP operates across the Company’s network of our owned and operated websites or through our monetization agreements.

We have two reportable segments: Owned and related products, allowing it to monetize user traffic that it sources from various acquisition marketing channels, including Google, Facebook, Taboola Operated Advertising and Zemanta. Partner Network (see Note 10, Segment Reporting).

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Our condensed consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Our fiscal year ends on December 31. These unaudited interim through condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as filed with the Securities and Exchange Commission ("SEC") in March 2024.

In our opinion, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair statement of our financial position, results of operations, and cash flows. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2024 or future operating periods.

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 that have had a material impact on our condensed consolidated financial statements and related notes.

We completed the sale of Total Security Limited, formerly known as Protected.net Group Limited ("Total Security" or "Protected" Protected"), also provides antivirus software solutions, offering customers a single packaged solution that provides protection and reporting to the end user. The Company delivers its antivirus software solutions directly to end-user customers around the world. The antivirus software solutions product offering comprises a core security package with varying levels of extra protection based on a customer's specific needs. November 30, 2023. The software is sold in either a monthly or annual subscription predominantly through its flagship products TotalAV and TotalAdBlock.

On September 6, 2023, the Company announced that it had received a non-binding indication of intent (the "IOI") from Just Develop It Limited ("JDI"), a significant shareholder of the Company which is principally owned and managed by certain members of the Protected management team, related to the potential acquisition of Protected, which operates the Company's subscription business. The offer consists of $240,000 in cash, the assumption of certain potential earnout payments in respect of Protected and the delivery of approximately 29,138 System1 shares held by JDI and related persons. A special committee of the Company's Board of Directors was formed to evaluate JDI's IOI and other strategic alternatives.

The Company determined that the Protected business met the criteria to be classified as held for sale, and that a sale represented a strategic shift that will have a major effect on the Company's operations and financial results. Accordingly, the results of operations of its our Protected business prior to its sale are presented as net loss from discontinued operations in our condensed consolidated statements of operations in the periods applicable (see Note 12, Discontinued Operations).

Revision of Previously Issued Consolidated Financial Statements

During the fourth quarter of 2023, we identified certain errors related to our previously issued financial statements as of and for the three months ended March 31, 2023 as follows:

a. Accrued expenses and other current liabilities were understated by $0.9 million, additional paid-in capital was understated by $1.7 million and salaries and benefits expense was understated by $0.3 million as a result of our not accelerating expenses upon forfeiture of certain cash and equity Replacement Awards (as defined in Note 9, Net Loss Per Share) previously granted in 2022 that impacted the condensed consolidated balance sheet, condensed consolidated statements of operations, for all periods presented, and the assets and liabilities for its Protected business have been classified as held for sale and segregated for all periods presented in the condensed consolidated balance sheets. Refer to Note 15—*DISCONTINUED OPERATIONS* for additional information. statements of changes in stockholders' equity, and condensed consolidated statement of cash flows.

Going Concern

Starting in the third quarter of 2022 and continuing into 2023, the Company has experienced declining cash flows and financial performance as a result of deteriorating macroeconomic conditions, resulting in reductions in both advertiser and overall consumer demand for the Company's marketing services. In response to these conditions, the Company obtained additional financing in the second quarter of 2023 (as previously disclosed) which was expected to provide the Company sufficient liquidity to manage through the current business environment. However, subsequent to the quarter ended June 30, 2023, the Company has experienced increased customer acquisition costs in addition to the loss of a significant Network Partner, both of which have further negatively impacted the Company's future cash forecasts, and may negatively impact the Company's forecasted compliance with the maximum leverage ratio covenant of the Term Loan (defined in Note 9—*DEBT*). As of September 30, 2023, the Company had cash on hand of $4,853, an accumulated deficit of $646,242, and had cash outflows from operations of $5,908 for the nine months ended September 30, 2023. The Company has principal and interest payments due of approximately $15,000 per quarter, and as of the date of this filing, the Company had no remaining available capacity under the 2023 Revolving Note (defined in Note 13—*RELATED-PARTY TRANSACTIONS*).

b. We did not appropriately account for changes in equity and number of units in thousands, except for earnings per share, or specifically:
(i) the carrying amount of non-controlling interest was not updated as changes in ownership events occurred during each reporting period,

(ii) certain equity replacement awards granted during 2022 were not properly considered in the allocation of net income (loss) to controlling and non-controlling interest and earnings per unit amounts) share.These errors impact the condensed consolidated balance sheets, condensed consolidated statement of operations, condensed consolidated statements of changes in stockholders' equity, and condensed consolidated statement of cash flows.

c. We made additional corrections for other immaterial errors.

The declining cash flows and financial performance raise substantial doubt regarding d. We adjusted for the Company's ability tax impacts of the corrections related to continue as a going concern for a period of one year following such errors described above.

We concluded that the date that these errors were not material, either individually or in the aggregate, to our previously issued condensed consolidated financial statements are issued. The Company has both developed and implemented plans to improve its liquidity. The Company's implemented plans include the restructuring of the CouponFollow Holdback Amount in September 2023 through the issuance of a $5,156 note and obtaining the Onyx and OpenMail2 debt financings for $10,000 and $2,500, respectively (refer to Note 13—*RELATED-PARTY TRANSACTIONS*) in October 2023 entering into a factoring agreement in November 2023 for an initial $5,000 (refer to Note 16 – *SUBSEQUENT EVENTS*) as well as implementing a significant reduction in headcount in both the second quarter of 2023 and in early September 2023, resulting in approximately $14,500 of annualized savings. The Company's developed plans include the sale of Protected (refer to the Discontinued Operations section of Note 15—*DISCONTINUED OPERATIONS*), which the Company anticipates will result in significant cash inflows. As announced in its press release on September 6, 2023, the Company received a non-binding indication of intent from JDI to acquire Protected for $240,000 in cash as part of the consideration. However, until the Company has executed a definitive sale agreement, the Company cannot provide assurances that the sale will be finalized on acceptable terms or at all. To the extent the Company's financial performance does not improve or the Company's plans are not successful or finalized, the Company may have insufficient available cash balances to fund their operations for the remainder of impacted period. To correct the calendar year. Additionally, if the Company is unable to satisfy certain covenants under the Credit Agreement (refer to Note 9 –*DEBT, NET*), this could constitute an event of default and provide the administrative agent on behalf of the lenders the ability to immediately call the outstanding principal balances of the Term Loan and 2022 Revolving Facility, with cross default provisions with the 2023 Revolving Note, and the Receivables Purchase Agreement (refer to Note 16 –*SUBSEQUENT EVENTS*). In the event of a default, including the aforementioned cross defaults there can be no assurance that the Company will be able to continue as a going concern, which will force us to delay, reduce or discontinue certain aspects of immaterial errors, we have revised our business strategy. Accordingly, the Company believes that there is substantial doubt about its ability to continue as a going concern for the twelve-month period following the date of this filing.

The previously issued condensed consolidated financial statements do not include any adjustments that might result from as of and for the outcome period ended March 31, 2023.

We have revised the condensed consolidated balance sheet, condensed consolidated statement of these uncertainties. Accordingly, operations, condensed consolidated statement of comprehensive income (loss), condensed consolidated statement of changes in stockholders' equity, and condensed consolidated statement of cash flows for the period ended March 31, 2023, as well as the associated Notes to the condensed consolidated financial statements have been prepared to reflect the correction of these immaterial errors in this Quarterly Report on a basis that assumes Form 10-Q for the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business. quarter ended March 31, 2024.

2. The following table reflects the revisions and the impact of reporting Discontinued Operations related to the sale of Protected to the previously issued SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES condensed consolidated balance sheet as of March 31, 2023 (in thousands):

Basis of Presentation, Principles of Consolidation and Summary of Significant Accounting Policies

	As Previously Reported	Revision Adjustment	As Revised		Impact of Reclassification of Discontinued Operations	As Currently Reported
Liabilities and Stockholders' Equity						
Current liabilities:						
Accrued expenses and other current liabilities	85,727	890	86,617	(a)	(14,620)	71,997
Total current liabilities	199,354	890	200,244		—	200,244
Deferred tax liability	35,995	830	36,825	(d)	(13,318)	23,507
Total liabilities	669,119	1,720	670,839		—	670,839
Stockholders' Equity / Members' Deficit						
Additional paid-in capital	837,093	1,652	838,745	(a) (b)	—	838,745
Accumulated deficit	(479,579)	6,155	(473,424)	(a) (b) (d)	—	(473,424)
Accumulated other comprehensive loss	(479)	156	(323)	(d)	—	(323)
Total stockholders' equity attributable to System1, Inc.	357,046	7,963	365,009		—	365,009
Non-controlling interest	78,632	(9,683)	68,949	(b)	—	68,949
Total stockholders' equity	435,678	(1,720)	433,958		—	433,958
Total liabilities and stockholders' equity	$ 1,104,797	$ —	$ 1,104,797		$ —	$ 1,104,797

The Company was a special purpose acquisition company originally incorporated as a Cayman Islands exempted company on February 11, 2020 under the name Trebia Acquisition Corp. ("Trebia"). The Company was formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination with one or more businesses. On January 27, 2022, the Company consummated a business combination (the "Merger"), which resulted in the acquisition of S1 Holdco, LLC ("S1 Holdco") and System1 SS Protect Holdings, Inc. As a result of the Merger, the results of operations, financial position and cash flows of the Predecessor and Successor may not be directly comparable.

The Company was deemed following table reflects the accounting acquirer inrevisions and the Merger based on an analysis impact of the criteria outlined in Accounting Standards Codification ("ASC") 805, *Business Combinations* and S1 Holdco was deemed to be the predecessor entity. Accordingly, the historical financial statements of S1 Holdco became the historical financial statements of the Company, upon the consummation of the Merger. As a result, the financial statements included in this report reflect (i) the historical operating results of S1 Holdco prior reporting Discontinued Operations related to the Merger ("Predecessor") and (ii) the combined results sale of the Company, including S1 Holdco and Protected following the closing of the Merger ("Successor"). The accompanying financial statements include a Predecessor period, which was the period January 1, 2022 through January 26, 2022, concurrent with the Merger and Successor periods from January 27, 2022 through September 30, 2022, and thereafter. A black-line between the Successor and Predecessor periods has been placed in the condensed consolidated financial statements and in the tables to the notes to the previously issued condensed consolidated financial statements to highlight the lack of comparability between these two periods as the Merger resulted in a new basis of accounting for the Company.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying condensed consolidated financial statements include the accounts of System1 and its subsidiaries for the Successor periods, and S1 Holdco for the Predecessor period. All intercompany accounts and transactions have been eliminated in the consolidation of the financial statements. The condensed consolidated financial statements have been prepared by the Company and are unaudited, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such SEC rules and regulations. The interim condensed consolidated financial statements included herein reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The condensed consolidated statements of operations, for the three and nine months ended September 30, 2023 (Successor), March 31, 2023 (in thousands):

	As Previously Reported	Revision Adjustment		As Revised	Impact of Reclassification of Discontinued Operations	As Currently Reported
Salaries and benefits	38,398	296	(a)	38,694	(10,547)	28,147
Total operating expenses	205,346	296		205,642	(60,295)	145,347
Operating loss	(37,492)	(296)		(37,788)	13,559	(24,229)
Other expense (income):						
Interest expense, net	11,451	—		11,451	(49)	11,402
Total other (income) expense, net	10,042	—		10,042	(49)	9,993
Loss before income tax	(47,534)	(296)		(47,830)	13,608	(34,222)
Income tax benefit	(4,408)	(496)	(d)	(4,904)	1,075	(3,829)
Net loss from continuing operations	(43,126)	200		(42,926)	12,533	(30,393)
Net loss from discontinued operations, net of tax	—	—		—	(12,533)	(12,533)
Net loss	(43,126)	200		(42,926)	—	(42,926)
Less: Net loss from continuing operations attributable to non-controlling interest	(9,174)	50	(b)	(9,124)	2,367	(6,757)
Less: Net loss from discontinued operations attributable to non-controlling interest	—	—		—	(2,367)	(2,367)
Net loss attributable to System1, Inc.	$ (33,952)	$ 150		$ (33,802)	$ —	$ (33,802)
Amounts attributable to System1, Inc.:						
Net loss from continuing operations	$ (33,952)	$ 150	(b)	$ (33,802)	$ 10,166	$ (23,636)
Net loss from discontinued operations	—	—		—	(10,166)	(10,166)
Net loss attributable to System1, Inc.	$ (33,952)	$ 150		$ (33,802)	$ —	$ (33,802)
Basic and diluted net loss per share:						
Continuing operations	$ (0.37)	$ 0.01	(b)	$ (0.36)	$ 0.11	$ (0.25)
Discontinued operations	—	—		—	(0.11)	(0.11)

Basic and diluted net loss per share	$ (0.37)	$ 0.01	$ (0.36)	$ —	$ (0.36)
Weighted average number of shares outstanding - basic and diluted	92,460	311 (b)	92,771		92,771

The following table reflects the revisions related to the previously issued condensed consolidated statement of comprehensive loss for the three months ended September 30, 2022 (Successor), March 31, 2023 (in thousands):

	As Previously Reported	Revision Adjustment	As Currently Reported
Net loss	$ (43,126)	$ 200 (a) (d)	$ (42,926)
Other comprehensive income (loss)			
Foreign currency translation income (loss)	(108)		(108)
Comprehensive loss	(43,234)	200	(43,034)
Comprehensive loss attributable to non-controlling interest	(9,220)	50 (b)	(9,170)
Comprehensive loss attributable to System1, Inc.	$ (34,014)	$ 150	$ (33,864)

The following tables reflect the period from January 1, 2022 through January 26, 2022 (Predecessor) and revisions to the previously issued condensed consolidated statement of changes in stockholders' equity for the period from January 27, 2022 through September 30, 2022 (Successor) are not necessarily indicative of quarter ended March 31, 2023. Although the results to be anticipated for the entire year ending December 31, 2023 or thereafter.

Certain prior period amounts in impact is pervasive throughout the condensed consolidated financial statements have been reclassified to conform with statement of changes in stockholders' equity as a result of the current period presentation. These reclassifications had no effect on errors described above, the results most significant impact is a reduction of operations or financial position for any period presented. net loss of $0.2 million, an increase of non-controlling interest of

Held for Sale

The Company reports a business as held for sale when management has received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the ensuing year and certain other specified criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less costs to sell, which is required to be remeasured each reporting period. If the carrying amount of the business exceeds its estimated fair value, which is based on the estimated sales price of the transaction, less costs to sell, a loss is recognized. Depreciation is not recorded on assets of a business classified as held for sale.

Discontinued Operations

The Company presents discontinued operations when there is a disposal of a component or a group of components that represents a strategic shift that will have a major effect on operations and financial results. The results of discontinued operations are reported in net income from discontinued operations in the condensed consolidated statements of operations for all periods presented, commencing in the period in which the business is either disposed of or is classified as held for sale, including any gain or loss recognized on closing or adjustment of the carrying amount to fair value less costs to sell. Assets and liabilities related to a business classified as held for sale which also meets the criteria for discontinued operations are segregated in the condensed consolidated balance sheets for the current and prior periods presented.

$0.5 million, a reduction in accumulated deficit of shares $0.2 million and number a reduction in additional paid-in-capital of units in thousands, except for per share or per unit amounts) $0.2 million.

	Class A Common Stock		Class C Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total Stockholders' Equity
As Previously Reported									
Balance at December 31, 2022	**91,674**	**$ 9**	**21,747**	**$ 2**	**$ 831,566**	**$ (439,296)**	**$ (260)**	**$ 78,650**	**$ 470,671**
Net loss	—	—	—	—	—	(33,952)	—	(9,174)	(43,126)

Cumulative-effect of adoption of ASU 2016-13	—	—	—	—	—	(326)	—	—	(326)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	832	—	—	—	(1,730)	—	—	—	(1,730)
Issuance of common stock in connection with settlement of incentive plan	407	—	—	—	1,659	—	—	—	1,659
Conversion of Class C shares to Class A shares	234	—	(234)	—	955	—	—	(955)	—
Increase in tax receivable agreement liability	—	—	—	—	(441)	—	—	—	(441)
Other comprehensive income (loss)	—	—	—	—	—	—	(62)	(47)	(109)
Stock-based compensation	—	—	—	—	6,963	—	—	—	6,963
Balance at March 31, 2023	**93,147**	**$ 9**	**21,513**	**$ 2**	**$ 838,972**	**$ (473,574)**	**$ (322)**	**$ 68,474**	**$ 433,561**
Revision Adjustments									
Net loss	—	—	—	—	—	150	—	50	200 (a) (b) (d)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	—	—	—	—	281	—	—	(281)	— (a) (b)
Issuance of common stock in connection with settlement of incentive plan	—	—	—	—	160	—	—	(160)	— (b)
Conversion of Class C shares to Class A shares	—	—	—	—	92	—	—	(92)	— (b)
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	— (c)
Stock-based compensation	—	—	—	—	(760)	—	—	958	198 (a) (b)
Balance at March 31, 2023	**— $**	**—**	**— $**	**—**	**$ (227)**	**$ 150**	**$ —**	**$ 475**	**$ 398**
As Revised									
Net loss	—	—	—	—	—	(33,802)	—	(9,124)	(42,926)

System1, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

All discussions

Cumulative-effect of adoption of ASU 2016-13	—	—	—	—	—	(326)	—	—	(326)
Issuance of restricted stock, net of forfeitures and shares withheld for taxes	832	—	—	—	(1,449)	—	—	(281)	(1,730)
Issuance of common stock in connection with settlement of incentive plan	407	—	—	—	1,819	—	—	(160)	1,659
Conversion of Class C shares to Class A shares	234	—	(234)	—	1,047	—	—	(1,047)	—
Increase in tax receivable agreement liability	—	—	—	—	(441)	—	—	—	(441)
Other comprehensive income (loss)	—	—	—	—	—	—	(62)	(47)	(109)
Stock-based compensation	—	—	—	—	6,203	—	—	958	7,161
Balance at March 31, 2023	**93,147**	**$ 9**	**21,513**	**$ 2**	**$ 838,745**	**$ (473,424)**	**$ (322)**	**$ 68,949**	**$ 433,959**

The following table reflects the revisions to the previously issued condensed consolidated statement of cash flows for the three months ended March 31, 2023 (in thousands):

	As Previously Reported	Revision Adjustment	As Currently Reported
Cash Flows from Operating Activities			

Net loss	$ (43,126)	$ 200 (a) (d)	$ (42,926)
Stock-based compensation	13,925	197 (a)	14,122
Deferred tax benefits	(7,373)	(496) (d)	(7,869)
Changes in operating assets and liabilities			
Accrued expenses and other liabilities	(4,660)	(397) (a)	(5,057)
Other long-term liabilities	(149)	496 (d)	347
Net cash used in operating activities	$ (5,801)	$ —	$ (5,801)

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and related notes, except for cash flows, for all periods presented relate to continuing operations only, unless otherwise noted. the reported amounts of revenue and expenses during the reporting period. Management's estimates are based on historical information available as of the date of the condensed consolidated financial statements and various other assumptions that we believe are reasonable under the circumstances. Actual results could differ from those estimates.

Adoption Significant estimates and assumptions reflected in these condensed consolidated financial statements include, but are not limited to, valuation of Recent Accounting Pronouncements
goodwill, acquired intangible assets, assets held for sale and long-lived assets, valuation and recognition of stock-based compensation awards, income taxes, contingent consideration and determination of the fair value of the warrant liabilities. On January 1, 2023, an ongoing basis, management evaluates our estimates compared to historical experience and trends, which form the Company adopted ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement basis for making judgments about the carrying value of Credit Loss on Financial Instruments". Accordingly, upon adoption of this new standard, the Company recorded an allowance for credit losses of $327, with a corresponding cumulative adjustment to the beginning balance of accumulated deficit in the first quarter of fiscal 2023. assets and liabilities.

Risks and Concentrations

The Company is

We are subject to certain business and operational risks, including competition from alternative technologies, as well as dependence on key Advertising Partners, key employees, key contracts, and growth to achieve its our business and operational objectives.

Concentrations

The following table illustrates the level of concentration as a percentage of total revenue for our key advertising partner Google is 83% and 89%, for the Company's key Advertising Partners: three months ended March 31, 2024 and 2023, respectively.

	Successor				Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Google	84 %	86 %	86 %	87 %	88 %
Microsoft	2 %	4 %	2 %	4 %	4 %

As of March 31, 2024, we had (i) two paid search advertising partnership agreements with Google, and (ii) one paid search advertising partnership agreement with Microsoft. The Google agreements are in effect through February 28, 2025, and May 31, 2024, respectively. The agreement with Microsoft (our next largest Advertising Partner by revenue) is in effect through June 30, 2025. Under certain circumstances, each of these agreements may be terminated by either us or the respective Advertising Partner immediately, or with minimal notice.

Accounts receivable are primarily derived from Advertising Partners located within the United States. As of September 30, 2023March 31, 2024, two of the Company's largest Advertising Partners, Google and Yahoo, represented 74% 68% and 6% 5%, respectively, of the Company's our accounts receivables balance. As of December 31, 2022 2023, these two Advertising Partners represented 68% 69% and 12% 6%, respectively, of the Company's our accounts receivable receivables balance.

Use of Estimates

Goodwill, Internal-Use Software Development Costs, Net, and Intangible Assets, Net

The preparation Goodwill

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

Goodwill was $82.4 million as of these condensed consolidated financial statements in conformity with U.S. GAAP requires management March 31, 2024 and December 31, 2023, all attributable to make estimates and assumptions that affect the reported amounts Partner Network reportable segment. No impairment of assets and liabilities, disclosure of contingent assets and liabilities at the date goodwill was identified for any of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. periods presented.

Significant estimates Internal-use software development costs, net and assumptions reflected in these condensed consolidated financial statements include, but are not limited to: (1) valuation of goodwill, acquired intangible assets, net

Internal-use software development costs and long-lived intangible assets (2) valuation and recognition consisted of the Company's stock-based compensation awards, (3) valuation of the Protected disposal group, and (4) income taxes. Significant estimates affecting the condensed consolidated financial statements have been prepared on the basis of the most current and best available information, including historical experience, known trends and other market-specific or other relevant factors that the Company believes to be reasonable. Management evaluates its estimates, as there are changes following(in circumstances, facts and experience. Changes in estimates are recorded in periods which they become known. However, actual results from the resolution of such estimates and assumptions may vary from those used in the preparation of the condensed consolidated financial statements. thousands):

Concentration of Credit Risk

	March 31, 2024		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Internal-use software development costs	$ 15,842	$ (3,297)	$ 12,545
Intangible assets:			
Developed technology	$ 196,128	$ (106,613)	$ 89,515
Trademarks and trade names	236,053	(50,950)	185,103
Software	5,100	(2,659)	2,441
Customer relationships	2,900	(1,623)	1,277
Total	$ 440,181	$ (161,845)	$ 278,336

Cash is deposited with high-credit-quality financial institutions and, at times, such balances with any one financial institution may exceed the insurance limits of the prevailing regulatory body. Historically, the Company has not

experienced any losses related to these cash balances and believes that there is minimal risk of expected future losses. However, there can be no assurance that there will not be losses on these deposits.

3. MERGER

On June 28, 2021, the Company entered into a Business Combination Agreement (as amended on November 30, 2021, January 10, 2022 and January 25, 2022) (the “Business Combination Agreement” or "BCA"), by and among S1 Holdco, Trebia, and Protected (collectively, the “Companies”). On January 26, 2022 (the “Closing Date”), the Company consummated the business combination (the "Merger") pursuant to the Business Combination Agreement. Following the consummation of the Merger, the combined company is organized via an “Up-C” structure, in which substantially all of the assets and business operations of System1 are held by S1 Holdco. The combined Companies’ business continues to operate through the subsidiaries of S1 Holdco and Protected. Additionally, Trebia’s ordinary shares and public warrants ceased trading on the New York Stock Exchange ("NYSE"), and System1 Inc.'s Class A common stock and the Public Warrants began trading on the NYSE on January 28, 2022 under the symbols “SST” and “SST.WS,” respectively.

The consideration paid to the existing equity holders of S1 Holdco and Protected in connection with the Merger consisted of the following:

- Cash;
- Class A common stock;
- Class C common stock;
- Replacement Awards.

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

The aggregate cash consideration was $440,155.

The aggregate equity consideration paid and/or retained for S1 Holdco Class B Units was $610,144, consisting of (a) the aggregate equity consideration payable under the Business Combination Agreement, consisting of shares of Class A common stock and Replacement Awards, and (b) the aggregate Class B Units in S1 Holdco retained by S1 Holdco equity holders at the Closing.

The fair value of the Class A common stock was determined by utilizing the transaction closing price per share per the BCA of $10.00 and a discount of 10%, as the shares were not immediately available for sale upon issuance and this restriction is viewed to be a function of the security characteristics.

Additionally, the aggregate Class B units in S1 Holdco retained by S1 Holdco equity holders at the Closing Date resulted in a non-controlling interest. The 22,077 Class B units in S1 Holdco and the corresponding Class C common stock in the Company were determined to have an estimated value of $198,691. As the Class B units in S1 Holdco together with the corresponding shares of the Company's Class C common stock are exchangeable for shares of Class A common stock on a one-for-one basis, the fair value was determined using the same method as for the shares of Class A common stock, utilizing the transaction closing price of $10.00 and a discount of 10% (as the units and the corresponding shares of Class C common stock were not immediately available for sale upon issuance and this restriction is viewed to be a function of the security characteristics). The fair value of $198,691 was included in non-controlling interest on the accompanying condensed consolidated balance sheet and condensed consolidated statements of changes in stockholders' equity.

In connection with the Merger, System1 and Cannae Holdings, Inc. ("Cannae"), an investor in the Sponsor of Trebia, entered into a backstop agreement (the "Backstop Agreement") on June 28, 2021, as amended on January 10, 2022, whereby Cannae agreed, to subscribe for up to 25,000 shares of Trebia Class A common stock in order to fund up to $250,000 of redemptions by shareholders of Trebia. See discussion below regarding the Amended and Restated Sponsor Agreement, which was amended in conjunction with the Backstop Agreement. As a result of shareholder redemptions, Cannae provided $246,484 of the cash used to fund the Closing Cash Consideration

pursuant to its obligations under the Backstop Agreement and in exchange received 24,648 shares of Class A common stock ("Backstop shares").

Additionally, pursuant to the Backstop Agreement, the Selling Shareholders (i.e., certain shareholders of S1 Holdco and Protected prior to the Merger) agreed that, in the event shareholders of Trebia requested redemption of Trebia outstanding equity immediately prior to the Merger in excess of a certain dollar value threshold, certain equity holders of S1 Holdco and Protected would reduce their cash consideration and proportionally increase their equity consideration for the Merger, which is referred to as the "Seller Backstop Election". In the event that the Seller Backstop Election was made, the Sponsors would forfeit their shares to allow the Company to then issue shares to the Selling Shareholders. The Seller Backstop Election was triggered and, as a result, the Sponsors forfeited 930 shares of Trebia Class B ordinary shares which were converted at time of Merger, at a one-to-one ratio, into shares of Class A common stock of System1 and delivered to the various selling shareholders of S1 Holdco, collectively referred to as the "Sponsor Promote Shares". The total consideration amount, in a combination of cash and equity consideration, did not change from the amount agreed in the Business Combination Agreement due to this Seller Backstop Election. The Company recorded $7,706 in Salaries and benefits expense and $661 in Selling, general and administrative expense for Sponsor Promote Shares during the period January 27, 2022 through March 31, 2022 (Successor).

In connection with the execution of the Business Combination Agreement and the Backstop Agreement, on June 28, 2021, as amended on January 10, 2022, the sponsors of Trebia entered into the Amended and Restated Sponsor Agreement whereby the sponsors agreed to forfeit up to 2,600 shares of Trebia Class B common stock in order for the Company to then issue the shares to Cannae ("Backstop forfeiture shares"), in exchange for Cannae entering into the Backstop Agreement. On January 27, 2022, based upon the final backstop funding provided by Cannae, the sponsors forfeited 2,533 shares of Trebia Class B shares, after which the Company then issued 2,533 shares of Class A common stock to Cannae. Trebia recorded a forward purchase liability of $25,336 immediately prior to the Merger, representing the fair value of the Backstop shares and the Backstop forfeiture shares.

In accordance with the Amended and Restated Sponsor Agreement entered into concurrently with the Business Combination Agreement, the Company issued 1,450 Class D shares to the Trebia sponsors in exchange for 1,450 Trebia Class B shares ("Sponsor RSA's"). The difference in the fair value of the two was treated as a capital contribution. The founders of S1 Holdco and Protected were also issued 1,450 Class D shares ("Seller RSUs"). Further, in connection with the Merger, the Company also effected an incentive plan for Protected business.

Concurrently with the consummation of the Merger, System1 entered into a tax receivable agreement with the minority holders of S1 Holdco, (the "Tax Receivable Agreement" or "TRA"), pursuant to which, among other things, the parties to the Tax Receivable Agreement have agreed to the allocation and payment of 85% of the actual savings, if any, in U.S. federal, state and local income tax that System1 may realize as a result of certain tax benefits (if any) related to the transactions contemplated by the Business Combination Agreement and future exchanges of Class B Units in S1 Holdco (together with the corresponding shares of the Company's shares of Class C common stock) in exchange for shares of the Company's Class A common stock. As of the Closing Date, the fair value of obligations under the TRA was determined to be zero as any tax savings were uncertain. The TRA is contingent consideration and subsequent changes in fair value of the contingent liability are recognized in earnings.

	December 31, 2023

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internal-use software development costs	$ 13,788	$ (2,363)	$ 11,425
Intangible assets:			
Developed technology	$ 196,128	$ (94,354)	$ 101,774
Trademarks and trade names	236,053	(45,050)	191,003
Software	5,100	(2,341)	2,759
Customer relationships	2,900	(1,435)	1,465
Total	$ 440,181	$ (143,180)	$ 297,001

The Company adopted ASU No. 2021-08, *Business Combinations: Contract Assets & Liabilities* on January 1, 2022 internal-use software development costs includes construction in progress which is not being amortized of $4.2 million and accordingly, has recorded contract assets and contract liabilities acquired as part of the Merger based on what the Company would have recorded under ASC 606, *Revenue from Contracts with Customers,*$3.5 million as of the acquisition date, as if the Company had entered into the original contract at the same dateMarch 31, 2024 and on the same terms as S1 Holdco and Protected.

The Merger has been accounted for as a business combination using the acquisition method of accounting. The total purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values on the acquisition date.

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

The purchase consideration, inclusive of the Protected assets and liabilities, was allocated to the following assets and liabilities:

	Amount
Tangible assets acquired and liabilities assumed:	
Cash and marketable securities	$ 68,748
Accounts receivable	79,086
Prepaid expenses	7,807
Income tax receivable	4,566
Property, plant & equipment, net	1,551
Other assets	6,950
Accounts payable	(9,798)
Deferred revenue	(60,768)
Accrued expenses and other current liabilities	(110,004)
Income tax payable	(2,091)
Notes payable	(172,038)
Deferred tax liabilities	(138,613)
Other liabilities	(8,474)
Total tangible assets acquired and liabilities assumed	(333,078)
Intangible assets	562,100
Goodwill	821,277
Net assets acquired	$ 1,050,299
Consideration:	
Cash	$ 440,155
Equity	411,453
Total consideration attributable to System1	851,608
Total consideration attributable to non-controlling interest	198,691
Total consideration	$ 1,050,299

The intangible assets, inclusive of the Protected intangible assets, as of the closing date of the acquisition included:

	Amount	Weighted Average Useful Life (in Years)
Trademarks	$ 246,400	10
Customer relationships	119,700	4
Technology	196,000	4
Total	$ 562,100	

The fair value of the intangible assets acquired was determined using income-based approach methodologies. December 31, 2023Intangible assets are amortized over their estimated economic useful lives using a straight-line method, which approximates the pattern in which the economic benefits are consumed. The majority of the customer relationships pertain to the Protected business, and are amortized on an accelerated basis. To determine the amortization period for each of the customer relationships assets and to evaluate the pattern of usage of economic benefits, the Company performed a customer attrition analysis of the Company's customer relationships to estimate the attrition rate and consequently the life expectancy for the existing customer relationships.

Key assumptions used in the valuation of intangible assets are below:

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

Trademarks – The Company valued trademarks using the relief-from-royalty method under the income-based approach. Key assumptions include forecasted revenue, an estimated royalty rate applicable to the trademarks, and a discount rate. , respectively.

Customer relationships – The Company valued customer relationships using an excess-earnings method utilizing distributor inputs. Key assumptions include customer attrition rate, revenue growth rate, existing customer revenue, deferred revenue, and a discount rate.

Technology – The Company valued technology using the excess-earnings method utilizing company-specific inputs. Key assumptions include forecasted revenue, technology migration rate and a discount rate.

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations as well as the value of the workforce. Goodwill is not deductible Amortization expense for tax purposes.

Unaudited Pro Forma Information

The following table provides unaudited pro forma information as if the Merger, inclusive of Protected, and other 2022 acquisitions (refer to Note 4—*ACQUISITIONS*) occurred as of January 1, 2021. The unaudited pro forma information reflects adjustments for additional amortization resulting from the fair value adjustments to assets acquired and liabilities assumed, adjustments for alignment of accounting policies, adjustments for transaction expenses, adjustments for certain stock-based compensation and equity related expenses incurred as a result of the transaction and the resulting tax effects, as if the Merger and acquisitions of Answers, CouponFollow and RoadWarrior occurred January 1, 2021. The pro forma results do not include any anticipated cost synergies or other effects of the merged companies. Accordingly, pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisitions been completed on the dates indicated, nor is it indicative of the future operating results of the combined company.

		Nine months ended September 30, 2022
Pro forma revenue	$	657,013
Pro forma net (loss)	$	(310,944)

4. ACQUISITIONS

Answers Holdings, Inc.

On May 4, 2022, the Company acquired the assets of Answers Holdings, Inc. and its subsidiaries, collectively ("Answers") for total cash consideration of $4,632. The acquisition of Answers constitutes a business combination under ASC 805, *Business Combinations*.

This acquisition expands the Company's portfolio of Owned & Operated Advertising publishing sites and search destinations to include a destination for higher education and lifelong learning content. The results of Answers' operations as of and after the date of acquisition have been included in the Company's condensed consolidated financial statements.The operating results of Answers are reported within the Owned and Operated Advertising segment.

The purchase consideration was allocated to the following assets and liabilities:

		Amount
Assets acquired and liabilities assumed:		
Working capital	$	32
Trademark - 10 years weighted average useful life		1,100
Goodwill		3,500
Net assets acquired	$	4,632
Total consideration:		
Cash	$	4,632

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations, and is deductible for tax purposes over 15 years. The Company incurred $93 in transaction costs related to the acquisition.

Trademark – The Company valued the trademark using the relief-from-royalty method under the income approach. Key assumptions include forecasted revenue, an estimated royalty rate applicable to the trademark and a discount rate.

NextGen Shopping, Inc.

On March 4, 2022, the Company acquired NextGen Shopping, Inc. (d/b/a “CouponFollow”) for total cash consideration of $75,087, of which $16,446 was deferred, $5,600 was held-back (the "Holdback Amount"), and $25,500 related to the fair value of 2,000 shares of Class A common stock issued. The fair value of the shares of Class A common stock was determined by utilizing the closing price per share of the Company's Class A common stock listed on the NYSE as of March 3, 2022, and a discount rate of 7.5%, as the shares were not immediately available for sale upon issuance, and this restriction was deemed to be a function of the security characteristics. The deferred consideration of $16,446 was paid during the three months ended June 30, 2022. The Holdback Amount becomes payable eighteen months subsequent to the acquisition date, subject to the Company's satisfaction of any potential post-closing purchase price adjustments and indemnification claims. The cash payment included the transaction costs of $3,129 that the Company paid on behalf of CouponFollow in connection with the closing of the transaction. The acquisition of CouponFollow constitutes a business combination under ASC 805.

In conjunction with this acquisition, the Company also committed to pay postcombination compensation of $8,500, which is payable in cash and subject to continued services from certain individuals of CouponFollow. Separately, in conjunction with the acquisition, the Company entered into the CouponFollow Incentive Plan, providing up to $10,000 of postcombination compensation which is payable in stock or cash at the option of the Company, and subject to continued service from certain individuals, and up to $25,000 which is payable in stock or cash at the option of the Company contingent upon achieving certain financial thresholds and the continued employment of certain key individuals of CouponFollow.

On September 6, 2023, the Company restructured the CouponFollow Incentive Plan and issued a Senior Unsecured Promissory note (the "Promissory Note") of $5,156 to the seller and current employee of the Company (the "Lender"), to settle the Holdback Amount which was due to the Lender. The Promissory Note amount equaled the Holdback Amount due to the Lender after consideration of the holdback adjustment amount noted in the next sentence. The remainder of the Holdback Amount, after adjustment for post-closing purchase price adjustments of $158 due to other sellers was settled in cash at its due date. Refer to Note 13—*RELATED-PARTY TRANSACTIONS* and Note 14—*STOCK-BASED COMPENSATION* for additional information regarding impact of the Promissory Note and CouponFollow Incentive Plan.

This acquisition leverages CouponFollow’s reputation, software and large organic traffic to vertically integrate with the Company’s RAMP platform and generate paid traffic for shopping-related products. The results of

CouponFollow’s operations from the date of acquisition have been included in the Company’s condensed consolidated financial statements. The operating results of CouponFollow are reported within the Owned and Operated Advertising segment.

The total purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values on the acquisition date.

The purchase consideration was allocated to the following assets and liabilities:

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

		Amount
Cash and cash equivalents	$	21,232
Accounts receivable		5,860
Other current assets		446
Accounts payable		(116)
Accrued expenses and other current liabilities		(118)
Income tax payable		(197)
Deferred tax liabilities		(10,895)
Trademark - 10 years weighted average useful life		38,100
Software - 4 years weighted average useful life		4,100
Goodwill		42,175
Net assets acquired	$	100,587
Consideration:		
Cash	$	75,087
Equity		25,500
Total consideration	$	100,587

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations as well as the value of the workforce. The goodwill is not deductible for tax purposes. The Company incurred $813 in transaction costs related to the acquisition.

Trademark – The Company valued the trademark using the relief-from-royalty method under the income approach. Key assumptions include forecasted revenue, an estimated royalty rate applicable to the trademarks and a discount rate.

Software – Acquired software technology was valued using the excess-earnings method utilizing company-specific inputs.Key assumptions include forecasted revenue, an estimated royalty rate applicable to the software and a discount rate.

RoadWarrior, LLC

On February 9, 2022, the Company acquired the assets of RoadWarrior, LLC ("RoadWarrior") for total cash consideration of $19,636. The acquisition of RoadWarrior constitutes a business combination under ASC 805. The acquisition expands the Company's Mapquest.com website technology, and provides additional functionality for customers centered around route planning for delivery drivers and teams. The results of RoadWarrior's operations as of and after the date of acquisition have been included in the Company's condensed consolidated financial statements. The operating results of RoadWarrior are reported within the Owned and Operated Advertising segment prospectively from the date of acquisition.

The total purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values on the acquisition date.

The purchase consideration was allocated to the following assets and liabilities:

		Amount
Working capital	$	155
Trademark - 10 years weighted average useful life		2,200
Software - 4 years weighted average useful life		1,000
Customer relationships - 3 years weighted average useful life		1,300
Goodwill		14,981
Net assets acquired	$	19,636
Total consideration		
Cash	$	19,636

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations as well as the value of the workforce. The goodwill is deductible for tax purposes over 15 years. The Company incurred $308 in transaction costs related to the acquisition.

Trademark – The Company valued the trademark using the relief-from-royalty method under the income approach. Key assumptions include forecasted revenue, an estimated royalty rate applicable to the trademarks and a discount rate.

Software – Acquired software technology was valued using the excess-earnings method utilizing company-specific inputs.Key assumptions include forecasted revenue, an estimated royalty rate applicable to the software and a discount rate.

Customer relationships – The Company valued customer relationships using an excess-earnings method utilizing distributor inputs. Key assumptions include customer attrition rate, revenue growth rate, existing customer revenue, deferred revenue, and a discount rate.

5. GOODWILL, INTERNAL-USE SOFTWARE DEVELOPMENT COSTS, NET, AND INTANGIBLE ASSETS, NET

Goodwill

Goodwill was $82,407 as of September 30, 2023 and December 31, 2022, all attributable to the Partner Network reportable segment.

During the nine months ended September 30, 2023, the Company determined that there were no triggering events attributed to the Partner Network reporting unit and accordingly no quantitative assessment for impairment was required.

Refer to Note 15—*DISCONTINUED OPERATIONS* for determination of goodwill impairment charges during the nine months ended September 30, 2023, associated with the Protected assets and liabilities held for sale.

Internal-use software development costs and other intangible assets

Internal-use internal-use software development costs and intangible assets net consisted of the following: were as follows(in thousands):

	September 30, 2023 (Successor)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Total internal-use software development costs	$ 12,966	$ (1,632)	$ 11,334
Intangible assets, net:			
Trademarks and trade names	$ 236,053	$ (39,150)	$ 196,903
Developed technology	196,128	(82,096)	114,032
Software	5,100	(2,022)	3,078
Customer relationships	2,900	(1,247)	1,653
Total intangible assets, net	$ 440,181	$ (124,515)	$ 315,666

	December 31, 2022 (Successor)

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Total internal-use software development costs	$ 7,206	$ (258)	$ 6,948
Intangible assets, net:			
Trademarks and trade names	$ 236,053	$ (21,450)	$ 214,603
Developed technology	196,128	(45,322)	150,806
Software	5,100	(1,066)	4,034
Customer relationships	2,900	(682)	2,218
Total intangible assets, net	$ 440,181	$ (68,520)	$ 371,661

The internal-use software development costs include capitalized costs not ready for its internal use of $5,085 and $4,955 as of September 30, 2023 (Successor) and December 31, 2022 (Successor), respectively.

Amortization expense associated with the Company's intangible assets and internal-use software development costs was as follows:

		Successor				Predecessor
		Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
	Three Months Ended March 31, 2024		Three Months Ended March 31, 2024		2023	
Amortization expense for internal-use software development	Amortization expense for internal-use software development	$ 716	$ 90	$ 2,112	$ 233	$ 355
Amortization expense for intangible assets	Amortization expense for intangible assets	$ 18,665	$ 18,660	$ 55,995	$ 49,818	$ 629

No impairment of internal-use software development cost or intangible assets was identified for any of the periods presented.

As of March 31, 2024, the weighted average amortization period for all intangible assets was 7 years.

6. 4. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following items as of the periods presented(in thousands):

	March 31, 2024	December 31, 2023
Accrued revenue share	$ 17,905	$ 16,365
Accrued marketing expenses	15,073	19,737
Accrued payroll and related benefits	8,205	13,751
Accrued professional fees	2,611	1,455
Deferred revenue	1,693	1,757
Accrued tax liability	1,352	1,233
Other liabilities	5,512	5,016
Accrued expenses and other current liabilities	$ 52,351	$ 59,314

19 5. Debt, Net

We entered into a term loan ("Term Loan") and revolving facility ("2022 Revolving Facility") with Bank of America, N.A., on January 27, 2022, providing for a 5.5 year term loan with a principal balance of $400.0 million and with the net proceeds of $376.0 million. The 2022 Revolving Facility provided for borrowing availability of up

to $50.0 million. As of sharesMarch 31, 2024, there was no balance outstanding on the 2022 Revolving Facility and number principal of units $296.3 million was outstanding on the Term Loan. Through December 31, 2025, the outstanding Term Loan is subject to quarterly amortization payments of $5.0 million. From March 31, 2026, the Term Loan is subject to quarterly amortization payments of $7.5 million. The Term Loan matures in thousands, except for per share or per unit amounts) 2027.

For every interest period, the interest rate on the Term Loan is the adjusted Secured Overnight Financing Rate ("SOFR") plus 4.75%. The Term Loan is amortized in quarterly installments on each scheduled payment date. The Term Loan comes with a leverage covenant, which goes into effect only if the utilization on the 2022 Revolving Facility exceeds 35% of the $50.0 million 2022 Revolving Facility at each quarter-end starting the second quarter 2022, such that the first lien leverage ratio (as defined in the credit agreement) should not exceed 5.40. The facility has certain financial and nonfinancial covenants, including a leverage ratio. The facility also requires that we deliver our audited consolidated financial statements to our lender within 120 days of our fiscal year end, December 31. Should we fail to distribute the financial statements to our lender within 120 days, we are allowed an additional 30 days to cure. We were in compliance with our financial covenants as of March 31, 2024.

	Successor	
	September 30, 2023	**December 31, 2022**
Accrued revenue share	$ 21,716	$ 16,921
Accrued marketing expenses	17,777	35,311
Accrued payroll and related benefits	10,859	12,863
Accrued professional fees	2,465	2,706
Deferred revenue	2,076	1,553
Accrued tax liability	813	1,092
Holdback liability	—	6,885
Other liabilities	10,145	7,659
Accrued expenses and other current liabilities	$ 65,851	$ 84,990

On January 17, 2024, we completed the repurchase of $63.7 million in principal amount of our Term Loan for an aggregate purchase price of $40.9 million (at discount of 64.2% of its par value) pursuant to a Dutch auction tender offer. Following the repurchase, the outstanding principal amount of the Term Loan was $301.3 million. We used available cash on hand to fund the repurchase. Our gain on the repurchase was $19.7 million before fees and expenses incurred.

The interest rate on the 2022 Revolving Facility is the adjusted SOFR plus 2.5% with an adjusted SOFR floor of 0%. As of March 31, 2024 we had $50.0 million available on the 2022 Revolving Facility.

The carrying values of our debt, net of discounts, deferred financing and debt issuance costs were as follows (in thousands):

	March 31, 2024	**December 31, 2023**
Term Loan[1,2]	$ 284,787	$ 349,503
Total Debt, net	$ 284,787	$ 349,503

1 Includes unamortized discount of $11.5 million and $14.7 million, and unamortized loan fees of $0.6 million and $0.8 million, as of March 31, 2024, and December 31, 2023, respectively, recorded as a reduction of the carrying amount of the debt and amortized to interest expense using the effective interest method.

2 Estimated fair value of the Term Loan was $180.7 million and $222.7 million as of March 31, 2024 and December 31, 2023, respectively.

7. 6. INCOME TAXES Income Taxes

The Company is We are the sole managing member of S1 Holdco, LLC ("S1 Holdco") and, as a result, consolidates consolidate the financial results of S1 Holdco. S1 Holdco is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, S1 Holdco is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by S1 Holdco is passed through to and included in the taxable income or loss of its members, including the Company, us, on a pro rata basis. The Company is We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income or loss of S1 Holdco, as well as any stand-alone income or loss generated by the Company. us.

We recorded an immaterial benefit for income taxes for the three months ended March 31, 2024 and a benefit from income taxes of $3.8 million for the three months ended March 31, 2023. The following table presents effective tax rate for the Company's Income tax benefit three months ended March 31, 2024 and the effective income tax rate:

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

	Successor				Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Income tax benefit	$ (920)	$ (69,796)	$ (10,626)	$ (84,341)	$ (629)
Effective tax rate	3 %	19 %	11 %	19 %	2 %

2023 was 0.4% and 11.2%, respectively. The provision for income taxes differs from the amount of income tax computed by applying the U.S. statutory federal tax rate of 21% to the loss before income taxes due to the exclusion of non-controlling loss, effects of predecessor flow through income allocations, state taxes, foreign rate differential, non-deductible

expenses, increase to the valuation allowance related to unrealizable deferred tax assets, and outside basis adjustments, and Global Intangible Low-taxed Income. adjustments. As of September 30, 2023March 31, 2024, the Company we had a full valuation allowance on its our U.S. federal and state net deferred tax assets as it was more likely than not that those deferred tax assets would not be realized.

During the ninethree months ended September 30, 2023 (Successor) March 31, 2024, and the periods from January 1, 2022 through January 26, 2022 (Predecessor), and from January 27, 2022 through September 30, 2022 (Successor)2023, inclusive of interest, no payments were made to the parties to the Tax Receivable Agreement. The total amount of Tax Receivable Agreement Payments due under the Tax Receivable Agreement was $1,477 $0.9 million and $1,036 $0.8 million as of September 30, 2023March 31, 2024 and December 31, 2022December 31, 2023, respectively.

8. 7. COMMITMENTS AND CONTINGENCIES Commitments and Contingencies

In June 2023, S1 Holdco we entered into a multi-year agreement with a web services service provider whereby the Company is we are contractually obligated to spend $5,000 $5.0 million in each annual period between July 2023 and June 2026. As of September 30, 2023 (Successor) March 31, 2024, the Company remains contrac wetually remain contractually obligated to spend $13,118$10.0 million towards this commitment.

As of September 30, 2023 March 31, 2024, the Company we had various non-cancelable operating lease commitments for office space which have been recorded as Operating lease liabilities.

Litigation

The Company is We are subject to various legal proceedings and claims that arise in the ordinary course of business. The Company believes We believe the ultimate liability, if any, with respect to these actions will not materially affect the consolidated financial position, results of operations, or cash flows reflected in the condensed consolidated financial statements. There can be no assurance, however, that the ultimate resolution of such actions will not materially or adversely affect the Company's condensed our consolidated financial position, results of operations, or cash flows. The Company accrues We accrued for losses when the loss is deemed probable and the liability can reasonably be estimated.

In July 2021, System1 OpCo, LLC ("System1 OpCo", f/k/a System1, LLC) received initial correspondence from counsel for a United Kingdom-based marketing research company and its United States subsidiary (collectively, the "Demanding Group") alleging trademark infringement (i) based on its use of the "SYSTEM1" trade name and mark in the United States, and (ii) subsequently based on its use of the "SYSTEM1" trade name and mark in the United Kingdom. The correspondence demanded that System1 OpCo cease and desist from using the "SYSTEM1" name and mark, and even though the Company received similar correspondence from the Demanding Group regarding its alleged infringing use of the SYSTEM1 trade name and mark in the United Kingdom, no lawsuit was ever filed in the United Kingdom. In September 2021, the Demanding Group filed a lawsuit in the United States District Court for the Southern District of New York (the "Infringement Suit"), alleging (i) trademark infringement, (ii) false designation of origin, (iii) unfair competition and (iv) certain violations of New York business laws, seeking, among other things, an injunction, disgorgement of profits, actual damages and attorneys' fees and costs. The Company believes that the Demanding Group's infringement and other allegations and claims set forth in the Infringement Suit would have been subject to a laches defense, among other defenses. The parties entered into a Co-Existence and Settlement Agreement in June 2023 in which the parties have agreed to co-exist with their current usage of the "System1" mark in their respective business operations with certain requirements and other conditions, and includes the payment of a fixed amount to the Demanding Party over the course of seventeen (17) months (the “Settlement Agreement”). Pursuant to the Settlement Agreement, the Infringement Suit has been dismissed with prejudice. The amount accrued as of September 30, 2023 for the loss is consistent with the terms of the Settlement Agreement and is considered immaterial.

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

In March 2023, the Company received a demand letter from counsel for Alta Partners, LLC (“Alta”), which purports to be a holder of certain Public Warrants of the Company (“Demand Letter”). The Demand Letter alleges, among other claims, that the Company breached the terms of the Warrant Agreement, and that Alta is entitled to approximately $5,700 in damages, plus prejudgment interest, as a result. In April 2023, counsel for the Company responded to the Demand Letter, denying that any breach occurred or that Alta is entitled to any damages. In June 2023, counsel for Alta sent the Company a draft complaint (the “Complaint”) alleging substantially the same claims as those set forth in Alta’s Demand Letter. While the Company continues to deny liability with respect to the claims set forth in the Demand Letter and the Complaint, the parties entered into a Confidential Settlement Agreement ("Settlement Agreement") in October 2023 and agreed to an immaterial settlement payment. The amount accrued as of September 30, 2023 for the loss is consistent with the terms of the Confidential Settlement Agreement and is considered immaterial.

In October 2023, a putative California class action complaint (the “Complaint”) was filed against the Company us and its Total Security our Protected business regarding alleged violations of California’s Auto Renewal Law requirements related to the marketing and sale of its subscription service offerings for anti-virus and ad-blocking software (the “TS “Protected Software”) to consumers. The Complaint alleges claims under California’s false advertising and unfair competition laws and primarily alleges that the marketing and sales checkout flows for the TS Protected Software did not clearly and

conspicuously disclose that the named plaintiffs set forth in the Complaint were purchasing the TS Protected Software for a promotional period which would auto-renew after the applicable promotional period. The Company disputes We dispute the claims alleged, and intends intend to defend itself ourselves vigorously in this matter.

9. DEBT, NET

In connection with the Merger, Orchid Merger Sub II, LLC (a subsidiary of S1 Holdco) entered into a new loan (“Term Loan”) and revolving facility (“2022 Revolving Facility”, collectively with the Term Loan, the “Credit Agreement”) with Bank of America, N.A., on January 27, 2022, providing for a 5.5 year term loan with a principal balance of $400,000 and with the net proceeds of $376,000, of which a portion of the proceeds were used by S1 Holdco to settle the outstanding debt of $172,038 with Cerberus Business Finance, LLC. The 2022 Revolving Facility provided for borrowing availability of up to $50,000. As of September 30, 2023, $50,000 was outstanding on the 2022 Revolving Facility and principal of $370,000 was outstanding on the Term Loan. Through December 31, 2025, $5,000 of the Term Loan is payable quarterly. From March 31, 2026, $7,500 of the Term Loan is payable quarterly. The Term Loan matures in 2027.

For every interest period, the interest rate on the Term Loan is the adjusted Term Secured Overnight Financing Rate (“Term SOFR”) plus 4.75%. The Term Loan is amortized in quarterly installments on each scheduled payment date. The Term Loan comes with a leverage covenant, which goes into effect only if the utilization on the 2022 Revolving Facility exceeds 35% of the $50,000 2022 Revolving Facility at each quarter-end starting from the first full quarter after the effective date of the Merger, such that the first lien leverage ratio (as defined in the credit agreement) should not exceed 5.40. The facility has certain financial and nonfinancial covenants, including a leverage ratio. The facility also requires that the Company delivers its audited consolidated financial statements to its lender within 120 days of its fiscal year end, December 31. Should the Company fail to distribute the financial statements to its lender within 120 days, it is allowed an additional 30 days to cure.

The 2022 Revolving Facility matures in January 2027, and accordingly, it is classified within long-term debt, net on the condensed consolidated balance sheet as of September 30, 2023. The interest rate on the 2022 Revolving Facility is the adjusted Term SOFR plus 2.5% with an adjusted Term SOFR floor of 0%. In March 2022, the Company borrowed $49,000 under its 2022 Revolving Facility, to fund a portion of the purchase price related to its CouponFollow acquisition. In October 2022, the Company borrowed the remaining $1,000 available.

The carrying values of the Company's debt, net of discounts, deferred financing and debt issuance costs were as follows:

	Successor	
	September 30, 2023	December 31, 2022
Term Loan[1,2]	$ 353,273	$ 364,525
2022 Revolving Facility	50,000	50,000
Total Debt, net	$ 403,273	$ 414,525

[1] Includes loan fees of $996 and $1,061, as of September 30, 2023, and December 31, 2022, respectively, recorded as a reduction of the carrying amount of the debt and amortized to interest expense using the effective interest method.

[2] Estimated fair value of the Term Loan was $308,950 as of September 30, 2023.

As of the date of this filing, the Company was in compliance with all debt covenants. Indemnifications

Refer In the ordinary course of business, we may provide indemnifications of varying scope and terms to Note 13 customers, vendors, lessors, investors, directors, officers, employees, and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements, services to be provided by us, or from intellectual property infringement claims made by third parties. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future payments we could be required to make under these indemnification provisions may not be subject to claims related to these indemnifications. As a result, we believe the estimated fair value of these agreements was immaterial. Accordingly, we have no liabilities recorded for these agreements as of March 31, 2024—RELATED-PARTY TRANSACTIONS for additional information regarding the Company's indebtedness. .

10. 8. FAIR VALUE MEASUREMENT Fair Value Measurement

Financial Liabilities Measured at Fair Value on a Recurring Basis

22The following tables present our fair value hierarchy for liabilities measured at fair value on a recurring basis (in thousands):

System1, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

	March 31, 2024	December 31, 2023
	Level 1	
Public Warrants	$ 2,438	$ 2,688

The following tables present the Company's fair value hierarchy for liabilities measured at fair value on a recurring basis:

	Successor	
	September 30, 2023	December 31, 2022
	Level 1	Level 1
Public warrants	$ 925	$ 7,798

The fair value of the Public Warrants was has been estimated using the Public Warrants' quoted market price.

Changes in estimated fair value of financial liabilities were as follows:

	Former CEO equity profits interest	Contingent consideration
	Level 3	Level 3
Fair value of liabilities at December 31, 2021 (Predecessor) and January 26, 2022 (Predecessor)	$ 11,132	$ 1,682

	Public Warrant liability	Private Warrant liability	Contingent consideration
	Level 1	Level 2	Level 3
Fair value of liabilities at January 27, 2022 (Successor)	$ 18,285	$ 8,727	$ 1,682
Additions	—	—	28
Settlements	(1,147)	(21,818)	(1,715)
Change in fair value	1,020	13,091	5
Fair value of liabilities at September 30, 2022 (Successor)	$ 18,158	$ —	$ —

	Public Warrant liability
	Level 1
Fair value of liabilities at December 31, 2022 (Successor)	$ 7,798
Change in fair value	(6,873)
Fair value of liabilities at September 30, 2023 (Successor)	$ 925

There were no transfers in or out of levels during the nine months ended September 30, 2023 (Successor), periods presented.

Nonfinancial Assets Measured at Fair Value on a Nonrecurring Basis

For further information on the period January 1, 2022 through January 26, 2022 (Predecessor), fair value assessment of goodwill refer to Note 3, Goodwill, Internal-Use Software Development Costs, Net, and the period January 27, 2022 through September 30, 2022 (Successor). Intangible Assets, Net.

11. 9. NET LOSS PER SHARE OR UNIT Net Loss Per Share

For the three and nine months ended September 30, 2023 (Successor), the three months ended September 30, 2022 (Successor), and the period from January 27, 2022 through September 30, 2022 (Successor), the basic Basic net loss per share was calculated by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding. For the period from January 1, 2022 through January 26, 2022 (Predecessor), the basic Basic and diluted net loss per unit attributable to members share was calculated by dividing as follows (in thousands, except per share):

	Three Months Ended March 31,	
	2024	**2023**
Basic and diluted net loss per share		
Net loss from continuing operations attributable to System1, Inc.	$ (0.16)	$ (0.25)
Net loss from discontinued operations, net of tax attributable to System1, Inc.	—	(0.11)
Basic and Diluted net loss per share	$ (0.16)	$ (0.36)
Numerator:		
Net loss from continuing operations attributable to System1, Inc.	$ (10,537)	$ (23,636)
Net loss from discontinued operations, net of tax attributable to System1, Inc.	—	(10,166)
Net loss attributable to System1, Inc.	$ (10,537)	$ (33,802)
Denominator:		
Weighted-average common shares outstanding used in computing basic and diluted net loss per share	67,781	92,771

For the periods presented in the table above, a total of 16.8 million Public Warrants were excluded from the computation of net loss per share as the impact was anti-dilutive.

Pursuant to the Merger, we were required to replace certain profits interests awards, the value creation units and Class F units, with a combination of a restricted stock unit in our shares and a cash award (collectively, "Replacement Awards"). We do not consider unvested Class A common stock related to the Replacement Awards as outstanding for accounting purposes as they are subject to continued service requirements or contingencies. These shares are not included in the denominator of the net loss attributable per share calculation until the employee provides the requisite service resulting in the vesting of the award or the contingency is removed, or upon termination of an employee at which point the common stock underlying the award becomes issuable to common the previous investors. Shares associated with the vested or forfeited Replacement Awards are deemed to be issued and outstanding for accounting purposes on the day of vest or forfeiture.

23 10. Segment Reporting

equity holders We have two operating segments and reportable segments: Owned and Operated Advertising and Partner Network. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the weighted-average number Chief Operating Decision Maker ("CODM"), in deciding how to allocate resources and assess performance. Our Chief Executive Officer, who is considered to be our CODM, reviews financial information presented on an operating segment basis for purposes of membership units outstanding. Basic making operating decisions and diluted assessing financial performance.

The CODM measures and evaluates reportable segments based on segment operating revenue as well as adjusted gross profit. The tables below include the following operating expenses that are not allocated to the reporting segments presented to our CODM: depreciation and amortization of property, equipment and leasehold improvements, amortization of intangible assets and, at times, certain other transactions or adjustments. The CODM does not consider these expenses for the purposes of making decisions to allocate resources among segments or to assess segment performance, however these costs are included in reported condensed consolidated net loss per share was calculated as follows:

	Successor				Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Basic and diluted net loss per share:					

Net loss from continuing operations attributable to System1, Inc.	$ (0.21)	$ (2.53)	$ (0.73)	$ (3.11)	n/a
Net loss from discontinued operations, net of tax attributable to System1, Inc.	(1.19)	(0.13)	(1.42)	(0.32)	n/a
Basic and Diluted Net loss per share	$ (1.40)	$ (2.66)	$ (2.15)	$ (3.43)	n/a
Numerator:					
Net loss from continuing operations attributable to System1, Inc.	$ (19,790)	$ (230,353)	$ (67,864)	$ (274,736)	n/a
Net loss from discontinued operations, net of tax attributable to System1, Inc.	(111,643)	(11,344)	(132,750)	(28,767)	n/a
Net loss attributable to System1, Inc.	$ (131,433)	$ (241,697)	$ (200,614)	$ (303,503)	n/a
Denominator:					
Weighted-average common shares outstanding used in computing basic and diluted net loss per share	93,941	91,002	93,281	88,397	n/a
Basic and diluted net loss per unit	n/a	n/a	n/a	n/a	$ (1.81)
Numerator:					
Net loss	n/a	n/a	n/a	n/a	$ (37,061)
Denominator:					
Weighted-average membership units outstanding - basic and diluted	n/a	n/a	n/a	n/a	20,488

Shares of Class C common stock outstanding for the three and nine months ended September 30, 2023 (Successor), the three months ended September 30, 2022 (Successor), and the period from January 27, 2022 through September 30, 2022 (Successor) are considered potentially dilutive of the shares of Class A common stock under the application of the if-converted method, continuing operations before income tax and are included in the computation of diluted loss per share, except when the effect would be anti-dilutive. For the three and nine months ended September 30, 2023 (Successor) and the three months ended September 30, 2022 and the period from January 27, 2022 through September 30, 2022 (Successor), 21,513 and 21,747 shares of Class C common stock were excluded from the computation of net loss per share, respectively. Net loss per share for all periods presented excludes Public Warrants as their effect was anti-dilutive.

12. SEGMENT REPORTING reconciliation that follows.

The Company has two reportable segments:

- Owned and Operated Advertising — revenue earned by directly acquiring traffic to the Company's owned and operated websites and utilizing the RAMP platform and related services to connect Advertising Partners to the Company's owned and operated websites; and
- Partner Network — revenue earned from revenue-sharing arrangements with Network Partners for the use of the RAMP platform, and related services provided to them to direct advertising by the Advertising Partners to their advertising space.

The following table summarizes revenue by the Company's reportable segments: segments(in thousands):

	Three Months Ended March 31,	
	2024	2023
Owned and Operated Advertising	$ 69,030	$ 106,025
Partner Network	15,887	15,093
Total revenue	$ 84,917	$ 121,118

24 The following table summarizes adjusted gross profit by reportable segments (in thousands):

	Three Months Ended March 31,	
	2024	2023
Owned and Operated Advertising	$ 22,462	$ 29,839
Partner Network	10,919	10,217
Adjusted gross profit	33,381	40,056
Other cost of revenue	2,162	1,891
Salaries and benefits	24,483	28,147
Selling, general, and administrative	12,728	14,855
Depreciation and amortization	19,804	19,392
Interest expense, net	7,970	11,402
Gain from debt extinguishment	(19,676)	—

Change in fair value of warrant liabilities	(251)	(1,409)
Loss before income tax	$ (13,839)	$ (34,222)

The following table summarizes revenue by geographic region(in thousands):

	Three Months Ended March 31,	
	2024	2023
United States	$ 81,682	$ 117,199
Other countries	3,235	3,919
Total revenue	$ 84,917	$ 121,118

11. Stock-Based Compensation

System1, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

	Successor				Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Owned and Operated Advertising	$ 66,187	$ 143,600	$ 249,512	$ 428,436	$ 49,249
Partner Network	21,631	13,295	56,339	43,722	3,463
Total revenue	$ 87,818	$ 156,895	$ 305,851	$ 472,158	$ 52,712

TheWe recorded the following table summarizes adjusted gross profit by the Company's reportable segments:

	Successor				Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Owned and Operated Advertising	$ 23,886	$ 37,261	$ 81,314	$ 103,478	$ 8,768
Partner Network	15,312	10,301	40,337	32,622	3,012
Adjusted gross profit	$ 39,198	47,562	121,651	$ 136,100	$ 11,780
Other cost of revenue	1,965	1,884	5,995	5,635	575
Salaries and benefits	26,689	30,270	82,484	106,340	31,181
Selling, general and administrative	11,808	11,572	42,004	36,962	15,665
Depreciation and amortization	19,584	18,923	58,666	50,369	1,000
Impairment of goodwill	—	340,109	—	340,109	—
Interest expense, net	13,053	9,733	36,789	21,987	1,049
Loss on restructure of related-party debt	619	—	619	—	—
Change in fair value of warrant liabilities	(7,482)	4,489	(6,873)	14,111	—
Net loss before income tax	$ (27,038)	$ (369,418)	$ (98,033)	$ (439,413)	$ (37,690)

The following table summarizes revenue by geographic region:

	Successor				Predecessor
Geographic Region	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
United States	$ 81,512	$ 156,726	$ 292,122	$ 459,206	$ 51,701

Other countries	6,306	169	13,729	12,952	1,011
Total revenue	$ 87,818	$ 156,895	$ 305,851	$ 472,158	$ 52,712

The following table summarizes property and equipment, net and operating leases by applicable reportable segment:

	Successor	
	September 30, 2023	December 31, 2022
Owned and Operated Advertising	$ 8,392	$ 9,646

13. total stock-based compensation expense RELATED-PARTY TRANSACTIONS (in thousands):

2023 Revolving Note

On April 10, 2023, Orchid Merger Sub II, LLC ("Orchid Sub"), a wholly-owned subsidiary of the Company, entered into a $20,000 Revolving Note (the “2023 Revolving Note”) with Lone Star Friends Trust (acting by and through its trustee, Stanley Blend, “Lone Star”) and CEE Holding Trust (acting by and through its trustee, Jackson Hole Trust Company, “CEE”, and together with Lone Star, collectively, the “Lenders” and each, a “Lender”), which are trusts established for the benefit of Michael Blend (Chief Executive Officer, co-founder and stockholder) and Charles Ursini (co-founder and stockholder), respectively, in a private transaction approved by the independent and noninterested members of the Company’s Board of Directors (the “Board”). Each Lender provided a $10,000 commitment for an aggregate principal of $20,000 under the 2023 Revolving Note to Orchid Sub on a several but not joint basis (each, a “Commitment” and, collectively, the “Commitments”).

Any borrowed loan amounts outstanding under the 2023 Revolving Note accrue interest at the rate per annum equal to the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York plus 3.15%. Orchid Sub may borrow amounts under the 2023 Revolving Note in increments of $100, and may prepay any amounts borrowed at any time without penalty or interest (other than applicable breakage costs, if any). The Company may borrow up to its commitment amount, and may reuse the loan again after the balance has been paid down. The maturity date under the 2023 Revolving Note is July 10, 2024 (the "Maturity Date") with automatic three-month extensions, unless we or any Lender provides written notice, unless there is an event of default, including a continuing event of default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Lenders are also entitled to (i) an unused commitment fee equal to 1.0% per annum of the actual daily amount of total unfunded commitments under the 2023 Revolving Note during the period from the closing date to the maturity date, payable quarterly in arrears and (ii) a loan fee equal to 12.0% of each Lender's commitment under the 2023 Revolving Note, or $2,400 in total, was originally payable within 180 days of April 10, 2023, which was extended to October 31, 2023, and subsequently extended to November 30, 2023. Further, this loan fee was capitalized in Prepaid and other current assets and will be amortized on a straight-line basis through the Maturity Date. As of the date these condensed consolidated financial statements were issued, the Company had no remaining available capacity under the 2023 Revolving Note.

Promissory Note

On September 6, 2023, System1 OpCo entered into a $5,156 Senior Unsecured Promissory Note (the “Promissory Note”) with the Lender, in order to convert the Holdback Amount owed to him as a result of the acquisition of CouponFollow described in Note 4—*ACQUISITIONS* into a loan to the Company (the “Loan”). The amount of the Loan was equal to the amount of the Holdback liability of $5,156 owed to the Lender.

The Loan outstanding under the Promissory Note accrues interest at the rate per annum equal to the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York plus 3.15%. The Company (i) must prepay the Loan under certain circumstances, which include consummation of a Strategic Transaction, the refinancing of the Existing Credit Agreement, the incurrence by the Company of any indebtedness exceeding $2,500, or the sale of any of the Company’s assets in excess of $2,500; (ii) may prepay the Loan at any time without penalty or interest; and (iii) must make four (4) substantially equal amortization payments on April 1, 2024, May 1, 2024, June 1, 2024, and July 1, 2024, unless there is an event of default, including a continuing event of default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Company is currently in the process of selling its Protected business. Upon the closing of any sale of this business, the Promissory Note and accrued interest will become due and payable immediately. The Lender under the Promissory Note is also entitled to a closing fee equal to 12% of the initial principal amount outstanding under the Promissory Note with 50% paid on October 15, 2023 and the remaining 50% due on December 15, 2023. As of September 30, 2023, principal of $5,156 was outstanding on the Loan. The Company recorded expense of approximately $619 within Loss on restructure of related-party debt which related to the 12% closing fee payable to the Lender.

Term Note

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

On October 6, 2023, Orchid Merger Sub II, LLC (“Orchid Sub”), a wholly-owned subsidiary of System1, Inc., entered into a $2,500 Term Loan Note (the “Term Note”) with Openmail2, LLC, a Delaware limited liability company (“OM2” or the “Term Lender”), which is principally owned and managed by trusts established for the benefit of the Company’s co-founders, Michael Blend and Charles Ursini, in a private transaction approved by the independent and non-interested members of the Company’s Board of Directors (the “Board”). Pursuant to the Term Note, the Term Lender provided a fixed $2,500 term loan to Orchid Sub.

The amounts outstanding under the Term Note accrue interest at the rate per annum equal to the Secured Overnight Financing Rate (“SOFR”) as administered by the Federal Reserve Bank of New York plus 5.75%. The maturity date under the Term Note is December 31, 2024, unless there is an event of default, including a continuing event of default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Company must prepay the Loan under certain circumstances, which include (i) the consummation of a strategic transaction or (ii) upon the full refinancing and termination of the Existing Credit Agreement. The Lender is also entitled to a closing fee equal to 10.0% the principal amount of the Term Note, payable within 180 days of October 6, 2023. In addition, Orchid Sub agreed to reimburse the Lender for its reasonable and documented costs expenses incurred in connection with the negotiation, documentation and execution of the Term Note.

Secured Facility

On October 6, 2023, Total Security, an indirect wholly-owned subsidiary of the Company, entered into a Secured Facility Agreement providing for a $10,000 term loan (the “Secured Facility”) with Onyx Asset Finance Limited, a company organized under the laws of England & Wales (“Onyx” or the “Secured Lender”) and a subsidiary of JDI, one of the Company’s significant shareholders, in a private transaction approved by the independent and non-interested members of the Company’s Board. Pursuant to the Secured Facility, the Secured Lender provided a $10,000 commitment to Protected (the “Secured Commitment”), which amount was (i) drawn down in full on the closing date and (ii) secured by the assets of Protected pursuant to a deed granted in favor of the Secured Lender pursuant to a Debenture between Protected and the Secured Lender, dated October 6, 2023.

The amounts outstanding under the Secured Facility accrue interest at the rate of 8.5% per annum. The amounts outstanding under the Secured Facility are due upon the earlier of (i) October 6, 2024 or (ii) the date on which Protected undergoes a Change of Control (as such term is defined in the Secured Facility), unless there is an event of default, including a continuing event of default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Secured Lender was also entitled to a closing fee equal to 12.0% the principal amount of the borrowings under the Secured Facility, which was paid in full on the closing date. In addition, Total Security agreed to reimburse the Secured Lender for its reasonable and documented costs expenses incurred in connection with the negotiation, documentation and execution of the Secured Facility.

Upon a sale of Protected to JDI, System1 has agreed to reduce the purchase consideration by the amount of the Onyx debt balance on the date of close, as the funds received from this loan were provided to System1.

Cannae Services Agreement

On June 20, 2023, the Company engaged Cannae Holdings, LLC (a wholly owned subsidiary of Cannae Holdings, Inc.), a greater than 5% holder of the Company's Class A Common Stock, to provide certain observations and recommendationsrelating to the accounting and finance functions of the Company. Fees for the services include an initial retainer of $100 and $25 monthly during the term of the engagement. The initial retainer of $100 was paid during the three months ended September 30, 2023. Either party may terminate the agreement with or without cause provided adequate written notice. On August 1, 2023, the agreement was terminated, with an effective termination date of August 11, 2023.

14. STOCK-BASED COMPENSATION

The Company recorded the following stock-based compensation expense for the periods presented:

					Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022

(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

Stock-based compensation expense	$ 5,261	$ 7,817	$ 15,190	$ 46,547	$ 23,705

	Three Months Ended March 31,	
	2024	2023
Stock-based compensation expense	$ 3,970	$ 5,832

CouponFollow Incentive Plan

In connection with the acquisition As of CouponFollow described in Note 4—ACQUISITIONS March 31, 2024, which was consummated on March 4, 2022, the Company approved and adopted the CouponFollow Incentive Plan, which includes CouponFollow's key employees, including CouponFollow's founder ("Principal Participant" and together collectively the "Participants"). The CouponFollow Incentive Plan at the time of acquisition provided for total payments of $35,000 payable at the Company's option in cash or in fully-vested shares of the Company's Class A common stock, consisting of a fixed amount of $10,000 and contingent amounts of $25,000, which could be earned over a three calendar year period between each January 1 to December 31 of 2022, 2023 and 2024 (each a performance period).

On September 6, 2023, in connection with entering into the Promissory Note (Refer to Note 13—RELATED-PARTY TRANSACTIONS for additional information), the parties made certain modifications to the CouponFollow Incentive Plan created in connection with closing the transactions contemplated by the Merger Agreement. Such modifications include (i) the lowering of the contingent earnout payout amounts from $25,000 to $21,250, (ii) the lowering of contingent earnout tier targets to the amounts noted below, (iii) the increase of the contingent earnout performance period by one year, and (iv) adding the requirement for the payment of the third fixed earnout amount to be in cash.

The restructured CouponFollow Incentive Plan provides for total payments of $31,250 payable at the Company's option in cash or in fully-vested shares of the Company's Class A common stock (unless otherwise noted), consisting of a fixed amount of $10,000 and contingent amounts of $21,250, which can now be earned over a three calendar year period between each January 1 to December 31 of 2023, 2024 and 2025 (each a "Performance Period" and collectively, the "Performance Periods"). In order to receive any payments under the CouponFollow Incentive Plan, the Participants must maintain continuous employment through the last day of each Performance Period to be eligible for the following earnout payment amounts (with the exception of the Principal Participant who is still eligible if terminated without cause or if he terminates his employment for good reason) in the amounts and at the times set forth below:

- Fixed Amount. Over the course of the original performance periods January 1 to December 31 of 2022, 2023 and 2024, the Company shall pay to each of the employed eligible Participants a total of $10,000 (the "Fixed Amount") in three substantially equal pro rata installment payments (as set forth in each Participant's applicable award agreement) within 60 days of the end of each performance period. The first two payments are to be settled at the Company's option in cash or in fully-vested shares of the Company's Class A common stock. The third payment is required to be settled in cash.

- Tier 1 Target. If, during any of the Performance Periods, the CouponFollow business achieves the first tier TTM EBITDA (as defined in the CouponFollow Incentive Plan) for the first time (the "Tier 1 Target"), the Company will pay a total of $8,500 (the "Tier 1 Amount") in substantially equal pro rata amounts (as set forth in each Participant's applicable award agreement) at the times in the table set forth below.

- Tier 2 Target. If, during any of the Performance Periods, the CouponFollow business achieves the second tier TTM EBITDA for the first time (the "Tier 2 Target"), the Company will pay an additional $6,375 (the "Tier 2 Amount") in substantially equal pro rata amounts (as set forth in each Participant's applicable award agreement) at the times in the table set forth below.

- Tier 3 Target. If, during any of the Performance Periods, the CouponFollow business achieves the third tier TTM EBITDA for the first time (the "Tier 3 Target" and together with the Tier 1 Target and Tier 2 Target, collectively the "Targets"), the Company will pay an additional $6,375 (the "Tier 3 Amount" and together with the Tier 1 Amount and the Tier 2 Amount, collectively the "Tier Amounts") in substantially equal pro rata amounts (as set forth in each Participant's applicable award agreement) at the times in the table set forth below.

Performance Period*	Fixed Amount	Tier 1 Amount**	Tier 2 Amount**	Tier 3 Amount**	Total Maximum Payment per Performance Period
Dec. 31, 2022***	$ 3,333	$ —	$ —	$ —	$ 3,333
Dec. 31, 2023	3,333	2,833	—	—	6,166
Dec. 31, 2024	3,334	2,833	3,187	—	9,354

Dec. 31, 2025	—	2,834	3,188	6,375	12,397
	$ 10,000	$ 8,500	$ 6,375	$ 6,375	$ 31,250

*Payments for each applicable Performance Period are paid within 60 calendar days of the end of the applicable Performance Period.

**If the Tier 1 Amount is not achieved in the first Performance Period but is achieved in the second Performance Period, the Tier 1 Amount for the first Performance Period shall be paid out at the end of the second Performance Period and if achieved in the third Performance Period the full amount will be paid at the end of the third Performance Period. If the Tier 2 Amount is not achieved in the second Performance Period but is achieved in the third Performance Period, the Tier 2 Amount will be paid at the end of the third Performance Period. If the Tier 2 Amount or the Tier 3 Amount is achieved in the first Performance Period, such Tier Amounts shall be paid as noted in the table above.

***$3,333 of the Fixed Amount relating to the original First Performance Period has already been earned and was paid out on March 1, 2023.

If a Participant's continued employment is terminated prior to applicable payment date(s), with the exception of the Principal Participant as discussed above, the Company will reverse all prior liabilities for their pro rata share of any Tier Amounts associated with that Participant. If the Company elects to settle the payment obligations with respect to any Tier Amount in shares of the Company's Class A common stock, the number of shares payable under the CouponFollow Incentive Plan will be determined based on the VWAP of the Company's Class A common stock.

As of September 30, 2023, the Company has we have determined that it was not probable that the CouponFollow business would achieve any of the contingent earnout targets during the Performance Periods, and accordingly, it we did not record a liability for any of the tier Tier amounts set forth in the CouponFollow Incentive Plan. During In the three and nine months quarter ended September 30, 2023 March 31, 2024 we issued 1.0 million Class A Common Stock with an aggregate fair value of $1.7 million, net of shares withheld for taxes, on the Company date of the settlement to settle the second $3.3 million Fixed Amount. We recognized $809 and $1,910, respectively, for the Fixed Amount a gain of $0.5 million, being the CouponFollow Incentive Plan within Salaries and benefits expenses on the accompanying condensed consolidated statements of operations. The amount for the nine months ended September 30, 2023 is net of a $566 difference between the fair value of the Class A common stock issued to settle the earnout liability for the First Performance Period for fiscal 2022 and the carrying value of the earnout liability.During the quarter ended March 31, 2024, we recognized $0.8 million for the third Fixed Amount within salaries and benefits expenses on the condensed consolidated statements of operations. Our March 31, 2024 short-term restricted cash included $2.8 million for which the restriction was released related to the amount we paid during the quarter ended March 31, 2024 for continued services from certain individuals of CouponFollow. The amount was released from escrow in April 2024.

On March 1, 2023, the Company settled the first Fixed Amount of $3,333 for the performance period ending December 31, 2022, in shares. The Company issued 407 shares of Class A Common stock, with an aggregate fair value of $1,658, net of shares withheld for taxes, on the date of settlement.

15. 12. DISCONTINUED OPERATIONS Discontinued Operations

Sale of Protected

On September 6, 2023 November 30, 2023, we completed the Company announced that it received a non-binding IOI sale of Protected, our subscription reporting unit. Total consideration comprised of: (a) $240.0 million in cash, subject to certain adjustments, (b) the return and subsequent cancellation of approximately 29.1 million shares of our Class A common stock, par value $0.0001 per share, owned by JDI and other entities and individuals affiliated with the Purchasing Parties and (c) confirmation from JDI, Protected and the Protected CEO that the financial performance benchmarks related to the financial benchmarks included in the Protected Incentive Plan, will, as a significant shareholder of the Company which is principally owned and managed by certain members result of the Protected management team, regarding sale, no longer be achievable.

The financial results of Protected are presented as a loss from discontinued operations, net of taxes in the possible acquisition condensed consolidated statements of operations. The following table presents the Protected business. The offer consisted summarized discontinued operations condensed consolidated statements of $240,000 operations (in thousands):

	Three Months Ended Marc
	2023
Revenue	$ 4
Operating expenses:	
Cost of revenue (excluding depreciation and amortization)	3
Salaries and benefits	1
Selling, general, and administrative	
Depreciation and amortization	
Total operating expenses	6
Operating loss	(1
Other expense, net	
Loss from discontinued operations before income taxes	(1
Income tax benefit	(
Net loss from discontinued operations	$ (1

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cash, the assumption of certain potential earnout payments in respect of Protected and the delivery of approximately 29,138 of the Company's Class A shares held by JDI and related persons.

As a result, the Company committed to a plan to sell the Protected business and began performing customary actions required to execute the sale. The Company has determined that the disposition of Protected represents a strategic shift that will have a major effect on its results of operations. The Protected business met the criteria to be reported as assets held for sale and discontinued operations as of September 30, 2023, and accordingly, all prior comparable periods have been recast to conform to the current period presentation.

Impairment of the Subscription Reporting Unit (the Protected Business)

Upon classifying the Protected Business as held for sale as of September 30, 2023, the Company performed a goodwill impairment test on the Subscription reporting unit resulting in a goodwill impairment charge of $115,483. This impairment was the result of decreases in long-term forecasts due to recent adverse customer trends and other macroeconomic outcomes. The Company recorded a further impairment loss of $3,276 upon the classification of the disposal group as held for sale, for a total impairment charge of $118,759 that was recorded in the results of discontinued operations for the three and nine months September 30, 2023. There was no tax benefit of this charge for the three and nine months ended September 30, 2023.

The following table presents the assets and liabilities classified as held for sale from discontinued operations as of September 30, 2023 and December 31, 2022:

System1, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

	Successor	
	September 30, 2023	December 31, 2022
Carrying amount of assets included as part of discontinued operations:		
Current assets:		
Cash and cash equivalents	$ 10,846	$ 15,701
Restricted cash, current	1,545	3,357
Other current assets, net[1]	475	1,234
Current assets held for sale from discontinued operations	12,866	20,292
Property and equipment, net	1,706	860
Intangible assets, net	94,825	121,025
Goodwill	317,701	433,184
Total assets held for sale from discontinued operations	$ 427,098	$ 575,361
Carrying amount of liabilities included as part of discontinued operations:		
Current liabilities:		
Protected.net incentive plan liability, current	$ 8,559	$ 15,436
Deferred revenue	80,834	68,611
Other current liabilities	27,179	17,371
Current liabilities held for sale from discontinued operations	116,572	101,418
Protected.net incentive plan liability, non-current	28,605	15,824
Deferred tax liability	9,939	15,286
Other liabilities	$ —	$ 3,366
Total liabilities held for sale from discontinued operations	$ 155,116	$ 135,894

[1] Includes a $3,276 contra asset for the estimated remaining costs to sell Protected as of September 30, 2023. Refer to the Impairment discussion above.

The financial results of Protected are presented as loss from discontinued operations, net of taxes in the unaudited condensed consolidated statements of operations. The following table presents the summarized discontinued operations unaudited condensed consolidated statements of operations:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022
Revenue	$ 54,550	$ 44,281	$ 151,610	$ 114,923
Operating expenses				
Cost of revenue (excluding depreciation and amortization)	51,373	26,463	126,047	68,929
Salaries and benefits	10,144	25,332	36,738	46,971
Selling, general, and administrative	6,796	3,847	11,507	10,292
Depreciation and amortization	8,385	13,291	26,729	35,867
Impairment of goodwill	115,483	—	115,483	—
Impairment of assets held for sale	3,276	—	3,276	—
Total operating expenses	195,457	68,933	319,780	162,059
Operating loss	(140,907)	(24,652)	(168,170)	(47,136)
Interest expense (income), net	(47)	278	10	124
Loss from discontinued operations before income taxes	(140,860)	(24,930)	(168,180)	(47,260)
Income tax benefit	(3,651)	(10,853)	(4,958)	(11,411)
Net loss from discontinued operations	$ (137,209)	$ (14,077)	$ (163,222)	$ (35,849)

The following table presents the significant non-cash items and capital expenditures for the discontinued operations with respect to the subscription business that are included in the Consolidated Statementscondensed consolidated statements of Cash Flows: cash flows (in thousands):

	Successor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022
Impairment of goodwill	$ 115,483	$ —
Impairment of assets held for sale	3,276	—
Depreciation and amortization	26,729	35,867
Stock-based compensation	28,716	42,300
Capital expenditures	1,451	415

	Three Months Ended March 31, 2023
Depreciation and amortization	$ 9,982
Stock-based compensation	$ 8,290
Capital expenditures	$ 496

Transition Service Agreement

In connection with a transition service agreement, we agreed to provide certain services for which full reimbursement of cost will be provided.

Discontinued Operations Related-Party Transactions

Payment Processing Agreement

Protected utilizes multiple payment processors in order to process credit card payments from its subscription customers, payment processors, including Paysafe Financial Services Limited ("Paysafe"). In March 2021, Paysafe completed a merger with Foley Trasimene Acquisition Corp. II ("Foley Trasimene"), a special purpose acquisition company sponsored by entities affiliated with William Foley, a sponsor of Trebia who was also a sponsor of Trebia Acquisition Corp. and was a member of the Company's our Board of Directors. Protected's payment processing agreement with Paysafe was negotiated before the announcements of both (i) the Merger as well as (ii) the business combination between Paysafe and Foley Trasimene. The Company We incurred credit card processing fees related to Paysafe for the three months ended September 30, 2023 and 2022 (Successor), March 31, 2023 of $4,246 and $3,154, respectively. The Company incurred credit card processing fees related to Paysafe for the nine months ended September 30, 2023, the period from January 27, 2022 through September 30, 2022 (Successor) and the period January 1, 2022 through January 26, 2022 (Predecessor) of

32 $1.1 million.

System1, Inc. and Subsidiaries
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(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

$11,855, $8,004 and $0, respectively. The amount receivable from Paysafe was $449 and $2,447 as of September 30, 2023 (Successor) and December 31, 2022 (Successor), respectively.

Office Facilities

The Company has Protected had an agreement with JDI Property Holdings Limited ("JDI Property" JDIP"), an entity controlled by a director one of the Company, our directors, which allows for the Company allowed Protected to occupy desks use space at the their property owned by JDI Property property in such a place as JDI Property specifies from time to time in exchange for GBP 52 0.1 million per month. The agreement with JDI Property expires on October 31, 2026. Additionally, the Company utilizes a JDI Property credit card for certain office and operating expenses related to the Protected business, and the Company reimburses JDI Property monthly for any charges incurred by the Company on such card. The amount owed to JDI Property was immaterial as of September 30, 2023 (Successor) and December 31, 2022 (Successor). year.

Protected Incentive Plan Installment Payments

On August 30, 2022, In 2022 in connection with the Company, acquisition of Protected, and Just Develop It Limited ("JDI"), we effected an entity controlled by a director incentive plan for eligible recipients, providing up to $100 million payable in fully-vested shares of our Class A common stock contingent upon the achievement of the Company, entered into a Conditional Consent, Waiver future performance of Protected's business. The incentive plan originally was to be paid out in two tranches based on performance of the business for 2023 and Acknowledgement (the "Waiver") pursuant to which JDI agreed to waive its right to the Year 3 Stock Bonus Pool (as such term is defined in the BCA) 2024.The first award (2023), consisting of $50,000 $50.0 million of Class A common stock payable in January 2024, was modified to a cash award resulting in $20 million of payments in 2022 and as set forth in Section 12.11(a) 2023 with an additional final $10.0 million, payable upon the achievement of the BCA dated June 28, 2021 (as amended), by and among S1 Holdco, Protected and the other parties signatory thereto in exchange for $40,000 in cash payable in four (4) quarterly installments of $10,000 each, commencing on August 30, 2022 and on each three (3) month anniversary thereafter. On June 1, 2023, the Company further modified the 2023 Award, deferring the last quarterly cash installment of $10,000 such that $5,000 was due on May 30, 2023, $5,000 was due on July 1, 2023, and providing additional cash bonus payments of up to $10,000 if certain performance thresholds around marketing spend and operating contribution of Protected is are achieved on or before December 31, 2024. As of September 30, 2023 On November 30, 2023, none of the performance thresholds have been were met, and therefore, none of the additional cash bonus payments have been paid. However, the Company believes it is probable that the performance threshold will be met. The liabilities associated with this award is included within Current liabilities held for sale from discontinued operations on the condensed consolidated balance sheets. Refer to Note 14—*STOCK-BASED COMPENSATION* for additional information.

The Company recognized $5,594 and $25,904, during the three and nine months ended September 30, 2023, respectively, for the Protected Incentive Plan within salaries and benefits of discontinued operations within the condensed consolidated statements of operations. Although the last twelve months cash EBITDA target for the 2024 Award of the Protected Incentive Plan has not yet been met, the Company determined that it was probable of achievement. Refer to Note 14—*STOCK-BASED COMPENSATION* for additional information.

16. SUBSEQUENT EVENTS

Receivables Purchase Agreement

On November 8, 2023, System1 OpCo LLC (a subsidiary of S1 Holdco) entered into an agreement with OAREX Funding, LLC (the "Factor") for the purchase and sale of accounts receivable related to its advertising business (the "Receivables Purchase Agreement"). Based on the terms of the agreement, the Factor advances up to 80% of transferred customer receivables and holds the remaining as a reserve until the customer pays the Factor. The initial maximum advance amount is $5,000 with the potential to increase the maximum amount to $20,000 (upon approval from the Factor's lender). These reserves are remitted to the Company upon customer payment, less applicable discount fees. The Company is initially charged 1.3% of the advance amount for each invoice purchased for the first 30 days after the purchase date of the receivable and 0.43% on the face value for every subsequent 10-day period or portion thereof until the transferred receivable is collected. As collateral securing the amounts owed to the Factor, the Company grants the Factor a continuing first priority security interest in all purchased accounts receivable and any related payments. This factoring agreement is effective for an initial 12-month period and continues for additional 12-month periods until terminated through release from the Company after repayment of all amounts owed to the Factor or earlier under occurrence of certain events of default, including default of the Term Loan and

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System1, Inc. and Subsidiaries
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(Dollars, number of shares and number of units in thousands, except for per share or per unit amounts)

2022 Revolving Facility. As of the date of issuance of these financial statements, $5,000 is the maximum advance amount with no amounts advanced. The Company is currently evaluating the accounting impact of this arrangement.

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

SYSTEM1 MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated or the context otherwise requires, references in this section to “the Company,” “System1,” “we,” “us,” “our” and other similar terms refer to System1, Inc. Inc and its subsidiaries.

The following discussion and analysis of the our financial condition and results of operations of System1 should be read together in conjunction with our unaudited condensed *consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report"). The following discussion and analysis should also be read together with the section entitled “Organization and description of business” as of September 30, 2023 (Successor) and for the period from January 1, 2022 through January 26, 2022 (Predecessor), and the period from January 27, 2022 through September 30, 2022 (Successor), as well as information contained our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (Successor) (our "Form 10-K") ending December 31, 2023. In addition to historical information, the following discussion and analysis contains forward-looking statements. Our actual results may differ significantly from those projected in such forward-looking statements. Factors that might cause future results to differ materially from those projected in such forward-looking statements include, but are not limited to, those discussed in the sections entitled “Risk Factors” in this Quarterly Report and our Form 10-K. Dollars, number of shares and number of units are presented in thousands, except percentages, per share and per unit information, unless otherwise noted. “Cautionary Note Regarding Forward-Looking Statements.”*

References to "Note" or “Notes” are to the notes included in our unaudited condensed *consolidated financial statements appearing elsewhere in this Quarterly Report. Report on Form 10-Q. The condensed consolidated financial statements as of and for the quarter ended March 31, 2023 have been revised to correct prior period errors as discussed in Note 2, Summary of Significant Accounting Policies. Accordingly, this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations reflects the impact of those revisions.*

Company Overview

We operate an omnichannel customer acquisition platform, delivering high-intent customers to brands, advertisers and publishers.

We provide our omnichannel customer acquisition platform services through our proprietary responsive acquisition marketing platform (“RAMP”). Operating seamlessly across major advertising networks and advertising category verticals to acquire users on our behalf, high-intent end-users, RAMP allows us to monetize these acquired end users through our relationships with third party advertisers and advertising networks (“Advertising Partners”). RAMP also allows third party advertising platforms and publishers (“Network Partners”), to send user traffic to, and monetize user traffic on, our owned and operated websites. RAMP operates across our network of owned and operated websites, and related products, allowing us to monetize user end-user traffic that we source from various acquisition marketing channels, including Google, Facebook, Zemanta, Taboola, and Zemanta. TikTok. RAMP also allows third party advertising platforms and publishers (“Network Partners”) to send end-user traffic to, and monetize end user traffic on, our owned and operated websites or through our monetization agreements.

Through RAMP, we process approximately 155 million 244 million daily advertising campaign optimizations and ingest over 8 billion 10 billion rows of data daily across nearly approximately 40 advertising verticals vertical categories as of September 30, 2023March 31, 2024. We are able to efficiently monetize user intent by linking data on consumer engagement, such as first party search data like traffic sources, device type and search queries, with data on monetization rates and advertising spend. This context-enriched data, combined with our proprietary and data science driven algorithms, creates a closed-loop system that is not reliant on personally identifiable information or information obtained through third-party cookies, but which allows RAMP to efficiently match consumer demand with the appropriate advertiser or advertising experience across advertising category verticals.

The business of S1 Holdco, LLC ("S1 Holdco"), one of the entities acquired in the Merger described below, was founded in 2013 with aWe focus on monetizing user traffic acquired by its network. our Network Partners. Since launching, it has expanded to support additional advertising formats across numerous multiple advertising platforms, and has acquired several leading websites, enabling it to control the entire flow of the user acquisition experience, by monetizing user traffic through our network of owned and experience, and monetize user traffic. Today S1 Holdco owns operated websites. As of March 31, 2024, we own and operates over approximately 40 websites, including leading search engines like info.com and Startpage.com, and publishing digital media sites publishing websites and internet utilities, such as HowStuffWorks, Mapquest MapQuest, CouponFollow and ActiveBeat.

Our primary operations are in the United States; and we also have operations in Canada, the United Kingdom and the Netherlands. Operations outside the United States are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government foreign exchange controls, and exposure to currency exchange fluctuations. We do not engage in hedging activities to mitigate our exposure to fluctuations in foreign currency exchange rates.

As a result of the current uncertainty in economic activity, including geopolitical developments and other macroeconomic factors such as rising interest rates, inflation and supply chain disruptions, we are unable to predict the size and duration of the impact on our revenue and our results of operations.

The Merger

On June 28, 2021, we entered into a Business Combination Agreement (as amended on November 30, 2021, January 10, 2022 and January 25, 2022), (the "Business ("Business Combination Agreement") by and among us, S1 Holdco,

LLC ("S1 Holdco") and Protected. Total Security Limited, formerly known as Protected.net Group Limited ("Protected"). On January 26, 2022 (the "Closing ("Closing Date"), the Company we consummated the business combination (the "Merger" ("Merger") pursuant to the Business Combination Agreement. Following the consummation of the Merger, the combined company was organized via an "Up-C" structure, in which substantially all of the assets and business operations of System1 are held by S1 Holdco. Our Holdco, and our combined business continues to operate through the domestic and foreign subsidiaries of S1 Holdco and Protected. Additionally, Trebia's ordinary shares and public warrants ceased trading on the New York Stock Exchange ("NYSE"), and System1 Inc.'s Class A common stock and the Public Warrants began trading on the NYSE on January 28, 2022 under the symbols "SST" and "SST.WS," respectively.

The Company was deemed the accounting acquirer in the Merger, and S1 Holdco was deemed to be the predecessor entity. Accordingly, the historical financial statements of S1 Holdco became the historical financial statements of the Company, upon the consummation of the Merger. As a result, the financial statements included in this report reflect (i) the historical operating results of S1 Holdco prior to the Merger; and (ii) the consolidated results of the Company, including S1 Holdco and Protected following the closing of the Merger. The accompanying financial information includes a Predecessor period, which include the periods through January 26, 2022 concurrent with the Merger, and a Successor period from January 27, 2022 through September 30, 2022. A black-line between the Successor and Predecessor periods has been placed in the consolidated financial statements and in the tables within the notes to the consolidated financial statements to highlight the lack of comparability between these two periods as the Merger resulted in a new basis of accounting for S1 Holdco.

Refer to *Note 3—MERGER*Our primary operations are in the United States; and *Note 5 — GOODWILL , INTERNAL-USE SOFTWARE DEVELOPMENT COSTS, NET, AND INTANGIBLE ASSETS, NET* — for additional information.

Sale of Protected Business

On September 6, 2023, the Company announced that it had received a non-binding indication of intent ("IOI") from JDI, a significant shareholder of the Company which is principally owned and managed by certain members of the Protected management team, related to the potential acquisition of Protected, which operates the Company's subscription business. The offer consists of $240,000 we also have operations in cash, the assumption of certain potential earnout payments in respect of Protected Canada and the delivery of approximately 29,138 System1 shares held by JDI Netherlands. Operations outside the United States are subject to risks inherent in operating under different legal systems as well as various political and related persons. A special committee of economic environments. Among the Company's Board of Directors was formed risks are changes in existing tax laws, changes in the regulatory framework in foreign jurisdictions, data privacy laws, possible limitations on foreign investment and income repatriation, government foreign exchange controls, exposure to evaluate JDI's IOI currency exchange fluctuations and other strategic alternatives. employment laws impacting foreign employees. We do not engage in hedging activities to mitigate our exposure to fluctuations in foreign currency exchange rates.

As a result of the current uncertainty in economic activity, including geopolitical developments and other macroeconomic factors such as rising interest rates, inflation and the impact of earlier supply chain disruptions, we committed are unable to a plan to sell predict the size and duration of the impact on our revenue and our results of operations.

Sale of Protected

We completed the sale of Protected on November 30, 2023. The results of operations of our Protected business and began performing customary actions required prior to execute the sale. The Protected business met the criteria to be reported its sale are presented as assets held for sale and net loss from discontinued operations as in our condensed consolidated statements of September 30, 2023, and accordingly, operations for all prior comparable periods have been recast to conform to the current period presentation. presented. Unless otherwise noted, the information contained in this MD&A Management Discussion and Analysis relates solely to our continuing operations and does not include the operations of our Protected business. business (see Note 12, Discontinued Operations).

Components of Our Results of Operations

Revenue

We earn revenue by deploying components of our Responsive Acquisition Marketing Platform (RAMP) to our owned and operated websites to acquire and monetize end-users via advertising offerings from our Advertising Partners. For this revenue stream, we are the principal in the transaction and report revenue on a gross basis for the amounts received from our Advertising Partners. Additionally, revenue is earned from revenue-sharing arrangements with our Network Partners, whereby our Network Partners acquire end-users and use RAMP to monetize those end-users via our relationships with Advertising Partners. We have determined that we are the agent in these transactions and therefore report revenue on a net basis, based on the difference between amounts received by us from our Advertising Partners, less amounts remitted to our Network Partners based on the underlying revenue-sharing agreements.

We recognize revenue upon delivering user-traffic to our Advertising Partners based on a cost-per-click or cost-per-thousand impression basis. The payment terms with our Advertising Partners is typically 30 days.

Revenue may fluctuate from period to period due to a number of factors including seasonality and the shift in mix of user acquisition sources from Advertising Partners.

We have two reportable segments:

- Owned and Operated Advertising ("O&O"); and
- Partner Network.

Refer Operating Expenses

We classify our operating expenses into the following categories:

Cost of revenue (excluding depreciation and amortization). Cost of revenue (excluding depreciation and amortization) primarily consists of traffic acquisition costs, which are the costs to place advertisements to acquire customers to our websites and services, as well as domain name registration costs and licensing costs to provide mapping services to Mapquest.com. We do not pre-pay any traffic acquisition costs, and therefore, such costs are expensed as incurred.

*Salaries and benefits.*Note 15—DISCONTINUED OPERATIONS — Salaries and benefits expenses include salaries, bonuses, stock-based compensation, and employee benefits costs.

Selling, general, and administrative. Selling, general, and administrative expenses consist of fees for additional information. professional services, occupancy costs and travel and entertainment. These costs are expensed as incurred.

Depreciation and amortization. Depreciation and amortization expenses are primarily attributable to our capital investment(s) and consist of property and equipment depreciation and amortization of intangible assets with finite lives.

Other Expenses

Other expenses consist of the following:

Interest expense, net. Interest expense consists of interest on our debt and the amortization of deferred financing costs and debt discount.

Gain from debt extinguishment Gain from the repurchase of a portion of our Term Loan indebtedness at a discount.

Change in fair value of warrant liabilities. The mark to market of our liability-classified Public Warrants.

Income tax benefit

We are the sole managing member of S1 Holdco and, as a result, consolidate the financial results of S1 Holdco. S1 Holdco is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, S1 Holdco is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by S1 Holdco is passed through to and included in the taxable income or loss of its members, including us, on a pro rata basis. We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income or loss of S1 Holdco, as well as any stand-alone income or loss generated by us.

Results of Operations

Comparisons of the Three Months Ended March 31, 2024 and 2023

The following tables set forth table summarizes key components of our consolidated results of operations and for the periods indicated (in thousands):

	Three Months Ended March 31,	2024 vs. 2023 Change

	2024	2023	($)	(%)
Revenue	$ 84,917	$ 121,118	$ (36,201)	(30)%
Operating expenses:				
Cost of revenue (excluding depreciation and amortization)	53,698	82,953	(29,255)	(35)%
Salaries and benefits	24,483	28,147	(3,664)	(13)%
Selling, general, and administrative	12,728	14,855	(2,127)	(14)%
Depreciation and amortization	19,804	19,392	412	2 %
Total operating expenses	110,713	145,347	(34,634)	(24)%
Operating loss	(25,796)	(24,229)	(1,567)	6 %
Other expense (income):				
Interest expense, net	7,970	11,402	(3,432)	(30)%
Gain from debt extinguishment	(19,676)	—	(19,676)	— %
Change in fair value of warrant liabilities	(251)	(1,409)	1,158	(82)%
Total other (income) expense, net	(11,957)	9,993	(21,950)	(220)%
Loss before income tax	(13,839)	(34,222)	20,383	(60)%
Income tax benefit	(48)	(3,829)	3,781	(99)%
Net loss from continuing operations	(13,791)	(30,393)	16,602	(55)%
Net loss from discontinued operations, net of tax	—	(12,533)	12,533	(100)%
Net loss	(13,791)	(42,926)	29,135	(68)%
Less: Net loss from continuing operations attributable to non-controlling interest	(3,254)	(6,757)	3,503	(52)%
Less: Net loss from discontinued operations attributable to non-controlling interest	—	(2,367)	2,367	(100)%
Net loss attributable to System1, Inc.	$ (10,537)	$ (33,802)	$ 23,265	(69)%

The following table sets forth our condensed consolidated results statements of operations data expressed as a percentage of total revenue for the periods presented. indicated:

	Successor				Predecessor	
(in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	
	Three Months Ended March 31, 2024					
Revenue	$ 87,818	$ 156,895	$ 305,851	$ 472,158	$ 52,712	
Operating expenses:						
Cost of revenue (excluding depreciation and amortization)						
Cost of revenue (excluding depreciation and amortization)						
Cost of revenue (excluding depreciation and amortization)	50,585	111,217	190,195	341,693	41,507	
Salaries and benefits	26,689	30,270	82,484	106,340	31,181	benefi
Selling, general, and administrative	11,808	11,572	42,004	36,962	15,665	genera admin
Depreciation and amortization	19,584	18,923	58,666	50,369	1,000	and ar
Impairment of goodwill	—	340,109	—	340,109	—	
Total operating expenses						

Total operating expenses							
Total operating expenses	Total operating expenses	108,666	512,091	373,349	875,473	89,353	
Operating loss	Operating loss	(20,848)	(355,196)	(67,498)	(403,315)	(36,641)	
Other expense:							
Other expense (income):							
Interest expense, net	Interest expense, net	13,053	9,733	36,789	21,987	1,049	
Loss on restructure of related-party debt		619	—	619	—	—	
Interest expense, net							
Interest expense, net							
Gain from debt extinguishment							debt e
Change in fair value of warrant liabilities	Change in fair value of warrant liabilities	(7,482)	4,489	(6,873)	14,111	—	fair va liabiliti
Total other expense		6,190	14,222	30,535	36,098	1,049	
Total other (income) expense, net							(income)
Loss before income tax	Loss before income tax	(27,038)	(369,418)	(98,033)	(439,413)	(37,690)	income ta
Income tax benefit	Income tax benefit	(920)	(69,796)	(10,626)	(84,341)	(629)	benefi
Net loss from continuing operations	Net loss from continuing operations	$ (26,118)	$ (299,622)	$ (87,407)	$ (355,072)	$ (37,061)	continuin
Net loss from discontinued operations, net of tax	Net loss from discontinued operations, net of tax	(137,209)	(14,077)	(163,222)	(35,849)	—	discontinu net of tax
Net loss	Net loss	(163,327)	(313,699)	(250,629)	(390,921)	(37,061)	
Less: Income from continuing operations attributable to noncontrolling interest		(6,328)	(69,269)	(19,543)	(80,336)	—	
Less: Income from discontinued operations attributable to noncontrolling interest		$ (25,566)	$ (2,733)	$ (30,472)	$ (7,082)	$ —	
Less: Net loss from continuing operations attributable to non-controlling interest							from cont operation non-contr
Less: Net loss from discontinued operations attributable to non-controlling interest							from disc operation non-contr
Net loss attributable to System1, Inc.	Net loss attributable to System1, Inc.	$ (131,433)	$ (241,697)	$ (200,614)	$ (303,503)	$ (37,061)	attribu Syster

* Percentages may not sum due to rounding

* Percentages may not sum due to rounding

* Percentages may not sum due to rounding

	Successor				Predecessor
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022
Revenue	100 %	100 %	100 %	100 %	100 %
Operating expenses:					
Cost of revenue (excluding depreciation and amortization)	58 %	71 %	62 %	72 %	79 %
Salaries and benefits	30 %	19 %	27 %	23 %	59 %
Selling, general, and administrative	13 %	7 %	14 %	8 %	30 %
Depreciation and amortization	22 %	12 %	19 %	11 %	2 %
Impairment of goodwill	— %	217 %	— %	72 %	— %
Total operating expenses	124 %	326 %	122 %	185 %	170 %
Operating loss	(24)%	(226)%	(22)%	(85)%	(70)%
Other expense:					
Interest expense, net	15 %	6 %	12 %	5 %	2 %
Loss on restructure of related-party debt	1 %	— %	— %	— %	— %
Change in fair value of warrant liabilities	(9)%	3 %	(2)%	3 %	— %
Total other expense	7 %	9 %	10 %	8 %	2 %
Loss before income tax	(31)%	(235)%	(32)%	(93)%	(72)%
Income tax benefit	(1)%	(44)%	(3)%	(18)%	(1)%
Net loss from continuing operations	(30)%	(191)%	(29)%	(75)%	(70)%
Net loss from discontinued operations, net of tax	(156)%	(9)%	(53)%	(8)%	— %
Net loss	(186)%	(200)%	(82)%	(83)%	(70)%
Less: Income from continuing operations attributable to noncontrolling interest	(7)%	(44)%	(6)%	(17)%	— %
Less: Income from discontinued operations attributable to noncontrolling interest	(29)%	(2)%	(10)%	(1)%	— %
Net loss attributable to System1, Inc.	(150)%	(154)%	(66)%	(64)%	(70)%

* Percentages may not sum due to rounding Revenue and Cost Metrics

The comparability We use total advertising spend, number of Owned & Operated Advertising sessions (“O&O sessions”), number of Partner Network sessions (“Network sessions”), Owned & Operated Advertising cost-per-session (“O&O CPS”), Owned & Operated Advertising revenue-per-session (“O&O RPS”) and Partner Network revenue-per-session (“Network RPS”) to track our operating results for operations. We define total advertising spend as the nine months ended September 30, 2023 (Successor) compared amount of advertising that is spent by us to acquire traffic to our owned and operated websites. We define O&O sessions as the period from January 1, 2022 through January 26, 2022 (Predecessor) and total number of monetizable user visits to our Owned & Operated Advertising websites. We define Network sessions as the period from January 27, 2022 through September 30, 2022 (Successor) was impacted number of monetizable user visits delivered by the Merger, our Network Partners to RAMP. Monetizable visits exclude those visits identified by our Advertising Partners as discussed above, and spam, bot, or other acquisitions. invalid traffic. We define O&O CPS as advertising spend divided by O&O sessions. We define O&O RPS as O&O Revenue divided by O&O sessions. We define Network RPS as Network Partner revenue divided by Network sessions.

Comparisons of Results of Operations for the three and nine months ended September 30, 2023 (Successor), against the three months ended September 30, 2022 and the combined period from January 1, 2022 through January 26, 2022 (Predecessor) and the period from January 27, 2022 through September 30, 2022 (Successor).

Revenue

The following tables set forth table presents our revenue by reportable segment. segment (in thousands).

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022		2023 vs. 2022 change (%)
Revenue:					
Owned and Operated Advertising	$	66,187	$	143,600	(54)%
Partner Network		21,631		13,295	63%
Total revenue	$	87,818	$	156,895	(44)%

	Successor				Predecessor		
	Nine Months Ended September 30, 2023		Period from January 27, 2022 through September 30, 2022		Period from January 1, 2022 through January 26, 2022		2023 vs. 2022 change (%)
Revenue:							
Owned and Operated Advertising	$	249,512	$	428,436	$	49,249	(48)%
Partner Network		56,339		43,722		3,463	19%
Total revenue	$	305,851	$	472,158	$	52,712	(42)%

Refer to the Revenue discussions below.

	Three Months Ended March 31,				2024 vs. 2023 Change		
	2024		2023		($)		(%)
Owned and Operated Advertising	$	69,030	$	106,025	$	(36,995)	(35)%
Partner Network		15,887		15,093		794	5%
Total revenue	$	84,917	$	121,118	$	(36,201)	(30)%

Owned and Operated Advertising ("O&O")

The decrease in O&O Owned and Operated Advertising revenue decreased for the three months ended September 30, 2023, and nine months ended September 30, 2023, March 31, 2024 as compared to the same prior year periods, respectively, was comparative period, primarily due to deteriorating macroeconomic conditions, such as reductions in both softening domestic advertiser and overall consumer demand, which led to a decreased supply of consumer sessions available to be acquired spend.. For the three months quarter ended September 30, 2023, March 31, 2024 compared to the same prior year quarter comparative period, sessions increased 183 million to 1,209 million from 1,026 million. RPS for O&O decreased 156 million by $0.04 to 922 million $0.06 from 1,078 million, with a corresponding decrease in Revenue per Session ("RPS") of approximately $0.06 to $0.07 from $0.13. For the nine months ended September 30, 2023, compared to the same prior year period, sessions decreased 298 million to 2,768 million from 3,066 million, with a corresponding decrease in RPS of approximately $0.07 to $0.09 from $0.16. $0.10.

Partner Network

The increase in Partner Network revenue increased for the three months ended September 30, 2023, and nine months ended September 30, 2023, March 31, 2024 as compared to the same prior year periods, respectively, was comparative period, due to our continued investment in this business and growth from newer partners that continue to generate more traffic to our platform. This was partially offset by deteriorating macroeconomic conditions, such as reductions to both softening advertiser and overall consumer demand, spend, leading to a reduction in RPS. For the three months quarter ended September 30, 2023 March 31, 2024, compared to the same prior year quarter comparative period, sessions increased 494 million 600 million to 858 million 1,048 million from 364 million 448 million, and Network RPS decreased by approximately $0.01 to $0.03 $0.02 from $0.04. For the nine months ended September 30, 2023, compared to the same prior year period, sessions increased 949 million to 1,984 million from 1,034 million, and RPS decreased by approximately $0.02 to $0.03 from $0.05. $0.03.

Cost of revenue

	Successor				
	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022		2023 vs. 2022 change (%)
Cost of revenue	$	50,585	$	111,217	(55)%
Percent of revenue		58 %		71 %	

37 *(excluding depreciation and amortization)*

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	Successor		Predecessor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Cost of revenue	$ 190,195	$ 341,693	$ 41,507	(50)%
Percent of revenue	62 %	72 %	79 %	

The dollar decrease in costCost of revenue for the three months ended September 30, 2023, (excluding depreciation and nine months ended September 30, 2023, compared to the same prior year periods, was primarily due to amortization) decreased in line with a $64 million and $198 million decrease, respectively, decrease in our O&O reportable segment, which was directionally consistent with the decrease in &O's revenue. For the three months ended September 30, 2023 March 31, 2024, compared to the same prior year period, our Cost per Session ("CPS") decreased $0.05 to $0.05 from $0.10. For the nine months ended September 30, 2023, compared to the same prior year comparative period, our CPS decreased $0.06 $0.03 to $0.06 $0.04 from $0.12. $0.07.

Our chief operating decision maker measures and evaluates reportable segments based on segment operating revenue as well as adjusted gross profit and other measures. We define and calculate adjusted gross profit as revenue less advertising expense incurred to acquire users. The remaining cost of revenue consists of non-advertising expenses such as set-up costs, royalties and fees. We exclude the following items from segment adjusted gross profit: depreciation and amortization of property, equipment and leasehold improvements, amortization of intangible assets and, at times, certain other transactions or adjustments.

The following supplemental tables set forth table presents our adjusted gross profit by reportable segment. segment (in thousands).

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Segment Adjusted Gross Profit:			
Owned and Operated Advertising	$ 23,886	$ 37,261	(36) %
Partner Network	15,312	10,301	49 %
Total Adjusted Gross Profit	$ 39,198	$ 47,562	(18) %

	Three Months Ended March 31,				2024 vs. 2023 Change			
	2024		2023		($)		(%)	
Owned and Operated Advertising	$ 22,462	$	$ 29,839	$	$ (7,377)	(25)	(25) %	
Partner Network	10,919	10,217	10,217	702	702	7	7	%
Total adjusted gross profit	$ 33,381		$ 40,056		$ (6,675)		(17) %	

	Successor		Predecessor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Segment Adjusted Gross Profit:				
Owned and Operated Advertising	$ 81,314	$ 103,478	$ 8,768	(28)%
Partner Network	40,337	32,622	3,012	13%
Total Adjusted Gross Profit	$ 121,651	$ 136,100	$ 11,780	(18)%

Refer to the Revenue and Cost of revenue (excluding depreciation and amortization)discussions above.

Salaries and benefits

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Salaries and benefits	26,689	30,270	(12)%
Percent of revenue	30 %	19 %	

	Successor				Predecessor		
	Nine Months Ended September 30, 2023		Period from January 27, 2022 through September 30, 2022		Period from January 1, 2022 through January 26, 2022		2023 vs. 2022 change (%)
Salaries and benefits	$	82,484	$	106,340	$	31,181	(40)%
Percent of revenue		27 %		23 %		59 %	

The decrease in salaries Salaries and benefitsdecreased for the three months ended September 30, 2023 March 31, 2024 as compared to the same prior year comparative period, was primarily due to a $3 million $1.9 million decrease in stock-based compensation resulting from declines and a $1.8 million reduction in headcount and stock price. For additional information on our stock-based compensation, refer to Note 14—*STOCK-BASED COMPENSATION*.

The decrease in salaries and benefits for the nine months ended September 30, 2023 compared to the same prior year period, was primarily salary expense due to a $55 million decrease in stock-based compensation related to the first quarter 2022 Merger. lower headcount.

Selling, general, and administrative

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Selling, general, and administrative	11,808	11,572	2 %
Percent of revenue	13 %	7 %	

	Successor				Predecessor		
	Nine Months Ended September 30, 2023		Period from January 27, 2022 through September 30, 2022		Period from January 1, 2022 through January 26, 2022		2023 vs. 2022 change (%)
Selling, general, and administrative	$	42,004	$	36,962	$	15,665	(20)%
Percent of revenue		14 %		8 %		30 %	

The increase is selling, Selling, general, and administrative expense decreased for the three months ended September 30, 2023 March 31, 2024 as compared to the same prior year comparative period, was primarily due to a slight increase in our reserve for bad debts.

The $1.7 million decrease in selling, general, advisory, consulting, and administrative expense for the nine months ended September 30, 2023 compared legal fees, and to the same prior year period, was primarily due to additional costs associated with the Merger and the prior year acquisitions, partially offset by the increase in our reserve for bad debts. a lesser extent insurance costs.

Depreciation and amortization

	Successor

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Depreciation and amortization	19,584	18,923	3 %

	Successor		Predecessor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Depreciation and amortization	$ 58,666	$ 50,369	$ 1,000	14%

Depreciation and amortization expense increased for the three months ended September 30, 2023, remained relatively consistent March 31, 2024 as compared to the same prior year period. comparative period, primarily increased amortization related to our continued investment in internally developed software.

The increase in depreciation and amortization expense

Gain from debt extinguishment

Gain from debt extinguishment increased for the nine three months ended September 30, 2023, March 31, 2024 as compared to the same prior year comparative period, was primarily due to additions of intangible assets the gain recognized as a result of our repurchase of debt through the Merger and the prior year acquisitions.

Dutch auction that occurred in January of 2024.

Interest expense, net

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Interest expense, net	13,053	9,733	34 %

	Successor		Predecessor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Interest expense, net	$ 36,789	$ 21,987	$ 1,049	60%

The increase in interest Interest expense, net decreased for the three and nine months ended September 30, 2023, compared to the same prior year periods, was primarily due to higher interest rates experienced during the current periods.

Loss on restructure of related-party debt

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Loss on restructure of related-party debt	619	—	>100%

	Successor	Predecessor

	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Loss on restructure of related-party debt	$ 619	$ —	$ —	>100%

The increase in loss on restructure of related-party debt for the three months ended September 30, 2023, and the nine months ended September 30, 2023, March 31, 2024 as compared to the same prior year periods, was comparative period, primarily due to restructuring a portion of lower debt outstanding balance in the Holdback Amount related to the 2022 CouponFollow acquisition into a promissory note. Refer to Note 4—*ACQUISITIONS* and Note 13—*RELATED-PARTY TRANSACTIONS*. current year.

Change in fair value of warrant liabilities

The change increase in fair value of our warrant liabilities liability for the three months ended September 30, 2023, March 31, 2024 and the nine months ended September 30, 2023, as compared to the same prior year periods, respectively, comparative period was due to the remeasurement of warrant liability to its fair value at March 31, 2023 where the fluctuations are driven by the fluctuations in the market value of our Class A common stock.

Income tax benefit

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Income tax benefit	$ (920)	$ (69,796)	(99)%
Effective tax rate	3%	19%	

	Successor		Predecessor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Income tax benefit	$ (10,626)	$ (84,341)	$ (629)	(87)%
Effective tax rate	11%	19%	2%	

The difference between the effective tax rates for the periods presented above and the federal statutory tax rate of 21% was primarily due to the exclusion of non-controlling income (loss), effects of predecessor flow through income allocations, state taxes, foreign rate differential, non-deductible expenses, increase to the valuation allowance related to unrealizable deferred tax assets, and outside basis adjustments, and Global Intangible Low-taxed Income.

adjustments.

Net loss from discontinued operations, net of tax

	Successor		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	2023 vs. 2022 change (%)
Net loss from discontinued operations, net of tax	$ (137,209)	$ (14,077)	>100%

	Successor		Predecessor	
	Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022	2023 vs. 2022 change (%)
Net loss from discontinued operations, net of tax	$ (163,222)	$ (35,849)	$ —	>100%

Net loss from discontinued operations, net of tax is comprised of the results of operations of our subscription business. The net loss from discontinued operations, net of tax only includes direct operating expenses incurred that (1) are clearly identifiable as costs being disposed of upon completion of the sale and (2) will not be continued by our company us on an ongoing basis.

Indirect expenses which supported our subscription business, and which remained as part of the continuing operations following the sale are not reflected in loss from discontinued operations, net of tax.

Liquidity and Capital Resources

We expect existing cash and cash equivalents, cash flows from operations and financing activities to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities for at least the next 12 months. Our main sources of liquidity have historically been, and are expected to be from cash on hand, cash flows from operations and financing activities. Our ability to fund future operating expenses and capital expenditures, and our ability to meet our future debt service obligations, will depend on our ability to execute on our operational strategy and may be affected by our profitability, as well as general economic, financial and other factors which are beyond our control.

We continue to develop and implement plans to improve our liquidity. Our main focus is executing on our operational strategy, which includes continued focus on expanding the number of advertising partners that are utilizing or integrated with RAMP by continuing to attract and monetize users with commercial intent on our owned and operated web properties and on behalf of our network partners as well as optimizing bids and driving higher returns on advertising spend. Additionally, we are focused on our current cost structure by reducing our cash operating expenses and debt service obligations. Adverse macroeconomic conditions have affected, and may in the future affect, the demand for advertising, resulting in fluctuations in the amounts our advertisers spend on advertising, which could have a negative impact on our financial condition and operating results.

As of September 30, 2023 (Successor) March 31, 2024, we had available unrestricted cash and cash equivalents of $4,853. $69.9 million and $50.0 million available to borrow on our 2022 Revolving Facility. For the three months ended March 31, 2024, the Company had cash outflows from operations of $16.0 million. The principal drivers of our cash outflow from operations for the three months ended March 31, 2024, were cash bonus-related payments of $7.2 million primarily related to 2023 annual employee performance bonuses, $1.8 million of audit fees, $2.4 million of consulting fees, and interest paid on our Term Loan of $8.2 million.

To date, our available liquidity and operations have been financed through the initial public offering of Trebia, the Merger, credit facilities, various affiliate loans, and cash flows from operations. We are subject to certain business risks, including dependence on key employees, dependence on key contracts, competition from alternative technologies, and dependence on growth to achieve our business and operational objectives.

Our revenue is dependent on two key Advertising Partners, which are Google and Microsoft.

The Refer to our concentration with customers discussion at Note 2, Summary of our cash flows and liquidity that follows does not include the impact of any adjustments to remove discontinued operations, unless otherwise noted, and is stated on a total company consolidated basis.

Going Concern

Starting in the third quarter of 2022 and continuing into 2023, we experienced declining cash flows and financial performance as a result of deteriorating macroeconomic conditions, resulting in reductions in both advertiser and overall consumer demand for our marketing services. In response to these conditions, we obtained additional financing in the second quarter of 2023 (as previously disclosed) which was expected to provide us sufficient liquidity to manage through the current business environment. However, subsequent to the quarter ended June 30, 2023, we have experienced increased customer acquisition costs in addition to the loss of a significant Network Partner, both of which have further negatively impacted our future cash forecasts, and may negatively impact our forecasted compliance with the maximum leverage ratio covenant of the Term Loan (defined in Note 9—*DEBT*). As of September 30, 2023, we had cash on hand of $4,853, an accumulated deficit of $646,242, and had cash outflows from operations of $5,908 for the nine months ended September 30, 2023. We have principal and interest payments due of approximately $15,000 per quarter, and as of the date of this filing, we had no remaining available capacity under the 2023 Revolving Note (defined in Note 13—*RELATED-PARTY TRANSACTIONS*).

The declining cash flows and financial performance raise substantial doubt regarding our ability to continue as a going concern for a period of one year following the date that these condensed consolidated financial statements are issued. We have both developed and implemented plans to improve our liquidity. Our implemented plans include the restructuring of the CouponFollow Holdback Amount in September 2023 through the issuance of a $5,156 note and obtaining the Onyx and OpenMail2 debt financings for $10,000 and $2,500, respectively (refer to Note 13—*RELATED-PARTY TRANSACTIONS*) in October 2023, entering into a factoring agreement in November 2023 for an initial $5,000 (refer to Note 16 – *SUBSEQUENT EVENTS*) as well as implementing a significant reduction in headcount in both the second quarter of 2023 and in early September 2023, resulting in approximately $14,500 of annualized savings. Our developed plans include the sale of Total Security Limited ("Protected"; formerly Protected.net Group Limited) (refer to Note 15—*DISCONTINUED OPERATIONS*), which we anticipate will result

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in significant cash inflows. As announced in our press release on September 6, 2023, we received a non-binding indication of intent from JDI to acquire Protected for $240,000 in cash as part of the consideration. However, until we have executed a definitive sale agreement, we cannot provide assurances that the sale will be finalized on acceptable terms or at all. To the extent our financial performance does not improve or our plans are not successful or finalized, we may have insufficient available cash balances to fund our operations for the remainder of the calendar year. Additionally, if additional information.we are unable to satisfy certain covenants under the Credit Agreement (refer to Note 9—*Debt, net*), this could constitute an event of default and provide the administrative agent on behalf of the lenders the ability to immediately call the outstanding principal balances of the Term Loan and 2022 Revolving Facility, with cross default provisions with the 2023 Revolving Note, Promissory Note, Term Note and Secured Facility (refer to Note 13 – *RELATED PARTY TRANSACTIONS*) and the Receivables Purchase Agreement (refer to Note 16 – *SUBSEQUENT EVENTS)*. In the event of a default, including the aforementioned cross defaults, there can be no assurance that we will be able to continue as a going concern, which will force us to delay, reduce or discontinue certain aspects of our business strategy. Accordingly, we believe that there is substantial doubt about our ability to continue as a going concern for the twelve-month period following the date of this filing.

The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. Accordingly, the condensed consolidated financial statements have been prepared on a basis that assumes we will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

Credit Facilities

Term Loan

In connection with the Merger discussed above, Orchid Merger Sub, II LLC (a subsidiary of S1 Holdco)We entered into a term new loan ("Term Loan") and revolving facility ("2022 Revolving Facility" and, together with the Term Loan "Credit Agreement") with Bank of America, N.A. as administrative agent, on January 27, 2022, providing for a 5.5 year facility Term Loan with a an initial principal balance of $400,000$400.0 million and with the net proceeds of $376,000.

We have been able, and expect to continue to be able, to make timely payments on the principal and interest $376.0 million. We are currently in compliance with our borrowing covenants.

2023 Revolving Note

On April 10, 2023, Orchid Merger Sub II, LLC ("Orchid Sub"), our wholly-owned subsidiary, entered into a $20,000 Revolving Note (the "2023 Revolving Note") with Lone Star Friends Trust (acting by and through its trustee, Stanley Blend, "Lone Star") and CEE Holding Trust (acting by and through its trustee, Jackson Hole Trust Company, "CEE", and together with Lone Star, collectively, the "Lenders" and each, a "Lender"), which are trusts established for the benefit of Michael Blend (Chief Executive Officer, co-founder and stockholder) and Charles Ursini (co-founder and stockholder), respectively, in a private transaction approved by the independent and noninterested members of the Board. Each Lender provided a $10,000 commitment for an aggregate principal of $20,000 under the 2023 Revolving Note to Orchid Sub on a several but not joint basis (each, a "Commitment" and, collectively, the "Commitments").The 2023 2022 Revolving Note is available through July 2024, with automatic three-month extensions, unless we or any Lender provides written notice. Facility provided borrowing availability of up to $50.0 million. As of March 31, 2024, there was no balance outstanding on the date these condensed consolidated financial statements were issued, 2022 Revolving Facility and principal of $296.3 million was outstanding on the Company had no remaining available capacity under Term Loan. Through December 31, 2025, $5.0 million of the 2023 Revolving Note. Term Loan is payable quarterly. From March 31, 2026, $7.5 million of the Term Loan is payable quarterly. The Term Loan matures in 2027.

For additional information regarding every interest period, the interest rate on the Term Loan is the adjusted Secured Overnight Financing Rate ("SOFR") plus 4.75%. The Term Loan is amortized in quarterly installments on each scheduled payment date. The Term Loan comes with a leverage ratio covenant, which goes into effect only if the utilization on the 2022 Revolving Facility exceeds 35% of the total availability under the 2022 Revolving Facility at each quarter-end starting the second quarter 2022, such that the first lien leverage ratio (as defined in the credit agreement) should not exceed 5.40. The Credit Agreement has certain financial and nonfinancial covenants, including the "springing" leverage ratio covenant described above. The Credit Agreement also requires that we deliver our credit facilities, refer audited consolidated financial statements to our lenders within 120 days of our fiscal year end, December 31. Should we fail to distribute the financial statements to our lender within 120 days, we have an additional 30 days to cure such default.

The 2022 Revolving Facility matures in January 2027, and accordingly, when there is a balance outstanding it is classified within long-term debt, net on the condensed consolidated balance sheet. The interest rate on the 2022 Revolving Facility is the adjusted SOFR plus 2.5% with an adjusted SOFR floor of 0%. As of March 31, 2024, there was no outstanding balance.

On January 17, 2024, we completed the repurchase of $63.7 million in principal amount of our Term Loan indebtedness or an aggregate purchase price of $40.9 million (at discount of 64.2% of its par value) pursuant to a Dutch auction tender offer. Following the repurchase, the outstanding principal amount of the Term Loan was $301.3 million. We used available cash on hand to fund the repurchase (see Note 95, Debt, Net).—*DEBT, NET*

We have been able to and Note 13—*RELATED-PARTY TRANSACTIONS*.expect to be able to continue to make the required payments of principal and interest on the Credit Agreement (as and when due) on a timely basis.

Cash Flows

The following table summarizes our cash flows for the periods presented: presented (in thousands):

		Successor		Predecessor		
(in thousands)		Nine Months Ended September 30, 2023	Period from January 27, 2022 through September 30, 2022	Period from January 1, 2022 through January 26, 2022		
	Three Months Ended March 31, 2024				Three Months Ended March 31, 2024	2023
Net cash used in operating activities	Net cash used in operating activities	$ (5,908)	$ (742)	$ (10,603)		
Net cash used in investing activities	Net cash used in investing activities	$ (6,859)	$ (452,429)	$ (441)		
Net cash used in financing activities	Net cash used in financing activities	$ (1,054)	$ (22,552)	$ —		

Operating Activities

Our cash flows used in from operating activities are primarily influenced impacted by growth in our operations, timing of collections from our clients partner and related payments to our suppliers for advertising inventory and data. We typically pay suppliers in advance of collections from our clients and our collection and payment cycles can vary from period to period. In addition, seasonality may impact cash flows from operating activities on a sequential quarterly basis during the year.

DuringIn the nine three months ended September 30, 2023 (Successor) March 31, 2024, cash used in operating activities of $5,908 resulted $16.0 million. The principal drivers of our cash outflow from operations three months ended March 31, 2024, were cash bonus payments of $7.2 million primarily from net loss adjusted for noncash items, including the impairment related to 2023 annual employee performance bonuses, $1.8 million of goodwill audit fees, $2.4 million of consulting fees, and assets held for sale interest paid on our Term Loan of $118,759, depreciation and amortization expense of $85,364, stock-based compensation of $43,909, and a decrease in accounts receivable of $17,786. This was partially offset by a net loss of $250,629 and a payment for the Protected incentive plan of $20,000. $8.2 million.

During In the period from January 27, 2022 to September 30, 2022 (Successor) three months ended March 31, 2023, cash used in operating activities of $742 $5.8 million resulted primarily from a net loss adjusted of $42.9 million, noncash deferred tax benefit of $7.9 million, an adjustment for noncash items, including impairment of goodwill of $340,109, depreciation and amortization expense of $86,236, stock-based compensation of $88,847, the change in fair value of warrants of $14,111, an increase in deferred revenue $1.4 million, a payment of $7,133, and a decrease in accounts receivable of $6,670. This was partially offset by a net loss of $390,921, deferred tax benefit of $101,100, a decrease in other long-term earnout liabilities of $31,467, $10.0 million and a decrease in accrued expenses and other current liabilities of $17,369 due to the Merger, and a decrease in the Protected.net Incentive Plan liability of $10,000 for a quarterly payment.

During the period from January 1, 2022 through January 26, 2022 (Predecessor), cash used in operating activities of $10,603 resulted primarily from a net loss of $37,061, including a decrease in accounts payable of $67,600 due to the Merger. $5.1 million. This was partially offset by noncash items including depreciation and amortization expense of $29.4 million, stock-based compensation of $14.1 million, an increase in accrued expenses deferred revenue of $57,488, stock-based compensation of $23,705 and $6.2 million, a decrease in accounts receivable of $11,118 due to the Merger. $11.3 million, and an increase in other long-term liabilities of $0.3 million.

Investing Activities

Our primary investing activities consist consisted of acquisitions of businesses, which included the first quarter 2022 acquisitions of S1 Holdco, Protected, CouponFollow and RoadWarrior, and the second quarter 2022 acquisition of Answers, as well as costs capitalized for internally developed software.

During In the nine three months ended September 30, 2023 (Successor) March 31, 2024, cash used in investing activities of $6,859 $1.6 million resulted primarily from purchases of property and equipment of $2,015, and costs capitalized expenditures related to internal-use software development costs of $4,844. for internally developed software.

During In the period from January 27, 2022 to September 30, 2022 (Successor) three months ended March 31, 2023, cash used in investing activities of $452,429 $2.4 million resulted primarily from the acquisitions costs capitalized for internally developed software and purchases of S1 Holdco, Protected.net, Answers, CouponFollow property and RoadWarrior.

During the period from January 1, 2022 through January 26, 2022 (Predecessor), cash used in investing activities of $441 resulted from capitalized expenditures related to internal-use software development costs.

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equipment.

Financing Activities

Our financing activities consisted primarily of repayments of our indebtedness under our credit facilities.

In the nine three months ended September 30, 2023 (Successor) March 31, 2024, cash used in financing activities of $1,054 $48.2 million resulted primarily from the repayment of related-party loan the 2022 Term Note of $44,000, and the repayment of term loan of $15,000. This was partially offset by proceeds from related-party loan of $63,000. $46.1 million.

During In the period from January 27, 2022 to September 30, 2022 (Successor) three months ended March 31, 2023, cash used in financing activities of $22,552 $9.1 million resulted primarily from redemptions of Trebia Class A ordinary shares of $510,469, repayment of existing term loan of $182,488, $5.0 million, taxes paid related to net settlement of stock awards of $2.8 million, and payment of debt financing costs related to the Term Loan acquisition holdback of $24,845, partially offset by proceeds from the Term Loan and Revolving Facility of $449,000 and the Cannae Backstop of $246,484. In October 2022, the Company borrowed an additional $1,000 under its Revolving Facility.

During the period from January 1, 2022 to January 26, 2022 (Predecessor), there was no cash provided or used in financing activities.

Share Repurchases

In August 2022, the Board authorized up to $25,000 for the repurchase of our Class A common stock and Public Warrants ("2022 Repurchase Program") $1.3 million. During the nine months ended September 30, 2023, no repurchases of our equity securities were made by us or by any of our affiliated purchasers. As of September 30, 2023, we had $23,878 available under this authorization remaining.

Receivables Purchase Agreement

On November 8, 2023, we entered into an agreement with OAREX Funding, LLC (the “Factor”) for the purchase and sale of accounts receivable related to its advertising business (the “Receivables Purchase Agreement”). Based on the terms of the agreement, the Factor advances up to 80% of transferred customer receivables and holds the remaining as a reserve until the customer pays the Factor.The initial maximum advance amount is $5,000 with the potential to increase the maximum amount to $20,000 (upon approval from the Factor’s lender). These reserves are remitted to us upon customer payment, less applicable discount fees. We are initially charged 1.3% of the advance amount for each invoice purchased for the first 30 days after the purchase date of the receivable and 0.43% on the face value for every subsequent 10-day period or portion thereof until the transferred receivable is collected. As collateral securing the amounts owed to the Factor, we grant the Factor a continuing first priority security interest in all purchased accounts receivable and any related payments. This factoring agreement is effective for an initial 12-month period and continues for additional 12-month periods until terminated through release from us after repayment of all amounts owed to the Factor or earlier under occurrence of certain events of default, including default of the Term Loan and 2022 Revolving Facility. As of the date of issuance of these financial statements, $5,000 is the maximum advance amount with no amounts advanced. We are currently evaluating the accounting impact of this arrangement.

Off-Balance Sheet Arrangements

We do not have any relationships with entities often referred to as structured finance or special purpose entities that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We did not have any other off-balance sheet arrangements during the periods presented other than the indemnification agreements.

Contractual Obligations and Known Future Cash Requirements

Service Agreement Agreements

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In June 2023, 2021, we entered into a multi-year agreement with a web services service provider whereby we are contractually obligated to spend $5,000 in each annual period $5.0 million annually between July 2023 and June 2026. 2026. As of September 30, 2023 (Successor)March 31, 2024, we remain contractually contractually obligated to spend $13,118 a remaining $10.0 million towards this commitment.

Debt Obligations

In connection with the Merger, Orchid Merger Sub II LLC (a subsidiary of S1 Holdco) entered into a new loan ("Term Loan") and revolving facility ("2022 Revolving Facility") with Bank of America, N.A., on January 27, 2022, providing for a 5.5 year term loan with a principal balance of $400,000 and with the net proceeds of $376,000, of which a portion of the proceeds were used by S1 Holdco, to settle the outstanding debt of $172,038 with Cerberus Business Finance, LLC. The 2022 Revolving Facility provided for borrowing availability of up to $50,000. As of September 30, 2023, $50,000 was outstanding on the 2022 Revolving Facility and principal of $370,000 was outstanding on the Term Loan. Through December 31, 2025, $5,000 of the Term Loan is payable quarterly. From March 31, 2026, $7,500 of the Term Loan is payable quarterly. The Term Loan matures in 2027.

For every interest period, the interest rate on the Term Loan is the adjusted Term Secured Overnight Financing Rate ("Term SOFR") plus 4.75%. The Term Loan is amortized in quarterly installments on each scheduled payment date. The Term Loan comes with a leverage covenant, which goes into effect only if the utilization on the 2022 Revolving Facility exceeds 35% of the $50,000 2022 Revolving Facility at each quarter-end starting from the first full quarter after the effective date of the Merger, such that the first lien leverage ratio (as defined in the credit agreement) should not exceed 5.40. The facility has certain financial and nonfinancial covenants, including a leverage ratio. The facility also requires that the Company delivers its audited consolidated financial statements to its lender within 120 days of its fiscal year end, December 31. Should the Company fail to distribute the financial statements to its lender within 120 days, it is allowed an additional 30 days to cure.

The 2022 Revolving Facility matures in January 2027, and accordingly, it is classified within long-term debt, net on the consolidated balance sheet as of June 30, 2023. The interest rate on the 2022 Revolving Facility is the adjusted Term SOFR plus 2.5% with an adjusted Term SOFR floor of 0%. In March 2022, the Company borrowed $49,000 under its 2022 Revolving Facility, to fund a portion of the purchase price related to its CouponFollow acquisition. In October 2022, the Company borrowed the remaining $1,000 available.

The carrying values of our debt, net of discounts, deferred financing and debt issuance costs were as follows:

	Successor	
	September 30, 2023	**December 31, 2022**
Term Loan[1,2]	$ 353,273	$ 364,525
2022 Revolving Facility	50,000	50,000
Total Debt, net	$ 403,273	$ 414,525

[1] Includes loan fees of $996 and $1,061, respectively, recorded as a reduction of the carrying amount of the debt and amortized to interest expense using the effective interest method.

[2] Estimated fair value of the Term Loan was $308,950 as of September 30, 2023.

We have principal and interest payments due of approximately $15,000 per quarter.

Related-Party Loans

2023 Revolving Note

On April 10, 2023, Orchid Sub entered into the $20,000 2023 Revolving Note with Lone Star and CEE which are trusts established for the benefit of Michael Blend (Chief Executive Officer, co-founder and stockholder) and Charles Ursini (co-founder and stockholder), respectively, in a private transaction approved by the independent and noninterested members of the Board. Each Lender provided a $10,000 commitment for an aggregate principal of

$20,000 under the 2023 Revolving Note to Orchid Sub on a several but not joint basis (each, a "Commitment" and, collectively, the "Commitments").

Any borrowed loan amounts outstanding under the 2023 Revolving Note accrue interest at the rate per annum equal to the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York plus 3.15%. Orchid Sub may borrow amounts under the 2023 Revolving Note in increments of $100, and may prepay any amounts borrowed at any time without penalty or interest (other than applicable breakage costs, if any). We may borrow up to our commitment amount, and may reuse the loan again after the balance has been paid down. The maturity date under the 2023 Revolving Note is July 10, 2024 (the "Maturity Date") with automatic three-month extensions, unless we or any Lender provides written notice, unless there is an event of default, including a continuing event of default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Lenders are also entitled to (i) an unused commitment fee equal to 1.0% per annum of the actual daily amount of total unfunded commitments under the 2023 Revolving Note during the period from the closing date to the maturity date, payable quarterly in arrears and (ii) a loan fee equal to 12.0% of each Lender's commitment under the 2023 Revolving Note, or $2,400 in total, payable within 180 days of April 10, 2023. Further, this loan fee was capitalized in Prepaid and other current assets and will be amortized on a straight-line basis through the Maturity Date. As of the date these condensed consolidated financial statements were issued, the Company had no remaining available capacity under the 2023 Revolving Note.

Promissory Note

On September 6, 2023, System1 OpCo entered into a $5,156 Promissory Note with the Lender in order to convert the Holdback Amount described in Note 4—*ACQUISITIONS* into the Loan. The amount of the Promissory Note was equal to the amount of the Holdback liability of $5,156 owed to the Lender.

The Loan outstanding under the Promissory Note accrues interest at the rate per annum equal to the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York plus 3.15%. The Company (i) must prepay the Loan under certain circumstances, which include consummation of a Strategic Transaction, the refinancing of the Existing Credit Agreement, the incurrence by us of any indebtedness exceeding $2,500, or the sale of any of our assets in excess of $2,500; (ii) may prepay the Loan at any time without penalty or interest; and (iii) must make four (4) substantially equal amortization payments on April 1, 2024, May 1, 2024, June 1, 2024, and July 1, 2024, unless there is an event of default, including a continuing event of default on the Credit Agreement, at which point the holder may declare all amounts due immediately. We are currently in the process of selling our Protected business. Upon the closing of any sale of this business, the Promissory Note and accrued interest will become due and payable immediately. The Lender under the Promissory Note is also entitled to a closing fee equal to 12.0% of the initial principal amount outstanding under the Promissory Note which is due 50% on October 15, 2023 and 50% on December 15, 2023. As of September 30, 2023, principal of $5,156 was outstanding on the Loan. We recorded an expense of approximately $619 within Loss on restructure of related-party holdback which related to a 12% fee payable to the Lender.

Term Note

On October 6, 2023, Orchid Sub, entered into the $2,500 Term Note with OM2, which is principally owned and managed by trusts established for the benefit of the Company's co-founders, Michael Blend and Charles Ursini, in a private transaction approved by the independent and non-interested members of the Board. Pursuant to the Term Note, the Term Lender provided a fixed $2,500 term loan to Orchid Sub.

The amounts outstanding under the Term Note accrue interest at the rate per annum equal to the SOFR as administered by the Federal Reserve Bank of New York plus 5.75%. The maturity date under the Term Note is December 31, 2024, unless there is an event of default including default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Company must prepay the Loan under certain circumstances, which include (i) the consummation of a strategic transaction or (ii) upon the full refinancing and termination of the Existing Credit Agreement. The Lender is also entitled to a closing fee equal to 10.0% the principal amount of the Term Note, payable within 180 days of October 6, 2023. In addition, Orchid Sub agreed to reimburse the Lender for its reasonable and documented costs expenses incurred in connection with the negotiation, documentation and execution of the Term Note.

Secured Facility

On October 6, 2023, Protected, an indirect wholly-owned subsidiary of the Company, entered into the $10,000 Secured Facility with the Secured Lender and a subsidiary of JDI in a private transaction approved by the independent and non-interested members of the Company's Board. Pursuant to the Secured Facility, the Secured Lender provided the $10,000 Secured Commitment, which amount was (i) drawn down in full on the closing date and (ii) secured by the assets of Protected pursuant to a deed granted in favor of the Secured Lender pursuant to a Debenture between Total Security and the Secured Lender, dated October 6, 2023.

The amounts outstanding under the Secured Facility accrue interest at the rate of 8.5% per annum. The amounts outstanding under the Secured Facility are due upon the earlier of (i) October 6, 2024 or (ii) the date on which Protected undergoes a Change of Control (as such term is defined in the Secured Facility), unless there is an event of default including default on the Credit Agreement, at which point the holder may declare all amounts due immediately. The Secured Lender was also entitled to a closing fee equal to 12.0% the principal amount of the borrowings under the Secured Facility, which was paid in full on the closing date. In addition, Protected agreed to reimburse the Secured Lender for its reasonable and documented costs expenses incurred in connection with the negotiation, documentation and execution of the Secured Facility.

Incentive Plans

Refer to Note 14—*STOCK-BASED COMPENSATION*.

Contingencies

From time to time, we are subject to contingencies that arise in the ordinary course of business. We record an accrual for a contingency when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We do not currently believe the resolution of any such contingencies will have a material adverse effect upon our condensed consolidated financial statements.

Critical Accounting Policies and Estimates

Our condensed consolidated We prepare our financial statements are prepared in accordance with GAAP. The preparation of Preparing these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

The critical accounting estimates, assumptions, and judgments that we believe to have the most significant impact on our condensed consolidated financial statements are stock-based compensation, business combinations and valuation of goodwill and income taxes.

There have been no material changes to our critical accounting policies and estimates since the filing of as described in our Annual Report on Form 10-K for the year ended December 31, 2022. Report.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and identifiable intangibles in a business combination. We account for goodwill in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*, which requires us to test goodwill at the reporting unit level for impairment at least annually, or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We perform our annual goodwill impairment test on December 31.

We have the option (i) to assess goodwill for possible impairment by performing a qualitative analysis to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount or (ii) to perform the quantitative impairment test. The quantitative impairment test involves comparing the estimated fair

value of a reporting unit with its respective carrying amount, including goodwill. If the estimated fair value exceeds the carrying amount, goodwill is considered not to be impaired. If, however, the fair value of the reporting unit is less than its carrying amount, an impairment loss is recognized in an amount equal to the excess.

The fair values of our reporting units were computed by weighting a discounted cash flow model and a reference transaction model which included inputs developed using both internal and market-based data. The key assumptions in the discounted cash flow model included, but were not limited to, the weighted average cost of capital, revenue growth rates (including long-term growth rates), and operating margins. The weighted average cost of capital reflected the increases in market interest rates. The reference transaction model derives indications of value based on mergers and acquisition transactions in the digital advertising industry. Key assumptions in this model included, but were not limited to, the selection of comparable transactions, revenue and EBITDA multiples and EBITDA margins from those transactions. Unanticipated events or circumstances may occur that could affect the accuracy or validity of such assumptions, estimates or actual results.

As a result of adverse macroeconomic impacts as a result of changes in market conditions, increases in interest rates, and weakening of consumer demand during the third quarter of 2022, which contributed to reduced forecasted revenue and reduced expectations for future cash flows, we performed quantitative goodwill impairments tests of our four reporting units as of September 30, 2022. As a result, we fully impaired goodwill of $329,133 in our Publishing and Lead Generation reporting unit and partially impaired goodwill of $10,976 in our Partner Network reporting unit.

During the quarter ended December 31, 2022, we realigned our reporting structure due to changes in management such that our Search and Applications reporting unit became part of the Publishing and Lead Generation reporting unit and the new reporting unit was renamed Owned and Operating Advertising. Based on our annual impairment assessment as of December 31, 2022, we determined that the goodwill attributable to Owned and Operating Advertising of $26,200 was fully impaired. The fair value of our Partner Network reporting unit exceeded its carrying amounts by 9% as of December 31, 2022.

As of December 31, 2022, all our goodwill relates to our Partner Network unit. Goodwill associated with the Partner Network was $82,407 as of December 31, 2022. Any further deterioration in key assumptions or changes in the macroeconomic environment, including further interest rate increases, could adversely impact the fair value of these reporting units and could result in an impairment charge in the future. The Company applied a hypothetical sensitivity analysis by increasing the discount rate used in the valuation of the Partner Network reporting unit by 100 basis points as of December 31, 2022. An increase in the discount rate would result in the estimated fair value of the Partner Network reporting unit decreasing by approximately 7%. The fair values of the reporting unit would continue to exceed its carrying amount, though the excess of the fair value over the carrying amount would be reduced to approximately 1%.

During the nine months ended September 30, 2023, we performed a quantitative assessment for impairment on our Subscription Reporting Unit which qualified as held for sale as of September 30, 2023. As a result, an impairment charge of $115,483 was recorded in discontinued operations during the three months ended September 30, 2023. Refer to Note 15 — *DISCONTINUED OPERATIONS* for additional information. Management determined no triggering events in the Partner Network reporting unit as of September 30, 2023 were present, and accordingly, no quantitative assessment for impairment was required.

Recently Issued Accounting Pronouncements

See For information regarding recent accounting pronouncements, refer to Note 2, Summary of Significant Accounting Policies—*SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Adoption of Recent Accounting Pronouncements* for a discussion of recently issued accounting pronouncements not yet adopted. .

Item 3. Quantitative and Qualitative Disclosure about Market Risk

As a “smaller reporting company”, as defined by Rule 10(f)(1) of Regulation S-K, we are not required to provide this information.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Pursuant to Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO concluded that, as of September 30, 2023 March 31, 2024, due to the material weaknesses in our internal control over financial reporting described below, our disclosure controls and procedures were not effective to ensure that the information required to be disclosed in the reports required to be filed or submitted under the Securities Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and (ii) accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

(b) Material weaknesses in internal control over financial reporting

We have identified material weaknesses in our internal control over financial reporting as of September 30, 2023 March 31, 2024. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses identified were as follows:

- We did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we lacked a sufficient number of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. Additionally, the limited personnel resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of financial reporting objectives, as demonstrated by, among other things, insufficient segregation of duties in our finance and accounting functions.
- We did not design and maintain effective controls in response to the risks of material misstatement. Specifically, changes to existing controls or the implementation of new controls have not been sufficient to respond to changes to the risks of material misstatement to financial reporting.

These material weaknesses contributed to the following additional material weaknesses:

- We did not design and maintain effective controls to timely analyze and record the financial statement effects from acquisitions. complex, non-routine transactions, including acquisitions, dispositions, and post-combination compensation arrangements. Specifically, we did not design and maintain effective controls over the (i) application of U.S. US GAAP to such transactions, including accounting for post-combination compensation arrangements, (ii) and, as it relates to acquisitions, did not design and maintain effective controls over (i) the review of the inputs and assumptions used in the measurement of assets acquired and liabilities assumed, including discounted cash flow analysis to value acquired intangible assets at an appropriate level of precision, (iii) (ii) the tax impacts of acquisitions to the financial statements, and (iv) (iii) conforming of U.S. US GAAP and accounting policies of acquired entities to that of the Company. In addition, we did not design and maintain effective controls relating to the oversight and ongoing recording of the financial statement results of the acquired businesses.
- We did not design and maintain formal accounting policies, procedures and controls to achieve complete, accurate and timely financial accounting, reporting and disclosures, including controls over (i) the preparation and review of business performance reviews, account reconciliations, journal entries, and the identification of asset groups and (ii) maintaining appropriate segregation of duties. Additionally, we did not design and

maintain controls over the classification and presentation of accounts and disclosures in the consolidated financial statements, including the statement of cash flows.

- We did not design and maintain effective controls over the completeness and accuracy of accounting for accrued liabilities, stock-based compensation and equity transactions. transactions, including accounting for non-controlling interest.
- We did not design and maintain effective controls over the accuracy and valuation of goodwill, including the allocation of goodwill to reporting units and the identification and measurement of goodwill impairment.

These material weaknesses resulted in the restatement of the Company's condensed consolidated financial statements statements: as of March 31, 2022 and for the predecessor period from January 1, 2022 to January 26, 2022 and for the successor period from January 27, 2022 to March 31, 2022; as of June 30, 2022 and for the predecessor period from January 1, 2022 to January 26, 2022 and the successor periods for the three months ended June 30, 2022 and from January 27, 2022 to June 30, 2022; and as of September 30, 2022 and for the predecessor period from January 1, 2022 to January 26, 2022 and the successor periods for the three months ended September 30, 2022 and from January 27, 2022 to September 30, 2022. These material weaknesses also resulted in immaterial misstatements to substantially all of the S1 Holdco, LLC accounts, which were recorded prior to the issuance of the consolidated financial statements as of December 31, 2021, 2020, 2019 and 2018 and for the years then ended; as of March 31, 2021 and 2020 and for the three-month periods then ended; as of June 30, 2021 and 2020 and for the six-month periods then ended; and as of September 30, 2021 and 2020 and for the nine-month periods then ended.These material weaknesses also resulted in the revision to the consolidated financial statements for the period from January 27, 2022 to December 31, 2022 and each of the three quarterly periods in the years ended December 31, 2022 and 2023.

These material weaknesses also resulted in an immaterial adjustments to stock-based compensation expense and accrued expenses and other current liabilities accounts of the financial statements misstatement within cash flows from operating activities of System1, Inc. as of March 31, 2022 and for the successor period from January 27, 2022 to March 31, 2022; as of June 30, 2022 and for the successor periods for the three months ended June 30, 2022 and from January 27, 2022 to June 30, 2022; and as of September 30, 2022 and for the successor periods for the three months ended September 30, 2022 and from January 27, 2022 to September 30, 2022; as of December 31, 2022 and for the successor periods for the three months ended December 31, 2022 and from January 27, 2022 to December 31, 2022; as of and for the three months ended March 31, 2023; as of and for the three months ended June 30, 2023, and as of and for the three months ended September 30, 2023; all of which were recorded prior to the issuance of these condensed consolidated financial statements.

Further, these March 31, 2024. These material weaknesses also resulted in immaterial adjustments to related party loan fee payable, related party loan, cash and cash equivalents and restricted cash as misstatements within stockholders' equity of June 30, 2023 as well as cash flows from operating and financing activities the consolidated financial statements of System1, Inc. as of March 31, 2023 September 30, 2022, December 31 2022, December 31, 2023 and for the three months ended March 31, 2023, as of June 30, 2023 and for the six months ended June 30, 2023, and as of September 30, 2023 and for the nine months ended September 30, 2023, and to intercompany interest expense as of September 30, 2023, all of which were recorded prior to the issuance of these condensed consolidated financial statements. quarterly periods during 2023.

- We did not design and maintain effective controls over the accounting for complex financial instruments, including the impact of these instruments on earnings per share.

This material weakness also resulted in a material misstatement of the Trebia warrant liabilities, change in the fair value of the Trebia warrant liabilities, forward purchase agreement liabilities, change in the fair value of the forward purchase agreement liabilities, classification of redeemable shares of Class A common stock issued in connection with Trebia's initial public offering, additional paid-in-capital, accumulated deficit, Earnings Per Share, and related financial disclosures of Trebia Acquisition Corp. as of December 31, 2020 and for the period from February 11, 2020 (inception) through December 31, 2020, as of September 30, 2020 and for three month period ended September 30, 2020 and for the period from February 11, 2020 (inception) through September 30, 2020, as of June 30, 2020 and for three month period ended June 30, 2020 and for the period from February 11, 2020 (inception) through June 30, 2020, as of March 31, 2021 and for three month period ended March 31, 2021. This material weakness also resulted in material adjustments relating to the Trebia forward purchase agreement liabilities and repurchases of common stock impacting the accumulated deficit and additional paid-in capital in the opening balance sheet as of January 27, 2022 and the earnings per share computations for the quarter ended June 30, 2022 of the Company.

Additionally, these material weaknesses could result in a misstatement of substantially all of our accounts or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

- We did not design and maintain effective controls over information technology ("IT") general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain: (i)
  i. program change management controls to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized, and implemented appropriately; (ii)

  ii. user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel; (iii)
  iii. computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored; and (iv)
  iv. testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

These IT deficiencies did not result in a material misstatement to the financial statements; however, the deficiencies, when aggregated, could impact the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected. Accordingly, we have determined these IT deficiencies in the aggregate constitute a material weakness.

(c) Remediation plan for the material weaknesses

We continue are in the process of, and we are focused on, designing and implementing effective measures to execute improve our internal control over financial reporting and remediate the material weaknesses. Our remediation plan, consisting efforts to address the identified material weaknesses are ongoing. Our efforts include a number of the following: actions:

- Hiring Assessing the need of additional senior level accounting personnel with applicable technical accounting knowledge, training, and experience in accounting matters, and hiring the appropriately skilled resources, supplemented by third party third-party resources;
- Designing and implementing controls to formalize roles and review responsibilities to align with our team's skills and experience and designing and implementing controls over ensuring segregation of duties;
- Engaged an accounting advisory firm to assist with the documentation, evaluation, remediation and testing of our internal control over financial reporting based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission;
- Engaged third-party experts specialists to assist with the preparation of technical accounting analyses and valuations associated with business combinations, and divestitures; ensuring adequate review by accounting personnel with applicable technical accounting knowledge, training, and experience in accounting for business combinations or dispositions;
- Designing and implementing controls related to address the financial reporting risks over the accounting for dispositions, acquisitions and other technical accounting and financial reporting matters, complex, non-routine transactions, including controls over the preparation and review of accounting memoranda addressing these matters, valuations and key assumptions utilized in the valuations, tax impacts, and ongoing recording of the financial statement results of the acquired businesses;
- Designing and implementing formal accounting policies with periodic reviews, procedures and controls supporting our period-end financial reporting process, including controls over the preparation and review of account reconciliations and journal entries, business performance reviews, foreign exchange gains/losses for intercompany transactions, appropriate determination of asset groups for impairment consideration and classification and presentation of accounts and disclosures, including the statement of cash flows;
- Designing and implementing controls over to address the completeness and accuracy of financial reporting risks over accrued liabilities, stock-based compensation and equity transactions; transactions, including accounting for non-controlling interest;
- Designing and implementing controls related to address the financial reporting risks over the accounting for complex financial instruments, including the earnings per share impacts;
- Designing and implementing controls to address the financial reporting risks over the accuracy and valuation of goodwill, including the allocation of goodwill to reporting units and the identification and measurement of goodwill impairment; and
- Designing and implementing IT general controls, including controls over change management, the review and update of user access rights and privileges, controls over batch jobs and data backups, and program development approvals and testing.

We believe the measures described above will facilitate the remediation of the material weaknesses we have identified and will strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control over financial reporting and will continue to review, optimize and enhance our processes, procedures and controls. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies, or we may modify, or in appropriate circumstances not complete, certain of the remediation measures described above. These material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. Therefore, these material weaknesses have not been remediated as of September 30, 2023March 31, 2024.

(d) Changes in Internal Control over Financial Reporting. Reporting

There have been no changes in to our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the three months ended September 30, 2023, as defined under Rule 13a-15(f) under the Exchange Act, thatMarch 31, 2024 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 1. Legal Proceedings

Information We are party to pending litigation and claims in response connection with the ordinary course of our business. We make provisions for estimated losses to this be incurred in such litigation and claims, including legal costs, and we believe such provisions are adequate. See Note 7, Commitments and Contingencies, within the notes to our unaudited condensed consolidated financial statements for a summary of material legal proceedings, in addition to Part I, Item is included in “Part I — Item 1. — Note 9— *COMMITMENTS AND CONTINGENCIES*” and is incorporated by reference into Part II 3, “Legal Proceedings” of this Quarterly our Annual Report on Form 10-Q.10-K filed with the SEC on March 15, 2024.

Item 1A. Risk Factors. Factors

Other than as set forth below and with respect to the material weaknesses described herein, which could further amplify our previously disclosed risks, particularly with respect to the consequences of a material weakness in internal control over financial reporting, there There have been no material changes from the risk factors previously disclosed in response to "Part I—Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

We may have difficulty successfully completing divestitures or exiting businesses.

As previously reported, we announced that we had received a non-binding indication of intent from Just Develop It Limited regarding a potential acquisition of Protected, the Company’s subscription business, consisting of $240 million in cash, the redemption or repurchase of approximately 29.1 million shares of Class A Common Stock and certain other assumptions or cancellations of earnout payments in respect of Protected. A divestiture of Protected could result in difficulties in the separation of operations, services, products and personnel, the diversion of management’s attention, the disruption of our business and the potential loss of key employees and customers. A divestiture of Protected may be subject to the satisfaction of pre-closing conditions as well as to obtaining necessary regulatory approvals, which, if not satisfied or obtained, may prevent us from completing the disposition, whether or not the disposition has been publicly announced. A divestiture of Protected may also involve continued financial involvement in the divested assets and businesses, such as indemnities or other financial obligations, including continuing obligations to employees, in which the performance of the divested assets or businesses could impact our financial position and results of operations. Further, such divestiture may result in proceeds to us in an amount less than we expect or less than our assessment of the value of those assets. Any sale of our assets could result in a loss on divestiture. Any of the foregoing could adversely affect our financial condition and results of operations.

We have identified conditions and events that raise substantial doubt about our ability to continue as a going concern.

As previously reported, starting in the third quarter of 2022 and continuing into 2023, we have experienced declining cash flows and financial performance as a result of deteriorating macroeconomic conditions, resulting in reductions in both advertiser and overall consumer demand for our marketing services. In response to these conditions, we entered into the 2023 Revolving Note with related parties for $20,000, which was expected to provide us with sufficient liquidity to manage through the current business environment. However, subsequent to the quarter ended June 30, 2023, we experienced increased customer acquisition costs in addition to the loss of a significant Network Partner, both of which have further negatively impacted our future cash forecasts, and could negatively impact our compliance with certain covenants in our Credit Agreement providing for the Term Loan and the 2022 Revolving Facility. As of September 30, 2023, we had cash on hand of $4,853, an accumulated deficit of $646,242 and cash outflows from operations of $5,908 for the nine months ended September 30, 2023. We have principal and interest payments due of approximately $15,000 per quarter. As of the date of this filing, we have no remaining available capacity under the 2023 Revolving Note.

The declining cash flows and financial performance raise substantial doubt regarding our ability to continue as a going concern for a period of one year following the date that these condensed consolidated financial statements are issued. We have both developed and implemented plans to improve our liquidity. Our implemented plans include the restructuring of the CouponFollow Holdback Amount in September 2023 through the issuance of a $5,156 note and obtaining the Onyx and OpenMail2 debt financings for $10,000 and $2,500, respectively (refer to Note 13—*RELATED-PARTY TRANSACTIONS*) in October 2023, entering into a factoring agreement in November 2023 for an initial $5,000 (refer to Note 16 – *SUBSEQUENT EVENTS*) as well as implementing a significant reduction in headcount in both the second quarter of 2023 and in early September 2023, resulting in approximately $14,500 of annualized savings. Our developed plans include the sale of Total Security Limited ("Protected"; formerly Protected.net Group Limited) (refer to Note 15—*DISCONTINUED OPERATIONS*), which we anticipate will result in significant cash inflows. As announced in our press release on September 6, 2023, we received a non-binding indication of intent from JDI to acquire Protected for $240,000 in cash as part of the consideration. However, until we have executed a definitive sale agreement, we cannot provide assurances that the sale will be finalized on acceptable terms or at all. To the extent our financial performance does not improve or our plans are not successful or finalized, we may have insufficient available cash balances to fund our operations for the remainder of the calendar year. Additionally, if we are unable to satisfy certain covenants under the Credit Agreement (refer to Note 9—*Debt, net*), this could constitute an event of default and provide the administrative agent on behalf of the lenders the ability to immediately call the outstanding principal balances of the Term Loan and 2022 Revolving Facility, with cross default provisions with the 2023 Revolving Note, Promissory Note, Term Note and Secured Facility (refer to Note 13 – *RELATED PARTY TRANSACTIONS*) and the Receivables Purchase Agreement (refer to Note 16 – *SUBSEQUENT EVENTS*. In the event of a default, including the aforementioned cross defaults, there can be no assurance that we will be able to continue as a going concern, which will force us to delay, reduce or discontinue certain aspects of our business strategy. Accordingly, we believe that there is substantial doubt about our ability to continue as a going concern for the twelve-month period following the date of this filing.

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

Share Repurchases

In August 2022, the Board authorized up to $25,000 $25.0 million for the repurchase of our Class A common stock and Public Warrants. During the quarter ended, September 30, 2023, no repurchases of our equity securities were made by us or by any of our affiliated purchasers. As of September 30, 2023 March 31, 2024, we had $23,878 $23.9 million available under this authorization remaining.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Receivables Purchase Agreement *None.*

On November 8, 2023, System1 OpCo LLC (a subsidiary of S1 Holdco) entered into an agreement with OAREX Funding, LLC (the “Factor”) for the purchase and sale of accounts receivable related to its advertising business (the “Receivables Purchase Agreement”). Based on the terms of the agreement, the Factor advances up to 80% of transferred customer receivables and holds the remaining as a reserve until the customer pays the Factor. The initial maximum advance amount is $5,000 with the potential to increase the maximum amount to $20,000 (upon approval from the Factor’s lender). These reserves are remitted to the Company upon customer payment, less applicable discount fees. The Company is initially charged 1.3% of the advance amount for each invoice purchased for the first 30 days after the purchase date of the receivable and 0.43% on the face value for every subsequent 10-day period or portion thereof until the transferred receivable is collected. As collateral securing the amounts owed to the Factor, the Company grants the Factor a continuing first priority security interest in all purchased accounts receivable and any related payments. This factoring agreement is effective for an initial 12-month period and continues for additional 12-month periods until terminated through release from the Company after repayment of all amounts owed to the Factor or earlier under occurrence of certain events of default, including default of the Term Loan and 2022 Revolving Facility. As of the date of issuance of these financial statements, $5,000 is the maximum advance amount with no amounts advanced. The Company is currently evaluating the accounting impact of this arrangement.

A copy of the Receivables Purchase Agreement is attached as Exhibit 10.6 to this Quarterly Report and is incorporated herein by reference. The disclosure as set forth above is intended to be a summary only and is qualified in its entirety by reference to the Receivables Purchase Agreement.

Item 6. Exhibits

		Incorporated by Reference				Filed or Furnished Herewith
Exhibit No.	Description	Form	File No.	Exhibit	Filing Date	
2.1(a)	Business Combination Agreement, dated as of June 28, 2021, by and among Trebia Acquisition Corp., S1 Holdco, LLC, System1 SS Protect Holdings, Inc., and the other parties that are signatory thereto. 0	8-K	001-39331	2.1	6/29/2021	
2.1(b)	Amendment No. 1 to the Business Combination Agreement, dated as of November 30, 2021, by and among Trebia Acquisition Corp., S1 Holdco, LLC, System1 SS Protect Holdings, Inc., and the other parties that are signatory thereto.	S-4	333-260714	2.2	12/1/2021	
2.1(c)	Amendment No. 2 to the Business Combination Agreement, dated January 10, 2022, by and among S1 Holdco, LLC, a Delaware limited liability company, System1 SS Protect Holdings, Inc., a Delaware corporation and the other parties signatory thereto.	8-K	001-39331	10.1	1/20/2022	
2.1(d)	Amendment No. 3 to the Business Combination Agreement, dated January 25, 2022, by and among S1 Holdco, LLC, a Delaware limited liability company, System1 SS Protect Holdings, Inc., a Delaware corporation and the other parties signatory thereto.	8-K	001-39331	10.1	1/26/2022	
3.1	Certificate of Incorporation of System1, Inc.	8-K	001-39331	3.1	2/2/2022	
3.2	Second Amended and Restated Bylaws of System1, Inc.	8-K	001-39331	3.1	3/1/2023	
4.1	Warrant Agreement, dated June 19, 2020, by and between Trebia Acquisition Corp. and Continental Stock Transfer & Trust Company, as warrant agent.	8-K	001-39331	4.1	6/2/2020	
10.1	Revolving Note, dated April 10, 2023, by and between Lone Star Friends Trust, Cee Holding Trust, and Orchid Merger Sub II, LLC	8-K		10.1	4/12/2023	
10.2	Senior Unsecured Promissory Note, dated September 6, 2023, by and between System1 Opco, LLC and Marc Mezzacca	8-K		10.1	9/12/2023	
10.3	Term Loan Note, dated October 6, 2023, by and between Openmail2, LLC and Orchid Merger Sub II, LLC	8-K		10.1	10/12/2023	
10.4	Secured Facility Agreement, dated October 6, 2023, by and among Onyx Asset Finance Limited and Total Security Limited	8-K		10.2	10/12/2023	
10.5	Debenture relating to Total Security Limited, dated October 6, 2023, by and among Total Security Limited and Onyx Asset Finance Limited	8-K		10.3	10/12/2023	
10.6	Receivables Purchase Agreement, dated November 8, 2023, between System1 OpCo, LLC (and its wholly-owned subsidiaries signatory thereto) and OAREX Funding, LLC					X
31.1	Certification of principal executive officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of principal financial and accounting officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of principal financial and accounting officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X

Exhibit No.	Description	Incorporated by Reference				Filed or Furnished Herewith	
		Form	File No.	Exhibit	Filing Date		
101.SCH 2.1(a)	Business Combination Agreement, dated as of June 28, 2021, by and among Trebia Acquisition Corp., S1 Holdco, LLC, System1 SS Protect Holdings, Inc., and the other parties that are signatory thereto.	XBRL Taxonomy Extension Schema Document. 8-K	001-39331	2.1	6/29/2021		X
	0						
101.CAL 2.1(b)	Amendment No. 1 to the Business Combination Agreement, dated as of November 30, 2021, by and among Trebia Acquisition Corp., S1 Holdco, LLC, System1 SS Protect Holdings, Inc., and the other parties that are signatory thereto.	XBRL Taxonomy Extension Calculation Linkbase Document. S-4	333-260714	2.2	12/1/2021		X
101.DEF 2.1(c)	Amendment No. 2 to the Business Combination Agreement, dated January 10, 2022, by and among S1 Holdco, LLC, a Delaware limited liability company, System1 SS Protect Holdings, Inc., a Delaware corporation and the other parties signatory thereto.	XBRL Taxonomy Extension Definition Linkbase Document. 8-K	001-39331	10.1	1/20/2022		X
2.1(d)	Amendment No. 3 to the Business Combination Agreement, dated January 25, 2022, by and among S1 Holdco, LLC, a Delaware limited liability company, System1 SS Protect Holdings, Inc., a Delaware corporation and the other parties signatory thereto.	8-K	001-39331	10.1	1/26/2022		
2.2	Share Purchase Agreement, dated November 30, 2023, by and among System1, Inc., Orchid Merger Sub II, LLC, Sonic Newco, LLC, JDI Antarctica Limited and JDI Antarctica Sub II Limited	8-K	001-39331	2.1	12/4/2023		
3.1	Certificate of Incorporation of System1, Inc.	8-K	001-39331	3.1	2/2/2022		
3.2	Second Amended and Restated Bylaws of System1, Inc.	8-K	001-39331	3.1	3/1/2023		
4.1	Warrant Agreement, dated June 19, 2020, by and between Trebia Acquisition Corp. and Continental Stock Transfer & Trust Company, as warrant agent.	8-K	001-39331	4.1	6/2/2020		
4.2	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	001-39331	4.2	6/6/2023		
10.1^	System1, Inc. 2022 Incentive Award Plan.	8-K	001-39331	10.2	2/20/2022		
10.2#	Credit and Guaranty Agreement, dated as of January 27, 2022, among Orchid Finco LLC, System1 Midco, LLC, Orchid Merger Sub II, LLC and the subsidiaries from time to time party thereto, S1 Holdco, LLC, Bank of America, N.A. and the lenders from time to time party thereto.	10-K	001-39331	10.7	6/6/2023		
10.9	Registration Rights Agreement, dated January 27, 2022, by and among System1, Inc. and the other parties that are signatory thereto.	S-1	333-262608	10.3	2/9/2022		
10.10	Registration Rights Agreement, dated June 19, 2020, among the Company, the Sponsors and certain other security holders named therein.	8-K	001-39331	10.2	6/22/2020		
10.11	Form of Indemnification Agreement and Advancement Agreement	8-K	001-39331	10.4	3/2/2022		

10.12^	Employment Agreement, dated as of June 15, 2023, between Tridivesh Kidambi and System1, LLC.	8-K	001-39331	10.1	6/22/2022	
10.17	Form of Stockholders Agreement	S-4/A	333-260714	10.3	12/16/2021	
10.26	Insider Trading Policy	10-K	001-39331	10.26	3/15/2024	
31.1*	Certification of principal executive officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2*	Certification of principal financial and accounting officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1**	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2**	Certification of principal financial and accounting officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
97.1*	Policy for Recovery of Erroneously Awarded Compensation.	10-K	001-39331	97.1*	3/15/2024	
101.INS*	XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH*	XBRL Taxonomy Extension Schema Document.					
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.					
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.					
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.					
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.					
101.LAB 104*	XBRL Taxonomy Extension Labels Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X	

\# Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant will furnish copies of any such schedules and exhibits to the SEC upon request.

* Filed herewith.

** This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

^ Indicates management contract or compensatory plan.

Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant will furnish copies of any such schedules and exhibits to the SEC upon request.

SIGNATURES

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

	System1 Inc.
Date: May 9, 2024	
Date: November 9, 2023	By: /s/ Michael Blend
	Michael Blend
	Chief Executive Officer
Date: November 9, 2023 May 9, 2024	By: /s/ Tridivesh Kidambi
	Tridivesh Kidambi
	Chief Financial Officer

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THIS RECEIVABLES PURCHASE AGREEMENT (the “Agreement”), dated as of November 8, 2023, is between System1 OpCo LLC and its wholly-owned subsidiaries that are signatory to this Agreement (collectively, the “Seller”), and OAREX Funding, LLC a Delaware limited liability company (the “Buyer”).

Seller and Buyer (collectively, the “Parties”) agree as follows:

MATERIAL TERMS OF THE DEAL:
Factoring Limit or Max Credit Limit: $20,000,000 cash outlay; provided, however, that the cash outlay shall be limited to $5,000,000 until such time as Buyer receives approval from its lender to increase the cash outlay.
Advance Rate: 80% of the Face Value of a Purchased Digital Ad Receivable, subject to adjustment based on the Concentration Limit or for other risks as agreed between the Parties.
Minimum Utilization Amount: 50% of the Max Credit Limit.
Initial Fee: 1.30% fee for the Initial Fee Period, which Initial Fee shall be adjusted by the Fee Adjustment if the Advance Rate in respect of the Purchased Digital Ad Receivable is less than 80%
Initial Fee Period: 30 days from the purchase date of a Purchased Digital Ad Receivable.
Factoring Fee Percentage: 0.4333333% for every Factoring Fee Period until the applicable Purchased Digital Ad Receivable is Closed, which Factoring Fee Percentage shall be adjusted by the Fee Adjustment if the Advance Rate in respect of the Purchased Digital Ad Receivable is less than 80%.
Factoring Fee Period: Each 10-day period or portion thereof commencing from the end of the Initial Fee Period.
Concentration Limit: In respect of any Payor, an amount equal to 50% of the aggregate of the Advance Amount in respect of all Purchased Digital Ad Receivables purchased by Buyer from Seller.
Fee Adjustment: In respect of any Purchased Digital Ad Receivable where the Advance Rate is less than 80%, an amount equal to (i) the Initial Fee or the Factoring Fee Percentage, as the case may be, multiplied by (ii) the quotient obtained by dividing the actual Advance Rate by 80%.
Initial Set-Up Fee: ~~A one time fee of 1% of the Face Value of Digital Ad Receivables to be sold applied only to the first Digital Ad Receivables purchased by Buyer~~. Waived.
Misdirected Payment Fee: See below in Section 39, Definitions and Index to Definitions.
Wire Fee: $25 to cover fees and costs associated with outgoing wire transfers to Seller.
Minimum Utilization Fee: 0.50% per month (prorated for any partial month) on the amount by which the Total Advanced Amount is less than the Minimum Utilization Amount during such month.
Commitment Fee: 0.05% per month (prorated for any partial month), payable monthly, on the average unutilized portion of the Max Credit Limit for that month.
Early Termination Fee: Seller shall pay to Buyer an Early Termination Fee in an amount equal to the sum of (a) the Remaining Commitment Fee plus (b) if this Agreement is terminated prior to the first Anniversary Date, an amount calculated as (i) 0.50% times the number of months (prorated for any partial month) from the date of termination of this Agreement to the first Anniversary Date times (ii) the Minimum Utilization Amount.
Origination Expenses: Buyer’s legal expenses and any set-up and closing costs payable from first funding. Seller provided a deposit of $5,000 against these expenses at signing of the term sheet. If OAREX’s expenses exceed the deposit(s), additional deposits will be required in $5,000 increments.
Remaining Commitment Fee: An amount equal to (a) 0.05% times the number of months (prorated for any partial month) from the date of termination of this Agreement to the next Anniversary Date times (b)the Max Credit Limit.
Effective Date: The date on which Buyer first purchases any Digital Ad Receivables pursuant to this Agreement.

Proprietary & Confidential

STANDARD TERMS & CONDITIONS

1. Assignment and Sale. Seller shall, at Seller's discretion, offer for sale to Buyer as absolute owner, with limited recourse, Seller's Digital Ad Receivables as listed periodically on Seller's accounts receivable schedule. Each Digital Ad Receivable will be accompanied by documentation supporting and evidencing the Digital Ad Receivable in form and content reasonably acceptable to Buyer. Buyer in its sole discretion may choose which Digital Ad Receivables offered by Seller to purchase or may choose to purchase none of the Digital Ad Receivables offered by Seller. On the Purchase Date, Buyer shall pay the Advance Amount, less any amounts due to Buyer from Seller at the time of purchase. The remainder of the Purchase Price will be paid by Buyer to Seller within five (5) days of the date the Purchased Digital Ad Receivable is Closed, subject to amounts being held in the Cash Reserve Account.

2. Cash Reserve Account. Buyer will hold a Cash Reserve Account for Seller that will include amounts received by Buyer from the Payor of the Purchased Digital Ad Receivables that are in excess of the sum of the Advance Amount and the accumulated Factoring Fees, up to the Required Cash Reserve Amount. In addition, Buyer shall add to the Cash Reserve Account any amounts received by Buyer from Seller's receivables not purchased by Buyer. Buyer shall pay Seller any amount of excess in the Cash Reserve Account over the Required Cash Reserve Amount on a weekly basis. Buyer may charge the Cash Reserve Account with any Obligation. Buyer may also charge the Cash Reserve Account for payments that are due but have not been received from Payors for any reason or any payments that are recovered or sought to be recovered by Payors from claims asserted under Sections 547-550 of the Bankruptcy Code, or any equivalent state or federal law, rule or regulation, as needed, up to the greater of the balance of the Cash Reserve Account or the Required Cash Reserve Amount. Buyer may pay any amounts due to Seller by crediting the Cash Reserve Account. Buyer will retain the Cash Reserve Account until Complete Termination. In addition, if, at the time of Complete Termination, there remain outstanding any Exposed Payments, Buyer may continue to hold the amount of all Exposed Payments in a non-segregated non-interest bearing account and may charge such account with the amount of any Exposed Payment that Buyer pays to the bankruptcy estate of the Payor that made the Exposed Payment, on account of a claim asserted under Section 547 of the Bankruptcy Code. Buyer will refund to Seller from time to time that balance of the amount reserved for which a claim under Section 547 of the Bankruptcy Code can no longer be asserted due to the passage of the statute of limitations, settlement with the bankruptcy estate of the Payor or otherwise.

3. Authorization for Purchases. Subject to the terms and conditions of this Agreement, Buyer is authorized to purchase Digital Ad Receivables upon telephonic, email or other instructions received from anyone purporting to be an officer, employee or representative of Seller.

4. Fees and Expenses. Seller shall pay Buyer: (a) Intentionally Omitted; (b) the Factoring Fees when each Purchased Digital Ad Receivable has Closed; (c) Misdirected Payment Fees immediately upon the accrual thereof; (d) the Late Charge, on demand, on all past due amounts due from Seller to Buyer: (e) the Commitment Fee and the Minimum Utilization Fee monthly within 10 business days of the end of the month; (f) the Early Termination Fee as provided in Section 25; and (g) immediately upon demand, out-of-pocket expenses directly incurred by the Buyer such as Wire Fees, postage and reasonable audit fees (collectively, "Fees and Expenses"); provided, however, audit fees shall not exceed $5,000 in any twelve (12) month period without Seller's consent. Buyer may deduct any due but unpaid Fees and Expenses from the Cash Reserve Account or from the Advance Amount at the time of purchase.

5. Repurchase of Accounts. Buyer may require that Seller repurchase, on demand, by payment of the unpaid Face Value, together with any unpaid fees: any Purchased Digital Ad Receivable, the payment of which has been disputed by the obligated Payor or the Account Debtor, in the reasonable determination of Buyer, with Buyer being under no obligation to determine the bona fides of such dispute (i.e. robotic traffic, offsets, fraudulent clicks of any sort, or any reduction of the amount of the Purchased Digital Ad Receivable for any reason including Payor offsets of amounts owed to Payor); or any Purchased Digital Ad Receivable of which Seller has breached any warranty as set forth in Section 14; and all Purchased Digital Ad Receivables upon the occurrence of an Event of Default, or upon the termination of this Agreement.

6. Security Interest. As collateral securing the Obligations, Seller hereby grants to Buyer a continuing first priority security interest in the Collateral. Despite the creation of this security interest, the Parties intend that the relationship between the Parties remains that of Buyer and Seller of Accounts, and not that of a lender and a borrower.

7. Calculation of Factoring Fees. Factoring Fees shall be calculated for the period from the date on which a Digital Ad Receivable is purchased until the Purchased Digital Ad Receivable is Closed. However, three (3) days will be added to the prorated daily calculation of the Factoring Fees on the date on which Buyer receives any payment if such payment is received other than by wire directly to Buyer or the lockbox established by Buyer.

8. Authorization to Buyer. Seller grants to Buyer an irrevocable power of attorney coupled with an interest authorizing and permitting Buyer (acting through any of its employees, attorneys or agents) at any time, at its option but without obligation, without notice to Seller, and at Seller's sole expense, to do any or all of the following, in Seller's name or otherwise: Filing Security Interests: Seller irrevocably authorizes Buyer at Seller's expense, to file any initial financing statements and necessary amendments that: (a) indicate the Collateral as described below; (b) contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including whether Seller is an organization, the type of organization, and any organization identification number issued to Seller; (c) contain a notification that Seller has granted a negative pledge to the Buyer, and that any subsequent lienor may be tortuously interfering with Buyer's rights; (d) advise third parties that any notification of Seller's Account Debtors will interfere with Buyer's collection rights. Seller also irrevocably authorizes Buyer at Seller's expense, to file any Correction Statement in the name of Seller under Section 9-518 of the UCC that Buyer reasonably deems necessary to preserve its rights under this Agreement. Seller authorizes Buyer to accept, endorse and deposit on behalf of Seller any checks tendered by an Account Debtor "in full payment" of its obligation to Seller. Seller shall not assert against Buyer any claim arising from such payments, irrespective of whether such action by Buyer effects an accord and satisfaction of Seller's claims, under §3-311 of the UCC, or otherwise. Seller also grants Buyer ownership and full license to use any data collected during the Term of this Agreement provided that no personally identifiable information is disclosed to the public.Securing Collateral; Liens: To exercise at any time any of the following powers until all of the Obligations have been paid in full: Receive, take,

endorse, assign, deliver, accept and deposit, in the name of Buyer or Seller, as applicable, any and all proceeds of any Collateral securing the Obligations; take or bring, in the name of Buyer or Seller, all steps, actions, suits or proceedings deemed by Buyer necessary or desirable to effect collection of or other realization upon Seller's Purchased Digital Ad Receivables; pay any sums necessary to discharge any lien or encumbrance which is senior to Buyer's security interest in any assets of Seller, which sums will be included as Obligations under this Agreement. Communication with Payor: Seller irrevocably authorizes Buyer at Seller's expense, to notify any Payor obligated with respect to any Purchased Digital Ad Receivable, that the underlying Purchased Digital Ad Receivable has been assigned to Buyer by Seller and that payment is to be made to the order of and directly and solely to Buyer, and to communicate directly with Payors to verify the amount and validity of any Purchased Digital Ad Receivable created by Seller. Seller shall pay to Buyer on the next banking day following the date of receipt by Seller the amount of any payment of a Purchased Digital Ad Receivable paid to Seller instead of Buyer. After an Event of Default: Seller irrevocably authorizes Buyer at Seller's expense, to exercise any of the following after an Event of Default: to extend the time of payment of, compromise or settle for cash, credit, and upon any terms or conditions, any and all Accounts and discharge or release any Payor (including filing of any public record releasing any lien granted to Seller by such Account Debtor), without affecting any of the Obligations. Collection Services: Buyer shall, upon Seller's written request with respect to specific Account Debtors, and immediately after the occurrence of an Event of Default, without Seller's request, perform accounts collection services on Seller's behalf, which services may include, but are not limited to, (a) communicating with Payors (b) reviewing public records and credit reports, and (c) the bringing (in Buyer's or Seller's name at Seller's sole expense), actions deemed appropriate by Buyer to effect collection of Seller's Purchased Digital Ad Receivables ("Collection Services"). Upon such request, or immediately after the occurrence of an Event of Default and during the continuance, Seller shall be deemed to have authorized Buyer to perform Collection Services; provided, however, that Seller agrees that Buyer shall have no liability to Seller for any acts or omissions in connection with the performance by Buyer of any Collection Services nor for the inability of Buyer to collect any amount due.

9. ACH Authorization. In order to satisfy any of the Obligations, Seller authorizes Buyer to initiate electronic debit or credit entries through the ACH system to any deposit account maintained by Seller. If an ACH debit is not honored by the financial institution, for any reason, Seller agrees to immediately pay, in the form of a check, money order or cash, such sums as are necessary to bring the balance then due current, and Seller will be subject to such fees or charges for non-payment, including the Misdirected Payment Fee and the Late Charge. By signing this Agreement, Seller authorizes Buyer to ACH debit Seller's deposit accounts as necessary to satisfy Obligations.

10. Electronic Transactions Authorization. All business conducted between the Parties will be conducted by electronic means and the Parties adopt the provisions of the Ohio Uniform Electronic Transactions Act, all-inclusive. Seller hereby authorizes Buyer to regard Seller's printed name or electronic approval for anything necessary to the consummation of this Agreement as the equivalent of a manual signature by the Seller's authorized officers or agents. Buyer may rely upon and assume the authenticity of any such electronic approval, and any material applicable to such approval as the duly confirmed, authorized and approved signature of the Seller by the person approving the same, will constitute an "authenticated" record for all purposes, and shall satisfy the requirement of any applicable statute of frauds.

11. Covenants By Seller. After written notice by Buyer to Seller, and automatically, without notice, after an Event of Default, Seller shall not: (a) grant any extension of time for payment of any of its Digital Ad Receivables, (b) compromise or settle any of its Digital Ad Receivables for less than Face Value; (c) release in whole or in part any Payor; (d) grant any credits, discounts, allowances, deductions, return authorizations or the like with respect to any of the Digital Ad Receivables. In addition, (i) Seller irrevocably authorizes all employees, agents, accountants and third parties employed by Seller to disclose and deliver to Buyer at Seller's expense all financial information, books and records, work papers, management reports and other information in their possession relating to the Collateral; (ii) Seller shall not create, incur, assume or permit to exist, any lien upon or with respect to the Collateral other than the lien created hereunder; and (iii) Seller shall within two (2) business days after request by Buyer provide Seller with an accounts receivables and/or an accounts payable schedule, each in form and substance satisfactory to Seller, identifying all Digital Ad Receivables of Seller and any

amounts due from Seller to any account debtor in respect of any Digital Ad Receivables. In the event that Buyer sends a notice of assignment to a Payor obligated with respect to any Digital Ad Receivable, Seller shall not direct such Payor to pay such Digital Ad Receivable to Seller or any other entity or individual, or otherwise undermine or interfere with such notice of assignment in any manner. Seller agrees that a violation of the foregoing covenant will put the value of the Collateral at risk and will cause irreparable harm to Buyer. Therefore, Buyer will be entitled to temporary and permanent injunctive relief to prevent such violation without the necessity of proving that actual damages are not an adequate remedy. Buyer will also be entitled to any proceeds of Purchased Digital Ad Receivables received by Seller as a result of such violation in an amount not to exceed the total Obligations.

12. Avoidance Claims. Seller shall indemnify Buyer from any loss (including defense costs, expenses and reasonable attorneys' fees) arising out of the assertion, defense, or judgment or otherwise of any Avoidance Claim, and shall pay to Buyer on demand any of these costs. Seller shall notify Buyer within two Business Days of it becoming aware of the assertion of an Avoidance Claim. This provision will survive termination of this Agreement.

13. Account Disputes. Seller shall notify Buyer promptly of and, if requested by Buyer, will settle exercise commercially reasonable efforts to resolve all disputes concerning any Purchased Digital Ad Receivable, at Seller's sole cost and expense. Buyer may, but is not required to, in consultation with Seller, resolve the dispute upon such terms, as Buyer in its commercially reasonable discretion deem advisable, for Seller's account and risk and at Seller's sole expense. Upon the occurrence of an Event of Default Buyer may so resolve such issues with respect to any Digital Ad Receivable of Seller.

14. Representation and Warranties. Seller acknowledges that the representations, warranties and covenants set forth in this Section 14 are, for Buyer, an essential element of this Agreement and that Buyer would not have entered into this Agreement without such representations, warranties and covenants having been made by Seller. Seller represents, warrants and, as

applicable, covenants, that:

(a) Seller has full power and authority under its constitutive documents to execute and deliver this Agreement and to perform its obligations under this Agreement; Seller has taken all corporate or other entity action necessary to fully authorize the execution, delivery and performance of this Agreement and the person executing this Agreement on behalf of Seller has been duly authorized to do so;

(b) this Agreement constitutes Seller's legal, valid and binding obligation and is enforceable against Seller in accordance with its terms;

(c) Seller is solvent and in good standing in the jurisdiction of its organization;

(d) Seller has not taken any corporate or other action nor have any steps been taken or have any legal proceedings been instituted or threatened against it for its dissolution, liquidation or legal merger, consolidation or conversion into a foreign entity nor has it or any of its assets been placed under bankruptcy or other similar administration or insolvency proceedings under any applicable law by any relevant court;

(e) the signing and delivery of this Agreement and the performance by Seller of its obligations hereunder does not contravene or constitute a default under, or cause Seller to exceed any limitation on it or the powers of its owners, directors, managers or officers imposed by or contained in (i) its constitutive documents or (ii) any agreement to which it is a party or (iii) any law or regulation by which it or any of its assets is bound or affected;

(f) Seller has duly obtained or made each authorization, approval, consent, licence, exemption or registration required from, and has made every notification or filing to, any relevant governmental authority, bureau or agency in connection with the entering into, execution and performance of this Agreement and any matters contemplated by it. No authorization, approval and consent has been revoked or suspended and each licence, exemption or registration is in full force and effect and Seller is in full compliance with each license, exemption or registration and the execution and enforcement of this Agreement and any transaction contemplated by it will not in any way result in a breach of any license, exemption or registration that has been obtained by it;

(g) all information given by Seller in connection with this Agreement was true, complete and accurate in all material respects and is not misleading in any material respect and no information which was essential for Buyer in connection with entering into this Agreement has been withheld by Seller;

(h) no litigation, arbitration or administrative proceedings have been instituted, or are pending, or, to the best of Seller's knowledge having made all reasonable inquiries, is threatened, which might have a material adverse effect on Seller or on Seller's ability to perform its obligations under this Agreement;

(i) Seller is not in breach of or in default under any agreement to an extent or in a manner which has or which might have a material adverse effect on Seller or its ability to perform its obligations under this Agreement;

(j) Seller is not aware of being in default in respect of any applicable law of which it expects that a failure to comply therewith would have a material adverse effect on it or its ability to perform its obligations under this Agreement;

(k) in respect of the execution of this Agreement and the other transactions contemplated by it and any other document executed or to be executed hereunder and thereunder by Seller and the performance of obligations hereunder and thereunder and compliance with the provisions hereof and thereof (i) Seller has valid commercial reasons to enter into this Agreement and such other transaction documents and it will result in an advantage for it and not a disadvantage and (ii) it has no reason to doubt that it is, and after consummation of this Agreement and such other transaction document will continue to be, able to meet its obligations under this Agreement and such other transaction document;

(l) Seller has not granted any lien upon or with respect to any Collateral other than the lien created hereunder and Seller shall not enter into any loan agreement, security agreement, pledge agreement, mortgage, deed of trust or other agreement or instrument which would result in the creation or imposition of, or give rise to any obligation to provide, any security interest upon any of the Collateral;

(m) Seller shall not sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any security interest upon or with respect to, any Digital Ad Receivable, or assign any right to receive income in respect thereof, or grant any option with respect thereto to any person other than Buyer;

(n) the Purchased Digital Ad Receivables will be at the time of sale to Buyer hereunder and will remain bona fide existing obligations created by the sale and delivery of goods or the rendition of services in the ordinary course of Seller's business (i.e. monetize web traffic with advertising and affiliate sales using commercially reasonable efforts to maintain traffic quality in line with industry standards);

(o) the Purchased Digital Ad Receivables will at the time of sale to Buyer hereunder be unconditionally owed and will be payable to Buyer without defenses, disputes, offsets, counterclaims, or rights of return or cancellation;

(p) each Purchased Digital Ad Receivable sold to Buyer hereunder will arise from an "arm's length" transaction by Seller with unaffiliated entities and will be sold by Seller to Buyer free and clear of any liens, encumbrances and adverse claims of any third-party;

(q) at the time of sale of a Purchased Digital Ad Receivable by Seller, Seller will not have received notice or otherwise learned of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of the Account Debtor of such Purchased Digital Ad Receivables; and

(r) Seller will maintain Buyer's access to all Digital Ad Receivable data, in any form, as provided by Account Debtors in the Account Debtor's ordinary course of business.

15. Full-Recourse. The following event(s) shall result in full-recourse liability to the extent of such damages (as reasonably calculated by Buyer), to Seller: (a) any of the representations and warranties set forth in Section 14 shall prove to be or become false or misleading in any material respect; or (b) Seller shall engage in any fraudulent activity as it relates to Buyer or the transactions contemplated by this Agreement; or (c) any attempt by the Seller to re-direct payment back to Seller's bank account, without the prior written approval of Buyer, such an event presumptively deemed to have hurt Buyer to the extent of the Face Value of Digital Ad Receivables payable by such Payors; or (d) any violation of the covenants set forth in Section 11 of this Agreement. Upon the occurrence of a Full Recourse Event, Buyer is authorized to charge (i) the Cash Reserve Account of Seller, or (ii) the Cash Reserve Account of any other seller ("Other Sellers") for which such Other Seller and Seller share mutual owner-principals.

16. Disclaimer of Liability. In no event will Buyer be liable to Seller for any lost profits, lost savings or other consequential, incidental or special damages resulting from or arising out of or in connection with this Agreement, the transactions or relationships contemplated by this Agreement, or Buyer's performance or failure to perform under this Agreement, even if Buyer has been advised of the possibility of such damages.

17. Events of Default. The occurrence of any one of more of the following will constitute an Event of Default: (a) Seller fails to pay or perform any Obligation as and when due; (b) there has been commenced by or against Seller any voluntary or involuntary case under the United States Bankruptcy Code, or any assignment for the benefit of creditors, or appointment of a receiver or custodian for any of its assets, or Seller makes or sends notice of a bulk transfer; (c) Seller or any guarantor

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of the Obligations has become insolvent in that its debts are greater than the fair value of its assets, or Seller is generally not paying its debts as they become due or is left with unreasonably small capital; (d) any lien, garnishment, attachment, execution or the like is issued against or attaches to the Collateral; (e) Seller breaches any covenant, agreement, warranty, or representation set forth in this Agreement and has not cured the same within ten (10) days following written notice thereof from Buyer; (f) Seller delivers any document, financial statement, schedule or report to Buyer which is false or incorrect in any material respect; (g) any present or future guarantor of the Obligations revokes, terminates or fails to perform any of the terms of any guaranty, endorsement or other agreement of such party in favor of Buyer or any affiliate of Buyer or shall notify Buyer of its intention to rescind, modify, terminate or revoke any guaranty of the Obligations, or any such guaranty will cease to be in full force and effect for any reason whatever; or (h) an event of default occurs under the Credit Agreement or under any document or instrument evidencing or securing the loans made thereunder and, as a result thereof, the obligations under the Credit Agreement are accelerated in accordance with its terms.

18. Effect of Default. Upon the occurrence of any Event of Default, in addition to any rights Buyer has under this Agreement or applicable law, Buyer may immediately terminate this Agreement, at which time all Obligations will immediately become due and payable without notice. Buyer shall not re-direct payment back to Seller until all Obligations including Late Charges, if any, under this Agreement have been settled in full.

19. Waiver of Notice. BUYER'S FAILURE TO CHARGE OR ACCRUE FEES DUE HEREUNDER WILL NOT BE DEEMED A WAIVER BY BUYER OF ITS CLAIM TO SUCH FEES. The failure of Buyer at any time, during or after the Term, to require Seller strictly to comply with any of the provisions, warranties, terms or conditions of this Agreement or any other present or future instrument or agreement between Seller and Buyer does not waive or diminish any right of Buyer to later demand and receive strict compliance with this Agreement and any other agreements, and with any other provision warranty, term and condition. Additionally, any waiver of any default will not waive or affect any other default, whether prior or subsequent to such default and whether of the same or of a different type. None of the provisions, warranties, terms or conditions of this Agreement or other instrument or agreement now or later executed by Seller and delivered to Buyer will be deemed to have been waived by any act or knowledge of Buyer or its agents or employees, but only by a specific written waiver signed by an officer of Buyer and delivered to Seller. Seller hereby agrees that Buyer will not be liable for the safekeeping of the Collateral or any loss, damage, or reduction in value of Collateral, including any act of commission or any omission by Buyer or its officers, employees, agents, or attorneys, or any of its or their errors of judgment or mistakes of fact or of law, unless such loss, damage or reduction in value is the result of the gross negligence or willful misconduct of Buyer.

20. Rights with Respect to Collateral. Upon the occurrence of any Event of Default, and at any time thereafter while it is continuing, Buyer, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Seller) may do any one or more of the following: (a) Take possession of any or all of the Collateral wherever it may be found (i.e. web hosting provider), and for that purpose Seller authorizes Buyer without judicial process to enter onto any of the Seller's premises without hindrance to search for, take possession of, keep, store, or remove any of the Collateral, provided, however, that should Buyer seek to take possession of any or all of the Collateral by Court process or through a receiver, Seller irrevocable waives: (i) any bond and any surety or security relating to Collateral required by any statute, court rule or otherwise as an incident to such possession; (ii) any demand for possession prior to the commencement of any suit or action to recover possession the Collateral; and (iii) any requirement that Buyer retain possession of and not dispose of any such Collateral until after trial or final judgment; (b) Require Seller to assemble any or all of the Collateral and make it available to Buyer at a place or places to be designated by Buyer which is reasonably convenient to Buyer and Seller, and to remove the Collateral to such locations as Buyer may deem advisable; (c) Sell, reclaim, lease or otherwise dispose of all or any portion of the Collateral in its condition at the time Buyer obtains possession, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. Buyer may directly or through any affiliated company purchase or lease any Collateral at any such public disposition and, if permissible under applicable law, at any private disposition. Any sale or other disposition of Collateral will not relieve Seller of any liability Seller may have if any Collateral is defective as to title or physical condition at the time of sale; or (d) Demand payment of, and

collect any Accounts, Instruments, Chattel Paper, Supporting Obligations and General Intangibles comprising part or all of the Collateral. Any and all attorneys' fees, expenses, costs, liabilities and obligations incurred by Buyer with respect to the foregoing will be added to and become part of the Obligations and will be due on demand.

21. Online Access. Seller will provide Buyer with access to the Online Portals of all Payors of Purchased Digital Advertising Receivables to have Online Portals. Seller acknowledges that the information Buyer makes available to Seller through online internet access constitutes and satisfies any duty to respond to a request for accounting or request regarding a statement of account that is referenced in the UCC.

22. Standards of Commercial Reasonableness. After an Event of Default, the Parties acknowledge that it will be presumed commercially reasonable and Buyer shall have no duty to undertake to collect any Digital Ad Receivable, including those in which Buyer receives information from an Account Debtor that a dispute exists. Furthermore, in the event Buyer undertakes to collect or enforce an obligation of an Account Debtor or any other person obligated on the Collateral and ascertains that the possibility of collection is outweighed by the likely costs and expenses that will be incurred, Buyer may at any such time cease any further collection efforts and such action will be considered commercially reasonable. Before Seller may, under any circumstances, seek to hold Buyer responsible for taking any commercially unreasonable action, Seller shall first notify

Buyer in writing, of all of the reasons why Seller believes Buyer has acted in any commercially unreasonable manner and advise Buyer of the action that Seller believes Buyer should take.

23. Remedies Cumulative. In addition to the rights and remedies set forth in this Agreement, Buyer shall have all other rights and remedies accorded a secured party under the UCC and under any and all other applicable laws and in any other instrument or agreement now or later entered into between Buyer and Seller, and all of such rights and remedies are cumulative and none are exclusive. Exercise or partial exercise by Buyer of one or more of its rights or remedies will not be deemed an election, nor bar Buyer from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay of Buyer to exercise any rights or remedies will not operate as a waiver, and such rights and remedies will continue in full force and effect until all of the Obligations have been fully paid and performed.

24. Amendment and Waiver. Only a writing signed by the Parties may amend this Agreement. No failure or delay in exercising any right under this Agreement will impair any such right that Buyer may have, nor will any waiver by Buyer be deemed a waiver of any default or breach subsequently occurring. Buyer’s rights and remedies are cumulative and not exclusive of each other or of any rights or remedies that Buyer would otherwise have.

25. Termination; Effective Date. This Agreement will be effective on the date it is signed by the Parties, will continue for the Term, and will be automatically extended for successive Terms unless Seller provides a Termination Notice to Buyer at least thirty (30) days prior to the intended termination date, at which point this Agreement will terminate on the date set forth in said notice (“Early Termination Date”). No termination hereunder will be effective unless all Obligations have been paid to Buyer in full. Buyer may terminate this Agreement and demand immediate payment of all outstanding Obligations at any time and for any reason.In the event of termination (i) by Seller or (ii) by Buyer as a result of an Event of Default by Seller, Seller, in addition to all other Obligations then due, shall immediately pay to Buyer the Early Termination Fee.

26. No Lien Termination without Release. Notwithstanding payment in full of all Obligations by Seller, Buyer will not be required to record any terminations or satisfactions of any of Buyer's liens on the Collateral unless and until Complete Termination has occurred. Seller understands that this provision constitutes a waiver of its rights under §9-513 of the UCC.

27. Conflict. Unless otherwise expressly stated in any other agreement between Buyer and Seller, if a conflict exists between the provisions of this Agreement and the provisions of such other agreement, the provisions of this Agreement will control.

28. Severability. In the event any one or more of the provisions contained in this Agreement is held invalid, illegal or unenforceable in any respect, then such provision will be ineffective only to the extent of such prohibition or invalidity, and the validity, legality, and enforceability of the remaining provisions contained in this Agreement will not in any way be affected or impaired.

29. Savings Clause. Notwithstanding that the Parties agree that the transactions contemplated by this Agreement are sales of Digital Ad Receivables and not loans, if any court or forum recharacterizes the transactions contemplated under this Agreement as loan transactions and any fees and expenses provided for hereunder are recharacterized as interest, then at no time will Seller be obligated or required to pay the amount of any such recharacterized fees or expenses that if paid could subject Buyer to either civil or criminal liability as a result of the recharacterized fees and expenses causing Seller to contract or agree to pay an interest rate that is greater than maximum rate permitted by law. In all events, however, Seller shall pay and Buyer shall be entitled to receive the maximum amount of all the fees and expenses due pursuant to this Agreement to the extent the receipt of those fees and expenses would not subject Buyer to either civil or criminal liability. The Parties agree that the law of the State of Ohio shall apply to this transaction notwithstanding the location of Seller’s principal place of business.

30. Attorneys’ Fees. Seller agrees to reimburse Buyer on demand for: (a) the actual amount of all costs and expenses, including reasonable attorneys' fees, which Buyer has incurred or may incur in (i) negotiating, preparing, or administering this Agreement and any documents prepared in connection with this Agreement; or (ii) protecting, preserving or enforcing any lien, security or other right granted by Seller to Buyer or arising under applicable law, whether or not suit is brought, including but not limited to the defense of any Avoidance Claim or the defense of Buyer’s lien priority; (b) the actual costs, including, travel, and reasonable attorneys' fees and expenses incurred in complying with any subpoena or other legal process in any way relating to Seller; (c) the actual amount of all costs and expenses, including reasonable attorneys' fees, which Buyer may incur in connection with any federal or state insolvency proceeding commenced

by or against Seller, including those (i) arising out the automatic stay, (ii) seeking dismissal or conversion of the bankruptcy proceeding, or (ii) opposing confirmation of Seller's plan. This entire Section will survive termination of this Agreement.

31. Choice of Law. This Agreement and all transactions contemplated within it and/or evidenced by it will be governed by, construed under, and enforced in accordance with the internal laws of the State of Ohio.

32. Jury Trial Waiver. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT

OF OR RELATING TO (a) THIS AGREEMENT (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY); (b) THE OBLIGATIONS OR ANY OF THE TRANSACTIONS CONTEMPLATED UNDER THIS AGREEMENT; OR (c) THE PARTIES ACTIONS IN THE NEGOTIATION, ADMINISTRATION, OR ENFORCEMENT OF THIS AGREEMENT. THE PARTIES EACH ACKNOWLEDGE THAT SUCH WAIVER IS MADE WITH FULL KNOWLEDGE AND UNDERSTANDING OF THE NATURE OF THE RIGHTS AND BENEFITS WAIVED HEREBY, AND WITH THE BENEFIT OF ADVICE OF COUNSEL OF ITS CHOOSING. THE PARTIES EACH ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS.

33. Venue; Jurisdiction. Any suit, action or proceeding arising under this Agreement, or the interpretation, performance or breach of this Agreement, will, if Buyer so elects, be instituted in any federal or state court sitting in Cuyahoga County, Ohio (the “Acceptable Forum”). Seller submits to the jurisdiction of the courts in the Acceptable Forum and waives any and all objections to jurisdiction or venue. Should such proceeding be initiated in any other forum, Seller waives any right to oppose any motion or application made by Buyer to transfer such proceeding to the Acceptable Forum.

34. Service of Process. Seller agrees that Buyer may effect service of process upon Seller by regular mail at the address set forth above or at such other address as may be reflected in the records of Buyer, or at the option of Buyer by service upon Seller’s agent for the service of process.

35. Assignment. Buyer may assign its rights and delegate its duties under this Agreement; provided, however, that no delegation of duties shall relieve Buyer of its obligations to Seller hereunder. Upon such an assignment or delegation, Seller will owe the same obligations to such assignee or delegate and will accept any performance by such assignee or delegate as if such assignee or delagate were Buyer. Any attempted assignment or delegation of duties or rights by Seller will be void and is voidable.

36. Notice. All notices required to be given to any party other than Buyer will be deemed given upon the first to occur of: (a) a deposit of a notice in a receptacle under the control of the United States Postal Service; (b) transmittal by electronic means to a receiver under the control of such party; or (c) actual receipt by such party or an employee or agent of such party. All notices to Buyer shall be deemed given upon actual receipt by a responsible officer of Buyer. All notices must be sent to the addresses on the face page above, or to such other addresses as each Party may indicate in writing.

37. Counterparts. This Agreement may be signed in any number of counterparts, each of which is an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this Agreement by facsimile will be as effective as delivery of a manually executed counterpart of this Agreement, and any party delivering such an executed counterpart of the signature page to this Agreement by facsimile to any other Party shall also promptly deliver a manually executed counterpart of this Agreement to such other party. Failure to deliver such manually executed counterpart will not affect the validity, enforceability, or binding effect of this Agreement.

38. Entire Agreement. No promises of any kind have been made by Buyer or any third party to induce Seller to execute this Agreement. No course of dealing, course of performance or trade usage, and no parole evidence of any nature may be used to supplement or modify any terms of this Agreement.

39. Definitions and Index to Definitions. As used in this Agreement, the following terms used have the following meanings. Terms that are defined in the UCC that are not otherwise defined below shall have the meanings ascribed to such terms in the UCC:

“Account Debtors” means any entity paying Digital Ad Receivables to the Seller in the ordinary course of business.

“Accounts” means all accounts as such term is defined in the UCC, including, without limitation, Digital Ad Receivables.

“Advance Amount” means the portion of the Purchase Price funded to the Seller at the time of the purchase of Digital Ad Receivables. The Advance Amount is calculated as the Face Value multiplied by the Advance Rate.

“Advance Rate” – see Material Terms of the Deal.

“Anniversary Date” means the date which is twelve (12) months after the Effective Date and each twelve (12) month period thereafter.

“Avoidance Claim” is any claim that any payment received by Buyer is avoidable under the Bankruptcy Code or any other debtor relief statute.

“Bankruptcy Code” means Title 11 of the United States Code, as the same may be amended.

“Business Day” means a day on which a bank is open for business in the State of Ohio.

“Cash Reserve Account” is an account on the books of the Buyer, maintained by Buyer to ensure Seller's performance with the provisions of this Agreement.

“Cash Reserve Percentage” means 10% (ten percent) of the Total Advanced Amount that remain Purchased Digital Ad Receivables.

“Cash Reserve Shortfall” means the amount by which the Cash Reserve Account is less than the Required Cash Reserve Amount.

“Closed” means payment of a Digital Ad Receivable is received in full by Buyer from a Payor or from Seller (including its being charged to the Cash Reserve Account).

“Collateral” means, whether now existing or hereafter acquired or arising, (i) all of the Purchased Digital Ad Receivables, (ii) all current and future media contract rights to receive the payment of money in respect of the Purchased Digital Ad Receivables, (iii) all deposits into bank accounts arising from the payment by a Payor of a Purchased Digital Ad Receivable, and (iv) all proceeds of any of the foregoing.

“Complete Termination” occurs upon satisfaction of the following conditions: (1) payment in full of all Obligations of Seller to Buyer; (2) if Buyer has issued or caused to be issued guarantees, promises, or letters of credit on behalf of Seller, acknowledgement from any beneficiaries of those guarantees, promises or letters of credit that Buyer has no outstanding direct or contingent liability with such beneficiaries; and (3) Seller has executed and delivered to Buyer a general release in the form required by Buyer.

“Credit Agreement” means the Credit and Guaranty Agreement dated as of January 27, 2022, among Orchid Merger Sub II, LLC, S1 Holdco, LLC, Seller, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer and the other lenders thereto, as the same has been or hereafter may be amended, modified, supplemented, or replaced.

“Digital Ad Receivable” means any Account generated in Seller’s ordinary course of business.

“Event of Default” means any of the events set forth in Section 17.

“Exposed Payments” means payments received by Buyer from or for the account of a Payor that has become subject to a bankruptcy proceeding, to the extent such payments cleared the Payor’s deposit account within ninety (90) days of the commencement of said bankruptcy case.

“Face Value” means the gross value due in respect of a Purchased Digital Ad Receivable.

“Ongoing Fee” means the Factoring Fee Percentage multiplied by the Face Value of a Purchased Digital Ad Receivable, for each Factoring Fee Period or portion thereof, that any portion thereof remains unpaid, computed from the end of the Initial Fee Period to and including the date on which a Purchased Digital Ad Receivable is Closed.

“Factoring Fees” refers to the Initial Fee and the Ongoing Fee.

“Factoring Fee Period” – see Material Terms of the Deal.

“Full Recourse Event means an event referred to in Section 15 for which Seller shall be fully liable.

“Initial Fee” – see Material Terms of the Deal.

“Late Charge” is 10% percent per day on any Obligations not paid when due.

“Misdirected Payment Fee” is 15% of the amount of any payment (but in no event less than $1,000) on account of a Digital Ad Receivable which has been received by Seller or a third party and not paid by Seller to Buyer on the next Business Day following the date of receipt by Seller or the date of Seller’s knowledge of receipt by Seller or such third party, whichever is later; or 30% of the amount of any such payment which has been received by Seller or any third party as a result of any action taken by Seller to cause such payment to be made to Seller or any third party. Seller acknowledges that the costs imposed upon Buyer by Seller’s action or inaction resulting in the imposition of a Misdirected Payment Fee are difficult to ascertain, and the Misdirected Payment Fee as set forth herein represents the good faith effort to compensate Buyer without imposing upon the parties the expensive burden of litigating that cost, and is the agreed liquidated damages resulting therefrom.

"Obligations" means all present and future obligations owed by Seller to Buyer whether arising under this Agreement or otherwise, and whether arising before, during or after the commencement of any bankruptcy case in which Seller is the debtor. Seller acknowledges that Obligations includes but is not limited to all amounts due to Buyer under Section 5 Repurchase of Accounts of this Agreement. Seller also acknowledges and agrees that the term "Obligations" includes: all obligations owed by Seller to any third party, which Buyer has purchased or may purchase from such third party as a result of Buyer factoring or financing the accounts receivable of such third party. Seller acknowledges that Buyer will be relying upon this provision in factoring or financing the accounts receivable of such third parties (consisting of indebtedness and obligations now or later due from Seller to such third parties), as well as in permitting Account Debtor's to incur other indebtedness due to Seller, but nothing in this Agreement will constitute a commitment of any kind by Buyer to factor or finance the accounts receivable of any third party to the extent they represent amounts owing by Seller to such third parties. Buyer may charge any Obligation of Seller against the Cash Reserve Account or against any payment due to Seller including but not limited to any Purchase Price payment to Seller. All Obligations of Seller under this Agreement shall be joint and several obligations of each Seller.

"Online Portal" means the website or API of a Payor of Purchased Digital Advertising Receivables that provides information online regarding revenues and/or expenses of Seller being generated with such Payor.

"Payor" means an Account Debtor, or other Payor or entity making payment of a Digital Ad Receivable, on behalf of an Account Debtor.

"Purchase Date" means the date on which Buyer purchases a Purchased Digital Ad Receivable.

"Purchase Price" means the Face Value of a Purchased Digital Ad Receivable. Purchase Price is paid by the Buyer to the Seller as follows (1) the Advance Amount will be paid at the time of purchase and (2) the remainder will be paid within five (5) business days after the transaction is Closed, subject to amounts being held in the Cash Reserve Account as described in Section 2 and less accumulated Fees and Expenses as defined in Section 4

"Purchased Digital Ad Receivable" means any Digital Ad Receivable purchased under this Agreement which has not been Closed.

"Required Cash Reserve Amount" means the greater of (a) Cash Reserve Percentage multiplied by the amount of the Total Advanced Amount for Purchased Digital Ad Receivables and (b) the total amounts received by Buyer over the prior 30 days from the Payors of the Purchased Digital Ad Receivables that are in excess of the sum of the Advance Amount and the accumulated Factoring Fees. If Buyer reasonably expects to charge the Cash Reserve Account for Obligations or other requirements as described in Section 2, Buyer may increase the Required Cash Reserve to cover such expected charges.

"Term" means the initial 12-month period beginning on the Effective Date and ending on the first Anniversary Date and continuing for each 12-month period thereafter, unless terminated as provided in Section 25.

"Total Advanced Amount" means, on any day, the sum of the outstanding Advance Amounts on the Purchased Digital Ad Receivables.

"UCC" – The Uniform Commercial Code as adopted in the State of Ohio and the PPSA as implemented in Canada.

SIGNATURE PAGE FOLLOWS

Proprietary & Confidential

The Parties represent they have read, understand and agree to be bound by this Agreement, including the Standard Terms and Conditions that precede this page.

SELLER: SYSTEM1 OPCO, LLC
CONCOURSE MEDIA HOLDINGS, LLC
INFOSPACE HOLDINGS LLC
MAPQUEST HOLDINGS LLC
MAPQUEST SERVICES HOLDINGS LLC
PRIVACY ONE GROUP LIMITED
QOOL MEDIA HOLDINGS LLC
NEXTGEN SHOPPING, LLC

By: /s/ Tridivesh Kidambi
Tridivesh Kidambi, Treasurer and
Chief Financial Officer

Date:____11/8/2023________

Address: 4235 Redwood Avenue
Los Angeles, CA 90066

BUYER: OAREX Funding, LLC

By: ____/s/ William Grathwhol______
William Grathwohl, Authorized Signatory

Date: ____11/6/2023________

Address: P.O. Box 6388
Cleveland, OH 44101

Proprietary & Confidential

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Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Michael Blend, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of System1, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Blend
Michael Blend
Chief Executive Officer
(Principal Executive Officer)
Date: November 9, 2023 May 9, 2024

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Tridivesh Kidambi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of System1, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Tridivesh Kidambi
Tridivesh Kidambi
Chief Financial Officer
(Principal Financial Officer)
Date: November 9, 2023 May 9, 2024

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023 March 31, 2024 of System1, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Blend, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Blend
Michael Blend
Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2023 May 9, 2024

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission (the "SEC") or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023 March 31, 2024 of System1, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tridivesh Kidambi, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tridivesh Kidambi
Tridivesh Kidambi
Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2023 May 9, 2024

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission (the "SEC") or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.