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

FORM 10-Q

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

For the quarterly period ended June 30, 2024
or

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

For the transition period from to
Commission File Number: 001-40829

Sterling Check Corp.
(Exact name of registrant as specified in its charter)

Delaware	**37-1784336**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6150 Oak Tree Boulevard, Suite 490	
Independence, Ohio	**44131**
(Address of principal executive offices)	(Zip Code)

1 (800) 853-3228
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value	STER	The Nasdaq Stock Market LLC

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

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

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

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

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

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

The total number of outstanding shares of the registrant's common stock, $0.01 par value per share, as of August 1, 2024 was 97,989,463 (excluding treasury shares of 7,527,472).

STERLING CHECK CORP. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend that all forward-looking statements that we make will be subject to the safe harbor protections created thereby. You can generally identify forward-looking statements by our use of forward-looking terminology such as "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "playbook," "potential," "predict," "projection," "seek," "should," "will" or "would," or the negative thereof or other variations thereon or comparable terminology. In particular, statements that address market trends, and statements regarding our expectations, beliefs, plans, strategies, objectives, prospects or assumptions, or statements regarding future events or performance, including those related to our pending merger with First Advantage Corporation ("First Advantage"), contained in this Quarterly Report on Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed in this Quarterly Report on Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" may cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements, or could affect our share price. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- the risk that our proposed merger with First Advantage may not be completed in a timely manner, or at all;
- the failure to satisfy the conditions to the consummation of the proposed merger, including the receipt of certain governmental and regulatory approvals and clearances;
- the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement (as defined herein);
- the effect of the announcement or pendency of the proposed merger on our business relationships, operating results and business generally;
- risks that the proposed merger disrupts our current plans and operations and creates potential difficulties in our employee retention as a result of the proposed merger;
- risks related to diverting management's attention from our ongoing business operations;
- unexpected costs, charges or expenses resulting from the proposed merger;
- certain restrictions during the pendency of the proposed merger that may impact our ability to pursue certain business opportunities or strategic transactions;
- the outcome of any legal proceedings that may be instituted against us or against First Advantage related to the Merger Agreement or the proposed merger;
- changes in economic, political and market conditions, including bank failures and concerns of a potential economic downturn or recession, and the impact of these changes on our clients' hiring trends;
- the sufficiency of our cash to meet our liquidity needs;
- the possibility of cyber-attacks, security vulnerabilities and internet disruptions, including breaches of data security and privacy leaks, data loss and business interruptions;
- our ability to comply with the extensive United States ("U.S.") and foreign laws, regulations and policies applicable to our industry, and changes in such laws, regulations and policies;
- our compliance with data privacy laws and regulations;
- potential liability for failures to provide accurate information to our clients, which may not be covered, or may be only partially covered, by insurance;
- the possible effects of negative publicity on our reputation and the value of our brand;
- our failure to compete successfully;
- our ability to keep pace with changes in technology and to provide timely enhancements to our products and services;
- our ability to cost-effectively attract new clients and retain our existing clients;
- our ability to grow our Identity-as-a-Service offerings;

- our success in new product introductions and adjacent market penetrations;
- our ability to expand into new geographies;
- our ability to pursue and integrate strategic mergers and acquisitions;
- design defects, errors, failures or delays with our products and services;
- systems failures, interruptions, delays in services, catastrophic events and resulting interruptions;
- natural or man-made disasters including pandemics and other significant public health emergencies, outbreaks of hostilities or other military conflicts (such as the ongoing conflicts in Ukraine and the Middle East) or effects of climate change and our ability to deal effectively with damage or disruption caused by the foregoing;
- our ability to implement our business strategies profitably;
- our ability to retain the services of certain members of our management;
- our ability to adequately protect our intellectual property;
- our ability to implement, maintain and improve effective internal controls;
- our ability to comply with public company requirements in a timely and cost-effective manner, and expense strain on our resources and diversion of our management's attention resulting from public company compliance requirements; and
- the other risks described in Item 1A. "Risk Factors" in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on March 6, 2024.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements contained in this Quarterly Report on Form 10-Q are not guarantees of future performance and our actual results of operations, financial condition, and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. In addition, even if our results of operations, financial condition, and liquidity, and events in the industry in which we operate, are consistent with the forward-looking statements contained in this Quarterly Report on Form 10-Q, they may not be predictive of results or developments in future periods.

Any forward-looking statement that we make in this Quarterly Report on Form 10-Q speaks only as of the date of such statement. Except as required by law, we do not undertake any obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report on Form 10-Q.

Investors and others should note that we announce material financial and operational information using our investor relations website, press releases, SEC filings and public conference calls and webcasts. Information about Sterling Check Corp. ("Sterling"), our business, and our results of operations may also be announced by posts on our accounts on social media channels, including the following: Instagram, Facebook, LinkedIn and Twitter. The information contained on, or that can be accessed through, our social media channels and on our website is deemed not to be incorporated in this Quarterly Report on Form 10-Q or to be a part of this Quarterly Report on Form 10-Q. The information that we post through these social media channels and on our website may be deemed material. As a result, we encourage investors, the media and others interested in Sterling to monitor these social media channels in addition to following our investor relations website, press releases, SEC filings and public conference calls and webcasts. The list of social media channels we use may be updated from time to time on our investor relations website.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and par value amounts)	June 30, 2024	December 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 74,182	$ 54,224
Accounts receivable (net of allowance for credit losses of $3,212 and $2,816 at June 30, 2024 and December 31, 2023, respectively)	172,050	142,179
Insurance receivable	2,895	2,937
Prepaid expenses	8,678	9,651
Other current assets	21,472	15,800
Total current assets	279,277	224,791
Property and equipment, net	6,772	7,695
Goodwill	902,564	879,408
Intangible assets, net	255,049	230,212
Deferred tax assets	4,943	4,818
Operating leases right-of-use asset	5,386	6,452
Other noncurrent assets, net	9,248	10,067
TOTAL ASSETS	$ 1,463,239	$ 1,363,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 52,892	$ 38,879
Litigation settlement obligation	6,222	5,279
Accrued expenses	79,100	63,987
Current portion of long-term debt	15,000	15,000
Operating leases liability, current portion	3,490	4,219
Income tax payable, current portion	163	8,933
Other current liabilities	15,458	11,839
Total current liabilities	172,325	148,136
Long-term debt, net	537,696	479,788
Deferred tax liabilities	6,114	14,239
Long-term operating leases liability, net of current portion	6,054	7,278
Other liabilities	6,924	12,058
Total liabilities	$ 729,113	$ 661,499
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding)	—	—
Common stock ($0.01 par value; 1,000,000,000 shares authorized; 105,429,219 shares issued and 97,901,748 shares outstanding at June 30, 2024; 99,966,158 shares issued and 93,194,403 shares outstanding at December 31, 2023)	157	98
Additional paid-in capital	1,039,337	983,283
Common stock held in treasury (7,527,471 and 6,771,755 shares at June 30, 2024 and December 31, 2023, respectively)	(99,929)	(88,918)
Accumulated deficit	(200,751)	(186,564)
Accumulated other comprehensive loss	(4,688)	(5,955)
Total stockholders' equity	734,126	701,944
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,463,239	$ 1,363,443

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(in thousands, except share and per share data)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
REVENUES	$ 200,528	$ 190,384	$ 386,527	$ 369,658
OPERATING EXPENSES:				
Cost of revenues (exclusive of depreciation and amortization below)	110,859	102,056	214,900	196,810
Corporate technology and production systems	12,755	11,428	25,969	23,380
Selling, general and administrative	50,379	44,910	110,269	92,361
Depreciation and amortization	15,820	16,120	31,590	31,242
Impairments and disposals of long-lived assets	32	7,039	200	7,145
Total operating expenses	189,845	181,553	382,928	350,938
OPERATING INCOME	10,683	8,831	3,599	18,720
OTHER EXPENSE (INCOME):				
Interest expense, net	10,143	8,990	20,455	17,598
Other income	(322)	(397)	(745)	(809)
Total other expense, net	9,821	8,593	19,710	16,789
INCOME (LOSS) BEFORE INCOME TAXES	862	238	(16,111)	1,931
Income tax provision (benefit)	7,094	(85)	(1,924)	1,017
NET (LOSS) INCOME	$ (6,232)	$ 323	$ (14,187)	$ 914
Unrealized gain (loss) on hedged transactions, net of tax expense (benefit) of $177, $(1,671), $1,218 and $144 respectively	514	4,751	3,534	(408)
Foreign currency translation adjustments, net of tax expense of $0, $0, $0 and $0, respectively	(16)	955	(2,267)	1,637
Total other comprehensive income	498	5,706	1,267	1,229
COMPREHENSIVE (LOSS) INCOME	$ (5,734)	$ 6,029	$ (12,920)	$ 2,143
Net (loss) income per share attributable to stockholders				
Basic	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Diluted	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Weighted average number of shares outstanding				
Basic	92,778,209	92,723,901	91,526,151	92,800,279
Diluted	92,778,209	94,498,666	91,526,151	94,924,080

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)	Shares Outstanding	Par Value	Additional Paid-In Capital	Common Shares Held in Treasury	Common Stock Held in Treasury	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
BALANCE at December 31, 2023	93,194,403	$ 98	$ 983,283	6,771.755	$ (88,918)	$ (186,564)	$ (5,955)	$ 701,944
Issuance of common stock	2,111	—	—	—	—	—	—	—
Repurchases of common stock	(494,157)	—	—	494,157	(6,832)	—	—	(6,832
Exercise of employee stock options, net of shares exchanged for payment and tax withholding	3,397,303	34	33,918	—	—	—	—	33,952
Issuance of common stock under the 2021 Employee Stock Purchase Plan	64,983	5	690	—	—	—	—	695
Shares withheld to cover restricted share vesting tax	(242,755)	—	—	242,755	(3,903)	—	—	(3,903
Issuance of restricted shares, net of forfeitures	1,889,788	19	(19)	—	—	—	—	—
Stock-based compensation	—	—	9,342	—	—	—	—	9,342
Net loss	—	—	—	—	—	(7,955)	—	(7,955
Unrealized gain on hedged transactions, net of tax	—	—	—	—	—	—	3,020	3,020
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(2,251)	(2,251
BALANCE at March 31, 2024	97,811,676	$ 156	$ 1,027,214	7,508,667	$ (99,653)	$ (194,519)	$ (5,186)	$ 728,012
Issuance of common stock	1,983	—	—	—	—	—	—	—
Exercise of employee stock options, net of shares exchanged for payment and tax withholding	44,189	—	421	—	—	—	—	421
Shares withheld to cover restricted share vesting tax	(18,804)	—	—	18,804	(276)	—	—	(276
Issuance of restricted shares, net of forfeitures	62,704	1	(1)	—	—	—	—	—
Stock-based compensation	—	—	11,703	—	—	—	—	11,703
Net loss	—	—	—	—	—	(6,232)	—	(6,232
Unrealized gain on hedged transactions, net of tax	—	—	—	—	—	—	514	514
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(16)	(16
BALANCE as of June 30, 2024	97,901,748	$ 157	$ 1,039,337	7,527,471	$ (99,929)	$ (200,751)	$ (4,688)	$ 734,126

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(in thousands, except share amounts)	Shares Outstanding	Par Value	Additional Paid-In Capital	Common Shares Held in Treasury	Common Stock Held in Treasury	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
BALANCE at December 31, 2022	96,717,883	76	$ 942,789	1,047,237	$ (14,859)	$ (186,448)	$ (4,912)	$ 736,646
Issuance of common stock	4,567	—	—	—	—	—	—	—
Issuance of restricted shares, net of forfeitures and vestings	1,894,310	19	(19)	—	—	—	—	—
Repurchases of common stock	(493,926)	—	—	493,926	(7,712)	—	—	(7,712)
Shares withheld to cover restricted share vesting tax	(37,128)	—	—	37,128	(487)	—	—	(487)
Stock-based compensation	—	—	8,043	—	—	—	—	8,043
Net income	—	—	—	—	—	591	—	591
Unrealized loss on hedged transactions, net of tax	—	—	—	—	—	—	(5,159)	(5,159)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	682	682
BALANCE at March 31, 2023	98,085,706	$ 95	$ 950,813	1,578,291	$ (23,058)	$ (185,857)	$ (9,389)	$ 732,604
Issuance of common stock	2,363	—	—	—	—	—	—	—
Common stock issued for exercise of employee stock options	63,336	—	611	—	—	—	—	611
Issuance of restricted shares, net of forfeitures and vestings	80,331	1	(1)	—	—	—	—	—
Repurchases of common stock	(1,465,893)	—	—	1,465,893	(17,630)	—	—	(17,630)
Shares withheld to cover restricted share vesting tax	(7,181)	—	—	7,181	(85)	—	—	(85)
Stock-based compensation	—	—	9,358	—	—	—	—	9,358
Net income	—	—	—	—	—	323	—	323
Unrealized gain on hedged transactions, net of tax	—	—	—	—	—	—	4,751	4,751
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	955	955
BALANCE as of June 30, 2023	96,758,662	96	$ 960,781	3,051,365	$ (40,773)	$ (185,534)	$ (3,683)	$ 730,887

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	$ (14,187)	$ 914
Adjustments to reconcile net (loss) income to net cash provided by operations		
Depreciation and amortization	31,590	31,242
Deferred income taxes	(9,488)	188
Stock-based compensation	21,045	17,401
Impairments and disposals of long-lived assets	200	7,145
Provision for bad debts	1,212	459
Amortization of financing fees	539	539
Amortization of debt discount	408	392
Deferred rent	(862)	1,023
Unrealized translation loss on investment in foreign subsidiaries	7	108
Change in fair value of contingent consideration, net	1,290	—
Interest rate swap settlements	—	585
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(22,857)	(7,399)
Insurance receivable	41	(2,500)
Prepaid expenses	1,419	2,251
Other assets	(5,375)	(8,650)
Accounts payable	12,530	1,314
Litigation settlement obligation	943	1,848
Accrued expenses	12,296	(10,515)
Other liabilities	(10,584)	(3,447)
Net cash provided by operations	20,167	32,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(993)	(593)
Purchases of intangible assets and capitalized software	(10,355)	(8,589)
Acquisitions, net of cash acquired	(70,437)	(48,641)
Proceeds from disposition of property and equipment	3	125
Net cash used in investing activities	(81,782)	(57,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	—	611
Proceeds from exercise of employee stock options	42,555	—
Cash paid for tax withholding on exercise of employee stock options	(7,676)	—
Proceeds from employee stock purchase plan	695	—
Repurchases of common stock	(6,832)	(25,342)
Cash paid for tax withholding on vesting of restricted shares	(4,179)	(572)
Payments of long-term debt	(7,500)	(3,750)
Borrowings on revolving credit facility	65,000	—
Payment of contingent consideration for acquisition	—	(305)
Net cash provided by (used in) financing activities	82,063	(29,358)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(490)	(120)
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,958	(54,278)
CASH AND CASH EQUIVALENTS		
Beginning of period	54,224	103,095
Cash and cash equivalents at end of period	$ 74,182	$ 48,817

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Six Months Ended June 30,	
(in thousands)	**2024**	**2023**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for		
Interest, net of capitalized amounts of $284 and $189 for the six months ended June 30, 2024 and 2023, respectively	$ 19,527	$ 20,239
Income taxes	19,613	9,703
Noncash investing activities		
Purchases of property and equipment in accounts payable and accrued expenses	175	165
Noncash purchase price of business combinations	2,750	4,706

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

STERLING CHECK CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Sterling Check Corp. (the “Company”), a Delaware corporation headquartered in Independence, Ohio, is a global provider of technology-enabled background and identity verification services. The Company provides the foundation of trust and safety its clients need to create effective environments for their most essential resource—people. The Company offers a comprehensive hiring and risk management solution that begins with identity verification, followed by criminal background screening, credential verification, drug and health screening, employee onboarding document processing and ongoing risk monitoring.

As of June 30, 2024, the Company is 51% owned by an investment group consisting of entities advised by or affiliated with The Goldman Sachs Group, Inc. (“Goldman Sachs”) and Caisse de dépôt et placement du Québec (“CDPQ” and, together with Goldman Sachs, our “Sponsor”). CDPQ owns its equity interest in the Company indirectly through a limited partnership controlled by Goldman Sachs.

Merger with First Advantage

On February 28, 2024, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with First Advantage Corporation, a Delaware corporation (“First Advantage”), and Starter Merger Sub, Inc., a Delaware corporation and an indirect wholly-owned subsidiary of First Advantage (“Merger Sub”). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will be merged with and into the Company (the “Merger”), with the Company continuing as the surviving corporation in the Merger and becoming an indirect wholly-owned subsidiary of First Advantage. The respective boards of directors of the Company and First Advantage unanimously approved the Merger Agreement, and the board of directors of the Company recommended that the Company’s stockholders adopt the Merger Agreement.

On February 28, 2024, following the execution of the Merger Agreement, certain entities advised by or affiliated with Goldman Sachs & Co. LLC and holding a majority of the issued and outstanding shares of the Company’s common stock (together, the “Specified Stockholders’) delivered a written consent to adopt the Merger Agreement and to approve the transactions contemplated thereby, including the Merger, and on April 26, 2024 these stockholders delivered a written consent readopting the Merger Agreement and adopting the ratification by the board of directors of the Company of the execution and delivery of the Merger Agreement. The Merger was approved on behalf of all stockholders of the Company, and no further vote of Company stockholders will be required.

Refer to the audited consolidated financial statements as of December 31, 2023 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 6, 2024, specifically Note 20, “Subsequent Events,” for more detailed information on the Merger.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements are unaudited; however, in the opinion of management, they reflect all adjustments including those of a normal recurring nature necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The results of operations for the interim periods presented are not necessarily indicative of results for the full year or future periods. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2023 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 6, 2024.

Out-of-Period Adjustments

During the three months ended March 31, 2024, the Company recorded a $4.0 million out-of-period adjustment to increase selling, general and administrative expense and other current liabilities to correct for an error identified by management during the preparation of the unaudited condensed consolidated financial statements. This out-of-period adjustment is reflected in the unaudited condensed consolidated financial statements for the six months ended June 30, 2024. During the three months ended March 31, 2024, the Company identified that the fair value of the contingent consideration related to the acquisition of Employment Background Investigations, Inc. (“EBI”) was understated by $4.0 million as of December 31, 2023. This out-of-period adjustment represents a correction of an understatement of expenses and an overstatement of net income of $2.0 million in each of the years ended December 31, 2023 and 2022 and an understatement of the related liabilities of $4.0 million and $2.0 million as of December 31, 2023 and 2022, respectively. In addition, during the three months ended March 31, 2024, the Company recorded an out-of-period adjustment of $0.7 million to increase the income tax benefit to correct for an error identified by management. This out-of-period adjustment is reflected in the unaudited condensed consolidated financial statements for the six months ended June 30, 2024 and represents a correction of an overstatement of the income tax provision for the year ended December 31, 2023.The Company evaluated the impact of these errors and out-of-period adjustments and concluded they are not material to any previously issued interim or annual consolidated financial statements and the adjustments are not expected to be material to the consolidated financial statements for the year ending December 31, 2024.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that can affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent assets, and liabilities. Significant estimates include the impairment of long-lived assets, goodwill impairment, derivative instruments and hedging activities, and the determination of the fair value of acquired assets, liabilities and contingent consideration. The Company believes that the estimates used in the preparation of these unaudited condensed consolidated financial statements are reasonable; however, actual results could differ materially from these estimates.

Risks and Uncertainties

The Company operates in an industry that is subject to intense competition, government regulation and rapid technological change. The Company’s operations are subject to significant risks and uncertainties including financial, operational, technological, regulatory, foreign operations, and other risks.

Segment Information

The Company has one operating and reportable segment. The Company’s chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

Cash and Cash Equivalents

Cash and cash equivalents of $74.2 million and $54.2 million as of June 30, 2024 and December 31, 2023, respectively, include money market instruments with maturities of three months or less. The Company maintained cash outside the U.S. as of June 30, 2024 of $17.0 million with the largest deposits being held in Canada and Australia, with balances of $4.4 million and $2.7 million, respectively. Cash outside the U.S. was $19.3 million as of December 31, 2023, with the largest deposits being held in Australia and India, with balances of $6.2 million and $3.2 million, respectively.

Foreign Currency

Assets and liabilities of operations having non-USD functional currencies are translated at period-end exchange rates, and income statement accounts are translated at weighted average exchange rates for the period. Gains or losses resulting from translating foreign currency financial statements, net of any related tax effects, are reflected in accumulated other comprehensive income or loss (“OCI”), a separate component of stockholders’ equity on the unaudited condensed consolidated balance sheets. Gains or losses resulting from foreign currency transactions incurred in currencies other than the local functional currency are included in other income in the unaudited condensed consolidated statements of operations and comprehensive (loss) income. The cumulative translation adjustment resulted in losses of $5.1 million and $2.9 million as of June 30, 2024 and December 31, 2023, respectively.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable balances consist of trade receivables that are recorded at the invoiced amount, net of allowances for expected credit losses and for potential sales credits and reserves. Sales credits and reserves were $0.8 million and $1.2 million as of June 30, 2024 and December 31, 2023, respectively.

The Company maintains an allowance for expected credit losses in order to record accounts receivable at their net realizable value. Inherent in the assessment of the allowance for expected credit losses are certain judgments and estimates relating to, among other things, the Company's customers' access to capital, customers' willingness and ability to pay, general economic conditions and the ongoing relationship with customers. Allowances have been recorded for receivables believed to be uncollectible, including amounts for the resolution of potential credit and other collection issues such as disputed invoices. The allowance for expected credit losses is determined by analyzing the Company's historical write-offs, the current aging of receivables, the financial condition of customers and the general economic climate. Adjustments to the allowance may be required in future periods depending on how such potential issues are resolved or if the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payments. The Company has not historically had material write-offs due to uncollectible accounts receivable.

Allowances for expected credit losses were $3.2 million and $2.8 million as of June 30, 2024 and December 31, 2023, respectively. The following table summarizes changes in the allowance for expected credit losses for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2024**	**2023**	**2024**	**2023**
Balance as of beginning of period	$ 2,933	$ 2,473	$ 2,816	$ 2,304
Additions	972	215	1,176	459
Write-offs, net of recoveries	(692)	(30)	(774)	(108)
Foreign currency translation adjustment	(1)	—	(6)	3
Balance as of end of period	$ 3,212	$ 2,658	$ 3,212	$ 2,658

Corporate Technology and Production Systems

Corporate technology and production systems includes costs related to maintaining the Company's corporate information technology infrastructure and non-capitalizable costs to develop and maintain its production systems.

The following table sets forth expenses included in each category of corporate technology and production systems for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2024**	**2023**	**2024**	**2023**
Corporate information technology	$ 5,282	$ 4,922	$ 10,108	$ 10,189
Development of platform and product initiatives	4,924	4,280	10,484	8,694
Production support and maintenance	2,549	2,226	5,377	4,497
Total production systems	7,473	6,506	15,861	13,191
Total corporate technology and production systems	$ 12,755	$ 11,428	$ 25,969	$ 23,380

Corporate information technology consists of salaries and benefits of personnel (including stock-based compensation expense) supporting internal operations such as information technology support and the maintenance of information security and business continuity functions. Also included are third-party costs including cloud computing costs that support the Company's corporate internal systems, software licensing and maintenance, telecommunications and other technology infrastructure costs.

Production systems costs consist of non-capitalizable personnel costs including contractor costs incurred for the development of platform and product initiatives and production support and maintenance. Platform and product initiatives facilitate the development of the Company's technology platform and the launch of new screening products. Production support and maintenance includes costs to support and maintain the technology underlying the Company's existing screening products and to enhance the ease of use of the Company's cloud applications.

Certain personnel costs related to new products and features are capitalized and amortized to depreciation and amortization.

Included within corporate technology and production systems are non-capitalizable production system and corporate information technology expenses related to Project Ignite, a three-phase strategic investment initiative. Phase one of Project Ignite modernized client and candidate experiences and is complete. Phase two of Project Ignite focused on decommissioning the Company's on-premises data centers and migrating the Company's production systems and corporate information technological infrastructure to a managed service provider in the cloud. During the first half of 2021, the Company completed phase two initiatives related to the migration of its production and fulfillment systems to the cloud, and as a result, approximately 99% of revenue is processed through platforms hosted in the cloud. The Company incurred expenses related to phase two to complete the decommissioning of on-premises data centers for internal corporate technology infrastructure and migration to the cloud which was completed as of September 30, 2022. Phase three of Project Ignite was decommissioning of the platforms purchased over the prior ten years and the migration of the clients to one global platform. This third and final phase, which was completed in the first quarter of 2023, unified clients onto a single global platform. The Company's core platform now processes approximately 79% of its global revenue.

3. Recent Accounting Standards Updates

The Company qualifies as an emerging growth company under the Jumpstart Our Business Startups Act (the "JOBS Act"). The JOBS Act permits extended transition periods for complying with new or revised accounting standards affecting public companies. The Company has elected to use the extended transition periods and is adopting new or revised accounting standards on the non-public company timeline of the Financial Accounting Standards Board ("FASB"). As such, the Company's financial statements may not be comparable to financial statements of public entities that comply with new or revised accounting standards on a non-delayed basis.

The Company will cease to be an emerging growth company upon the earliest of (a) the last day of the fiscal year in which it has total annual gross revenues of $1.235 billion or more; (b) the last day of its fiscal year following the fifth anniversary of the date of its initial public offering ("IPO"); (c) the date on which it has issued more than $1.0 billion in nonconvertible debt during the previous three years; or (d) the date on which it is deemed to be a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur as of the last day of a fiscal year in which the market value of its common stock held by non-affiliates equals or exceeds $700 million as of the last business day of the second fiscal quarter of such fiscal year, which threshold was not exceeded as of June 30, 2024.

Recently Issued Accounting Pronouncements Not Yet Effective

In November 2023, the FASB issued Accounting Standard Update ("ASU") 2023-07, Segment Reporting (Topic 280), Improvement to Reportable Segment Disclosures ("ASU 2023-07") to enhance disclosures about a public entity's reportable segments and more detailed information about a reportable segment's expenses. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is evaluating the impact that ASU 2023-07 will have on the financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740), Improvements to Income Tax Disclosures ("ASU 2023-09"), that improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. For public business entities, such as the Company, the standard is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The Company is evaluating the impact that ASU 2023-09 will have on the financial statement disclosures.

4. Acquisitions

Vault Acquisition

On January 2, 2024, the Company acquired the equity interests of Vault Workforce Screening ("Vault"), a U.S. clinic management platform, bringing a network of 17,000 clinics and a flexible service model to enhance our existing drug and health services. The purchase price for the Vault acquisition totaled approximately $76.1 million, was funded with $65.0 million of proceeds from the Revolving Credit Facility and available cash on hand and included initial contingent consideration of $2.8 million recorded at fair value.

The Company incurred approximately $0.1 million and $0.2 million of transaction expenses related to the acquisition during the three and six months ended June 30, 2024, respectively

The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as of the applicable acquisition date. The determination of fair value of assets and liabilities requires the use of significant assumptions and estimates. These estimates are based on assumptions that management believes to be reasonable as well as a third party-prepared valuation analysis; however, final results may differ from these estimates. The following table summarizes the consideration paid and the amounts recognized for the assets acquired and liabilities assumed:

(in thousands)	Preliminary Purchase Price Allocation March 31, 2024	Purchase Price Adjustments	Adjusted Purchase Pric Allocation June 30, 2024
Consideration			
Cash	$ 2,907	$ —	$ 2,90
Accounts receivable	8,514	—	8,51
Other current assets	583	(67)	51
Property and equipment	38	—	3
Intangible assets	44,500	—	44,50
Total assets acquired	$ 56,542	$ (67)	$ 56,47
Accounts payable and accrued expenses	4,609	—	4,60
Total liabilities assumed	$ 4,609	$ —	$ 4,60
Total identifiable net assets	51,933	(67)	51,86
Goodwill	24,203	25	24,22
Total consideration	$ 76,136	$ (42)	$ 76,09

Goodwill recognized is primarily attributable to assembled workforce and expected synergies and is tax deductible in future years. Intangible assets acquired consist largely of customer lists in the amount of $39.0 million to be amortized over 12 years. The remaining intangible assets include trade names and developed technology, which will be amortized over two years and seven years, respectively.

As the acquisition of Vault occurred on January 2, 2024, Vault's results have been fully consolidated in our unaudited condensed consolidated statement of operations and comprehensive (loss) income for the three and six months ended June 30, 2024. Our revenues for the three and six months ended June 30, 2024 include $11.9 million and $25.2 million of revenues attributable to Vault, respectively. The following unaudited pro forma results for the three and six months ended June 30, 2023 show the effect on the Company's revenues as if the acquisition of Vault had occurred on January 1, 2023. The pro forma results presented are the result of combining the revenues of the Company with the revenues of Vault for the three and six months ended June 30, 2023:

(in thousands)	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Revenues	$205,276	$400,914

Pro forma net operating results are not presented as they were determined to not be material to the total net operating results of the Company. The Company did not have any material, non-recurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue. The pro forma information is presented for illustrative purposes only and may not be indicative of the future results or results of operations that would have actually occurred had the acquisition of Vault occurred as presented. Further, the above pro forma amounts do not consider any potential synergies that may result from the transaction. In addition, future results may vary significantly from the results reflected in such pro forma information.

Socrates and A-Check Acquisitions

On January 4, 2023, the Company acquired all of the outstanding shares of Socrates Limited and its affiliates ("Socrates"), a screening company in Latin America, pursuant to a share purchase agreement. The Socrates acquisition expands the Company's global presence into Latin America to serve the rapidly growing regional hiring needs of both multi-national and local clients. On March 1, 2023, the Company acquired all of the outstanding shares of A-Check Global ("A-Check"), a U.S.-based employment screening organization, pursuant to a share purchase agreement. The A-Check acquisition provides the Company access to a high quality, enterprise-focused customer base diversified across verticals including healthcare and telecom. The aggregate adjusted purchase price for the acquisitions totaled approximately $66.2 million, of which $49.5 million was funded with available cash on hand and is subject to certain closing adjustments specified in the share purchase agreements and includes initial contingent consideration related to the A-Check acquisition of $4.7 million recorded at fair value. The contingent consideration was determined based on actual future results. The initial fair value of the contingent consideration consisted of $2.6 million for an earn-out payable one year after the acquisition based upon revenue retention and a $2.1 million payable throughout the second and third year following the acquisition based on revenue retention and referral revenue. The Company recorded an allocation of the purchase price to assets acquired and liabilities assumed based on their estimated fair values as of their respective purchase dates. Additionally, in connection with the Socrates acquisition, $5.0 million is payable to certain senior employees two years after the acquisition date based on certain retention requirements.

The Company incurred approximately $0.3 million and $2.0 million of transaction expenses related to the acquisitions during the three and six months ended June 30, 2023, respectively. During the six months ended June 30, 2024, the Company incurred approximately $0.2 million of transaction expenses related to the acquisitions.

The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as of the applicable acquisition date. The following table summarizes the consideration paid and the amounts recognized for the assets acquired and liabilities assumed:

(in thousands)	Preliminary Purchase Price Allocation March 31, 2023	Purchase Price Adjustments	Final Purchase Price Allocation December 31, 2023
Consideration			
Cash	$ 11,935	$ —	$ 11,935
Other current assets			
Accounts receivable	4,279	(3)	4,276
Other current assets	805	447	1,252
Property and equipment	177	(1)	176
Intangible assets	32,141	(1,268)	30,873
Other long-term assets	6	—	6
Total assets acquired	$ 49,343	$ (825)	$ 48,518
Accounts payable and accrued expenses	1,156	94	1,250
Other current liabilities	1,291	(72)	1,219
Deferred tax liability	8,388	(1,163)	7,225
Other liabilities	2	788	790
Total liabilities assumed	$ 10,837	$ (353)	$ 10,484
Total identifiable net assets	38,506	(472)	38,034
Goodwill	27,352	766	28,118
Total consideration	$ 65,858	$ 294	$ 66,152

Goodwill recognized is primarily attributable to assembled workforce and expected synergies and is not tax deductible in future years. Intangible assets acquired consist largely of customer lists in the amount of $28.0 million to be amortized over 15 years. The remaining intangible assets include trade names, developed technology and a non-compete agreement, which will be amortized over two years, eight years, and five years, respectively.

The acquisitions are not material to the Company's financial position as of June 30, 2024 or results of operations for the three and six months ended June 30, 2024, and therefore, pro forma operating results and other disclosures for the acquisitions are not presented.

EBI Acquisition

On November 30, 2021, the Company acquired all of the outstanding shares of EBI for a purchase price of $67.8 million, consisting of $66.3 million of cash and $1.5 million of contingent consideration recorded at fair value. As of December 31, 2022, the purchase price was reduced by $0.3 million reflecting the final determination of the post-closing adjustment of the purchase price in accordance with the purchase agreement with EBI, resulting in an adjusted purchase price of $67.5 million. The receivable related to this adjustment was collected in February 2023.

During the six months ended June 30, 2024, the Company recorded a $4.0 million out-of-period increase in the fair value of the contingent consideration, in accordance with the purchase agreement with EBI. Refer to “Note 2. Summary of Significant Accounting Policies” for further information regarding this out-of-period adjustment.

5. Property and Equipment, Net

(in thousands)	June 30, 2024	December 31, 2023
Furniture and fixtures	$ 1,194	$ 1,317
Computers and equipment	40,180	39,251
Leasehold improvements	1,876	2,067
	43,250	42,635
Less: Accumulated depreciation	(36,478)	(34,940)
Total property and equipment, net	$ 6,772	$ 7,695

Depreciation expense on property and equipment was $0.9 million during the three months ended June 30, 2024 and 2023, and $1.8 million and $2.0 million for the six months ended June 30, 2024 and 2023, respectively.

There were no write downs of abandoned property and equipment no longer in use during the three months ended June 30, 2024. During the three months ended June 30, 2023, write downs of abandoned property and equipment no longer in use was $1.7 million. During the six months ended June 30, 2024 and 2023, write downs of abandoned property and equipment no longer in use was $0.2 million and $1.7 million, respectively.

6. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the periods presented were as follows:

(in thousands)	
Goodwill as of December 31, 2023	$ 879,408
Acquisition of Vault	24,228
Foreign currency translation adjustment	(1,072)
Goodwill as of June 30, 2024	$ 902,564

Intangible Assets

Intangible assets, net consisted of the following for the periods presented:

	June 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer lists	$ 571,801	$ (392,171)	$ 179,630	$ 533,204	$ (375,107)	$ 158,097
Trademarks	79,280	(46,663)	32,617	77,860	(43,815)	34,045
Non-compete agreements	3,975	(3,021)	954	3,979	(2,869)	1,110
Technology	280,349	(242,927)	37,422	266,194	(233,996)	32,198
Domain names	10,118	(5,692)	4,426	10,118	(5,356)	4,762
	$ 945,523	$ (690,474)	$ 255,049	$ 891,355	$ (661,143)	$ 230,212

Included within technology is $32.2 million and $30.2 million of internal-use software, net of accumulated amortization, as of June 30, 2024 and December 31, 2023, respectively. As of June 30, 2024, $7.8 million of technology assets have not yet been put in service.

The Company capitalized $10.4 million of costs to develop internal-use software included in technology during the six months ended June 30, 2024 (consisting of internal costs of $7.8 million and external costs of $2.6 million). The Company capitalized $8.6 million of costs to develop internal-use software included in technology during the six months ended June 30, 2023 (consisting of internal costs of $7.3 million and external costs of $1.3 million).

For the three months ended June 30, 2024 and June 30, 2023, the Company recorded a write-down of capitalized software in the amount of less than $0.1 million and $0.1 million, respectively. For the six months ended

June 30, 2024 and June 30, 2023, the Company recorded a write-down of capitalized software in the amount of less than $0.1 million and $0.2 million, respectively.

Amortization expense was $14.9 million and $15.2 million for the three months ended June 30, 2024 and 2023, respectively, and $29.8 million and $29.3 million for the six months ended June 30, 2024 and 2023, respectively.

Except for the customer lists, which are amortized utilizing an accelerated method, all other intangible assets are amortized on a straight-line basis, which approximates the pattern in which economic benefits are consumed. Estimated amortization expense as of June 30, 2024 is as follows for each of the next five years:

(in thousands)	
Remainder of fiscal year 2024	$ 31,410
2025	52,785
2026	44,164
2027	32,631
2028	25,291
Thereafter	68,768
	$ 255,049

7. Accrued Expenses

Accrued expenses on the unaudited condensed consolidated balance sheets as of the periods presented consisted of the following:

(in thousands)	June 30, 2024	December 31, 2023
Accrued compensation	$ 20,870	$ 20,495
Accrued cost of revenues	31,296	25,548
Accrued interest	700	321
Other accrued expenses	26,234	17,623
Total accrued expenses	$ 79,100	$ 63,987

8. Leases

The Company leases real estate and equipment for use in its operations. The Company has 15 operating leases with remaining lease terms ranging from 1 to 55 months as of June 30, 2024.

The components of lease expense for the periods presented are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2024	2023	2024	2023
Components of total lease costs				
Operating lease expense	$ 594	$ 2,607	$ 1,355	$ 3,986
Sublease income	(323)	(343)	(711)	(565)
Total net lease costs	$ 271	$ 2,264	$ 644	$ 3,421

Information related to the Company's right-of-use assets and lease liabilities for the periods presented is as follows:

(dollars in thousands)	June 30, 2024	December 31, 2023
Operating leases		
Operating leases right-of-use asset	$ 5,386	$ 6,452
Operating leases liability, current portion	$ 3,490	$ 4,219
Long-term operating leases liability, net of current portion	6,054	7,278
Total operating leases liability	$ 9,544	$ 11,497
Weighted average remaining lease term in years - operating leases	3.4	3.7
Weighted average discount rate - operating leases	4.84 %	4.92 %

Total remaining lease payments under the Company's operating leases (excluding short term leases) for the periods presented are as follows:

(in thousands)	June 30, 2024
Remainder of fiscal year 2024	$ 2,620
2025	2,439
2026	2,117
2027	2,149
2028	1,028
Thereafter	84
Total future minimum lease payments	$ 10,437
Less: imputed interest	(893)
Total	$ 9,544

9. Debt

On November 29, 2022, Sterling Infosystems, Inc. (the "Borrower"), a Delaware corporation and a subsidiary of the Company, entered into a credit agreement (the "2022 Credit Agreement") by and among the Borrower, as borrower, Sterling Intermediate Corp., KeyBank National Association, as administrative agent (the "Administrative Agent"), certain guarantors party thereto and the lenders party thereto.

The 2022 Credit Agreement provides for aggregate principal borrowings of $700.0 million, comprised of $300.0 million aggregate principal amount of term loans (the "Term Loans") and a $400.0 million revolving credit facility (the "Revolving Credit Facility"). The Term Loans and the Revolving Credit Facility mature on November 29, 2027.

The table below sets forth the Company's long-term debt as presented in the unaudited condensed consolidated balance sheets for the periods presented:

(in thousands)	June 30, 2024	December 31, 2023
Current portion of long-term debt		
Term Loans	$ 15,000	$ 15,000
Total current portion of long-term debt	$ 15,000	$ 15,000
Long-term debt		
Term Loans, due November 29, 2027 (7.69% and 7.71% at June 30, 2024 and December 31, 2023, respectively)	270,000	277,500
Revolving Credit Facility	270,494	205,494
Unamortized discount and debt issuance costs	(2,798)	(3,206)
Total long-term debt, net	$ 537,696	$ 479,788

The estimated fair value of the Company's 2022 Credit Agreement was $543.0 million and $484.1 million as of June 30, 2024 and December 31, 2023, respectively. These fair values were determined based on quoted prices in markets with similar instruments that are less active (Level 2 inputs as defined below) as an observable price of the 2022 Credit Agreement or similar liabilities is not readily available.

The Company was in compliance with all financial covenants under its 2022 Credit Agreement as of June 30, 2024.

10. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or that would be paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value. An asset or liability's level in the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels of inputs used to measure fair value are as follows:

Level 1	Quoted prices in active markets for identical assets and liabilities.
Level 2	Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flows methodologies and similar techniques that use significant unobservable inputs.

The Company considers the recorded value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses to approximate the fair value of the respective assets and liabilities as of June 30, 2024 and December 31, 2023 based upon the short-term nature of such assets and liabilities (Level 1). See Note 9, "Debt" for discussion of the fair value of the Company's debt.

Interest rate swaps are measured at fair value on a recurring basis in the Company's financial statements and are considered Level 2 financial instruments. Interest rate swaps are measured based on quoted prices for similar financial instruments and other observable inputs recognized. The currency forward agreements are typically cash settled in U.S. dollars for their fair value at or close to their settlement date.

Contingent consideration related to acquisitions is considered a Level 3 financial instrument. As of June 30, 2024, the fair value of contingent consideration related to the January 2, 2024 acquisition of Vault, the March 1, 2023 acquisition of A-Check and the November 30, 2021 acquisition of EBI. As of December 31, 2023, the fair value of contingent consideration related to the March 1, 2023 acquisition of A-Check and the November 30, 2021 acquisition of EBI. The contingent consideration consists of estimated future payments related to the Company's acquisitions, based on metrics such as revenue retention and referral revenue. The fair value is determined using various assumptions and estimates, including revenue and customer projections to forecast a range of outcomes for the contingent consideration. The Company reassesses the estimated fair value of the contingent consideration at the end of each reporting period based on the information available at the time. Changes in the significant unobservable inputs used may result in a significantly higher or lower fair value measurement. Changes in fair value of contingent consideration are recorded in selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive (loss) income.

The following tables present information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy as of the periods presented:

	June 30, 2024			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents from money market funds	$ 33,608	$ —	$ —	$ 33,608
Interest rate swaps	$ —	$ 1,940	$ —	$ 1,940
Liabilities				
Interest rate swaps	—	1,357	—	1,357
Contingent consideration	—	—	7,029	7,029

	December 31, 2023			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents from money market funds	11,593	—	—	11,593
Interest rate swaps	—	1,187	—	1,187
Liabilities				
Interest rate swaps	—	5,357	—	5,357
Contingent consideration	$ —	$ —	$ 2,989	$ 2,989

The following table summarizes the change in fair value of the Level 3 liabilities with significant unobservable inputs for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2024	2023	2024	2023
Fair value of contingent consideration, beginning of period	$ 9,739	$ 5,620	$ 2,989	$ 1,219
Acquired liabilities	—	—	2,750	4,706
Cash payments	—	—	—	—
Change in fair value of contingent consideration, net(1)	(2,710)	—	1,290	(305)
Fair value of contingent consideration, end of period(2)	$ 7,029	$ 5,620	$ 7,029	$ 5,620

(1) During the three months ended June 30, 2024, the Company recorded a $2.7 million decrease in fair value of the contingent consideration, in accordance with the purchase agreement with Vault. During the six months ended June 30, 2024, the Company recorded a $4.0 million out-of-period adjustment to increase the fair value of the contingent consideration, in accordance with the purchase agreement with EBI. Refer to Note 2. Summary of Significant Accounting Policies" for further information regarding this out-of-period adjustment.

(2) Recorded in Other current liabilities on the unaudited condensed consolidated balance sheets.

During the three and six months ended June 30, 2024 and 2023, the Company did not re-measure any financial assets or liabilities at fair value on a nonrecurring basis. There were no transfers between levels during the periods presented.

11. Derivative Instruments and Hedging Activities

Cash Flow Hedges

For derivatives designated and that qualify as cash flow hedges for accounting purposes, the unrealized gain or loss on the derivative is initially recorded in accumulated OCI, reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item.

Interest Rate Swap Hedges

To reduce exposure to variability in expected future cash outflows on variable rate debt attributable to the changes in the applicable interest rates under the 2022 Credit Agreement, the Company entered into interest rate swaps to economically offset a portion of this risk.

As of June 30, 2024, the Company had the following outstanding interest rate swap derivatives that were used to hedge its interest rate risks:

Product	Number of Instruments	Effective Date	Maturity Date	Current Notional[(1)]
Interest Rate Swap	4	February 28, 2023	November 29, 2027	$300.0 million USD

(1) The notional value steps down from $300.0 million to $150.0 million on February 27, 2026.

All financial derivative instruments are carried at their fair value on the balance sheet. The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the unaudited condensed consolidated balance sheets as of the dates presented:

	Asset Derivatives			
	June 30, 2024		December 31, 2023	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other current assets	$ 1,940	Other current assets	$ 1,187

	Liability Derivatives			
	June 30, 2024		December 31, 2023	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other liabilities	$ 1,357	Other liabilities	$ 5,357

The tables below present the effect of cash flow hedge accounting on accumulated OCI for the periods presented:

	Three Months Ended June 30,			Three Months Ended June 30,	
(in thousands)	2024	2023		2024	2023
Derivatives designated as hedging instruments:	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	
Interest rate swaps	$ 1,500	$ 6,975	Interest expense	$ 808	$ 552

	Six Months Ended June 30,			Six Months Ended June 30,	
(in thousands)	2024	2023		2024	2023
Derivatives designated as hedging instruments:	Amount of Gain or (Loss) Recognized in OCI on Derivative		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	
Interest rate swaps	$ 6,379	$ 98	Interest expense	$ 1,626	$ 649

The table below presents the effect of the Company's cash flow hedge accounting on the unaudited condensed consolidated statements of operations and comprehensive (loss) income for the periods presented:

(in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023
	Interest Expense	
Total amounts of income and expense line items in which the effects of cash flow hedges are recorded	$ 10,143	$ 8,990
Gain or (loss) on cash flow hedging relationships		
Interest rate swaps:		
Amount of gain or (loss) reclassified from accumulated OCI into income	$ 808	$ 552

(in thousands)	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	Interest Expense	
Total amounts of income and expense line items in which the effects of cash flow hedges are recorded	$ 20,455	$ 17,598
Gain or (loss) on cash flow hedging relationships		
Interest rate swaps:		
Amount of gain or (loss) reclassified from accumulated OCI into income	$ 1,626	$ 649

Amounts reported in accumulated OCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. Based on current interest rates, during the next twelve months, the Company estimates that an additional $1.9 million net gain will be reclassified from accumulated OCI as a decrease to interest expense. No gain or loss was reclassified from accumulated OCI into earnings as a result of forecasted transactions that failed to occur during the periods presented.

12. Income Taxes

During the three and six months ended June 30, 2024, the Company's interim income tax provision was determined using the discrete effective tax rate method, as allowed by ASC Topic 740-270-30-18, "*Income Taxes - Interim Reporting.*" The discrete method is applied when the application of the estimated annual effective tax rate yields an estimate that is not reliable and the actual effective rate for the year-to-date results represents the best estimate of the annual effective tax rate. The Company determined that since small changes in forecasted income would result in significant variability in the estimated annual effective tax rate, the discrete method is more appropriate than the annual effective tax rate method.

The Company recorded a tax provision of $7.1 million and a tax benefit of $0.1 million for the three months ended June 30, 2024 and 2023, respectively, which resulted in an effective tax rate of 823.0% and (35.7)%, respectively. The Company recorded a tax benefit of $1.9 million and a tax provision of $1.0 million for the six months ended June 30, 2024 and 2023, respectively, which resulted in an effective tax rate of 11.9% and 52.7%, respectively. For the three and six months ended June 30, 2024 and 2023, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items including the impact of stock-based compensation.

13. Commitments and Contingencies

Merger Related

In connection with entering into the Merger Agreement, on February 28, 2024, the Company entered into a support agreement (the "Support Agreement"), by and among the Company, First Advantage and the Specified Stockholders. The Support Agreement will automatically terminate if the Merger Agreement is terminated in accordance with its terms. In connection with the Support Agreement and acting as a financial advisor to the Company, Goldman Sachs will receive a fee of up to $30.0 million for such services provided in connection with the Merger, of which $20.0 million is payable upon the completion of the Merger and an additional $10.0 million of which is payable at the sole discretion of the Company in connection with the completion of the Merger.

Citigroup Global Markets Inc. also acted as financial advisor to the Company in connection with the Merger and will receive a fee of up to $20.0 million for such services, of which $5.0 million is payable in connection with delivery of the fairness opinion and $5.0 million of which is payable upon completion of the Merger, and an additional $10.0 million that is payable at the sole discretion of the Company upon completion of the Merger. The fairness opinion was delivered during the three months ended March 31, 2024 and the associated $5.0 million fee is recorded in selling, general and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive (loss) income for the three and six months ended June 30, 2024.

The Merger Agreement contains other termination rights for either or each of First Advantage and the Company, including, among others, by either party if the consummation of the Merger does not occur on or before 11:59 p.m., New York City time, on February 28, 2025 (the "Initial Outside Date"), subject to an extension of six months at First Advantage's election (the "Extended Outside Date") if on the Initial Outside Date all of the closing conditions except those relating to antitrust approvals have been satisfied or waived.

Upon termination of the Merger Agreement under certain specified circumstances, including by the Company to enter into a definitive agreement with respect to a superior proposal in accordance with the terms of the Merger Agreement, the Company will be required to pay First Advantage a termination fee in the amount of $66.3 million. Upon termination of the Merger Agreement by either party because certain required antitrust approvals are not obtained (i) by the Initial Outside Date, First Advantage will be required to pay the Company a termination fee of $60.0 million or (ii) by the Extended Outside Date, First Advantage will be required to pay the Company a termination fee of $90.0 million. In addition, if First Advantage fails to consummate the Merger within five business days after all of the required conditions have been satisfied and the Company terminates the Merger Agreement as a result thereof, First Advantage will be required to pay the Company a termination fee of $100.0 million.

Litigation

The Company is party to both class actions and individual actions in the ordinary course of business. The matters typically allege violations of the Fair Credit Reporting Act ("FCRA"), as well as other claims. In addition, from time to time, the Company receives inquiries from regulatory bodies regarding its business. The Company accrues for the cost of resolving matters where it can be determined that a loss is both estimable and probable. Certain matters are in litigation and an estimate of the outcome and potential losses, if any, cannot be determined. Certain of these matters are covered by the Company's insurance policies, subject to policy terms, including retentions. The Company does not believe that the resolution of current matters will result in a material adverse effect on the financial position, results of operations, or cash flows of the Company.

As of June 30, 2024, the Company had a legal settlement obligation of $6.2 million and an offsetting insurance receivable of $2.9 million for the settlement of legal matters. As of December 31, 2023, the Company had a legal settlement obligation of $5.3 million and an offsetting insurance receivable of $2.9 million for the settlement of legal matters.

Net legal settlement expense recorded in selling, general and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive (loss) income for the three months ended June 30, 2024 and 2023 totaled $1.5 million and less than $0.1 million, respectively, and for the six months ended June 30, 2024 and 2023 totaled $1.7 million and $0.1 million, respectively.

14. Equity

Under the Company's Amended and Restated Certificate of Incorporation, a total of 1,100,000,000 shares of all classes of stock are authorized, divided as follows:

(i) 1,000,000,000 shares of common stock, par value $0.01 per share ("common stock"); and

(ii) 100,000,000 shares of undesignated preferred stock, par value $0.01 per share ("preferred stock").

Each share of common stock is entitled to one vote on all matters on which holders of common stock are entitled to vote generally. Holders of common stock are entitled to be paid ratably any dividends as may be declared by the Board of Directors (in its sole discretion), subject to any preferential dividend rights of outstanding preferred stock (if any). No dividends have been declared or paid on the Company's common stock through June 30, 2024.

The Board of Directors is authorized to direct the issuance of the undesignated preferred stock in one or more series and to fix the designation of such series, the powers (including voting powers), preferences and relative, participating, optional and other special rights, and the qualifications, limitations or restrictions thereof, of such series of preferred stock and the number of shares of such series.

On November 23, 2022, the Company's board of directors authorized the repurchase of up to $100.0 million of the Company's shares of common stock through December 31, 2024. The share repurchase program is being executed on a discretionary basis through open market repurchases, private transactions, or other transactions, including through block trades and Rule 10b-18 and Rule 10b5-1 trading plans. The Company is not obligated to repurchase any specific number of shares, and the timing and amount of any share repurchases will be subject to several factors including share price, trading volume, market conditions and capital allocation priorities. The share repurchase program may be suspended, terminated or modified without notice at any time. For the three months ended June 30, 2024, the Company did not repurchase any of its common stock. For the six months ended June 30, 2024, the Company repurchased 494,157 shares of its common stock for $6.8 million, inclusive of commissions and taxes.

On June 7, 2023, the Company entered into an Underwriting Agreement with Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC as representatives of the several underwriters named therein (the “Underwriters”) and the selling stockholders (the “Selling Stockholders”), relating to the sale by the Selling Stockholders of 8,000,000 shares of common stock, par value $0.01 per share, of the Company (the “Secondary Public Offering”). In connection with the Secondary Public Offering, the Selling Stockholders granted the Underwriters a 30-day option to purchase up to an additional 1,200,000 shares of common stock of the Company, of which 1,145,486 shares were purchased. The Company did not sell any shares in the Secondary Public Offering and did not receive any proceeds from the sale of shares being sold by the Selling Stockholders in the Secondary Public Offering. In addition, the Company entered into an agreement with Broad Street Principal Investments, L.L.C. (“BSPI”), one of the Selling Stockholders, dated June 5, 2023, pursuant to which the Company repurchased from BSPI an aggregate of 1,000,000 shares of common stock of the Company for a total of $11.7 million pursuant to the Company’s share repurchase program at a price per share equal to the price paid by the Underwriters in the Secondary Public Offering.

15. Stock-Based Compensation

Stock-based compensation expense is recognized in cost of revenues, corporate technology and production systems, and selling, general and administrative expense in the accompanying unaudited condensed consolidated statements of operations and comprehensive (loss) income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2024**	**2023**	**2024**	**2023**
Stock-based compensation expense				
Cost of revenues	$ 369	$ 394	$ 728	$ 822
Corporate technology and production systems	888	605	1,707	1,217
Selling, general and administrative	10,446	8,359	18,610	15,362
Total stock-based compensation expense	$ 11,703	$ 9,358	$ 21,045	$ 17,401

Prior to the IPO, all share-based awards were issued to employees under the Company’s 2015 Long-Term Equity Incentive Plan (the “2015 Plan”). Upon the adoption of the Sterling Check Corp. 2021 Omnibus Incentive Plan (the “2021 Equity Plan”) on August 4, 2021 and as of September 22, 2021, all newly granted share-based awards have been issued under the 2021 Equity Plan.

As of June 30, 2024, the Company had approximately $82.4 million of unrecognized pre-tax non-cash stock-based compensation expense related to awards granted under the 2021 Equity Plan, consisting of approximately $16.0 million related to non-qualified stock options (“NQSOs”), $65.7 million related to restricted stock, and approximately $0.7 million related to restricted stock units (“RSUs”), all of which the Company expects to recognize over a weighted average period of 2.0 years.

2015 Long-Term Equity Incentive Plan

Pursuant to the Company’s 2015 Plan, the Company granted performance-based stock options (“PSOs”) and service-based vesting stock options (“SVOs”). On August 4, 2021, the Company amended each option outstanding under the 2015 Plan to (i) accelerate vesting upon an initial public offering and (ii) permit each option to be exercised following termination for any reason for the period set forth in the applicable award agreement or, if longer, an extended post-termination exercise period that would end on the date that is six months following the second anniversary of the effective date of the initial public offering, provided that if such date falls during a blackout period, the post-termination exercise period will be extended until the date that is thirty days after the commencement of the Company's next open trading window.

The table below provides a summary of SVOs and PSOs currently outstanding under the 2015 Plan for the six months ended June 30, 2024:

	Outstanding SVOs					Outstanding PSOs				
(in thousands, except shares and per share amounts)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value		Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value	
Balances as of December 31, 2023	5,635,742	$ 9.60	3.68	$ 24,349		3,036,930	$ 10.05	2.14	$ 11,732	
Granted	—	—				—	—			
Forfeited / Expired	(77,870)	9.68		458		—	—			
Exercised	(1,600,166)	9.63		8,760		(1,841,326)	10.30		10,482	
Balances as of June 30, 2024[(1)]	3,957,706	$ 9.59	4.19	$ 20,636		1,195,604	$ 9.68	4.60	$ 6,118	

(1) All SVOs and PSOs are exercisable as of June 30, 2024.

Of the $42.6 million of proceeds from the exercise of employee stock options less $7.7 million of cash paid for tax withholding on those exercises included on the unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2024, $0.5 million relates to options exercised prior to, but settled during the six months ended June 30, 2024. As of December 31, 2023, these options were unsettled, but exercised, and were included in the additional paid-in capital balance as of December 31, 2023.

2021 Omnibus Incentive Plan

On August 4, 2021, the Company's board of directors adopted, and on August 13, 2021 the Company's stockholders approved, the 2021 Equity Plan. Equity awards under the 2021 Equity Plan are intended to retain and motivate the Company's officers and employees, consultants and non-employee directors and to promote the success of the Company's business by providing such participating individuals with a proprietary interest in the performance of the Company. The 2021 Equity Plan will terminate on the tenth anniversary thereof, unless earlier terminated by the board of directors. Under the 2021 Equity Plan, the following types of awards can be granted to an eligible individual (as defined by the plan and to the extent permitted by applicable law): incentive stock options ("ISOs") and NQSOs; stock appreciation rights ("SARs"); restricted stock; RSUs; performance awards; cash-based awards and other share-based awards. Upon its adoption, the 2021 Equity Plan provided that up to 9,433,000 shares may be issued pursuant to awards granted under the 2021 Equity Plan (the "Share Limit"); provided, that, the Share Limit shall be automatically increased on the first day of each calendar year commencing on January 1, 2022 and ending on January 1, 2030 in an amount equal to the lesser of (x) 5% of the total number of shares outstanding on the last day of the immediately preceding calendar year, and (y) such number of shares as determined by the board of directors, and no more than 9,433,000 shares may be issued upon the exercise of ISOs. As of June 30, 2024, 12,108,520 shares were available for issuance pursuant to future granted awards under the 2021 Equity Plan.

Stock Options

Options issued under the 2021 Equity Plan generally vest on various schedules over one to four-year periods on the anniversary of the grant date, subject to continued employment with the Company through the applicable vesting date. Options issued under the 2021 Equity Plan generally expire ten years after the grant date.

The table below provides a summary of stock option activity under the 2021 Equity Plan for the six months ended June 30, 2024:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value	Weighted Average Fair Value (per share)
Outstanding as of December 31, 2023	4,558,199	$ 21.14	8.06	$ 904	
Granted	—	—			
Forfeited / Expired	(29,310)	23.00			$ 10.24
Exercised	—	—			
Outstanding as of June 30, 2024	4,528,889	$ 21.12	7.56	$ 1,606	
Exercisable as of June 30, 2024	1,978,435	$ 21.95	7.42	$ 394	

Restricted Stock

Restricted stock issued under the 2021 Equity Plan in connection with the Company’s initial public offering vests 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date, subject to continued employment with the Company through the applicable vesting date. Other restricted stock grants issued under the 2021 Equity Plan vest on various schedules over one to four-year periods on the anniversary of the grant date, subject to the continued employment with the Company through the applicable vesting date. Holders of restricted stock are entitled to all rights of a common stockholder of the Company and are subject to restrictions on transfer.

The table below provides a summary of restricted stock activity under the 2021 Equity Plan for the six months ended June 30, 2024:

	Number of Shares	Weighted Average Fair Value (per share)
Unvested as of December 31, 2023	3,796,203	$ 16.40
Granted	2,092,029	15.90
Forfeited / Cancelled	(145,496)	17.50
Vested	(716,814)	10.98
Unvested as of June 30, 2024	5,025,922	$ 16.41

Restricted Stock Units

Restricted stock units issued under the 2021 Equity Plan in connection with the Company’s initial public offering vest 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date, subject to continued employment with the Company through the applicable vesting date. Additional grants of RSUs vest on various schedules over a one to four-year period on the anniversary of the grant date, subject to the continued employment with the Company through the applicable vesting date. Upon vesting, employees will receive shares of common stock in settlement of the units.

The table below provides a summary of RSU activity under the 2021 Equity Plan for the six months ended June 30, 2024:

	Number of Shares	Weighted Average Fair Value (per share)
Unvested as of December 31, 2023	120,555	$ 15.82
Granted	6,347	15.92
Forfeited / Cancelled	(18,994)	13.34
Vested	(5,959)	10.06
Unvested as of June 30, 2024	101,949	$ 16.36

Employee Stock Purchase Plan

The 2021 Employee Stock Purchase Plan (the "ESPP") was launched on July 1, 2023. The ESPP allowed eligible employees to voluntarily make after-tax contributions of up to 15% of such employee's cash compensation for the purchase of the Company's stock. Consecutive offering periods of six months in duration were established, with the first one commencing on July 1, 2023. During each offering period, such contributions accumulated and applied to purchase shares at the end of the offering period. The purchase price for shares purchased in the initial offering period were, and for subsequent offering periods were not to be less than, 85% of the lesser of the closing price of the shares on the first day of the offering period or the last day of the offering period. The ESPP was suspended on February 29, 2024 as part of the Merger discussed in Note 1, "Description of Business."

16. Net (Loss) Income Per Share

The following table sets forth the computation of basic and diluted net (loss) income per share attributable to common stockholders for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share and per share amounts)	**2024**	**2023**	**2024**	**2023**
Numerator:				
Net (Loss) Income attributable to stockholders	$ (6,232)	$ 323	$ (14,187)	$ 914
Denominator:				
Weighted average number of shares outstanding—basic	92,778,209	92,723,901	91,526,151	92,800,279
Weighted average additional shares assuming conversion of potential common shares	—	1,774,765	—	2,123,801
Weighted average common shares outstanding—diluted	92,778,209	94,498,666	91,526,151	94,924,080
Net (loss) income per share attributable to stockholders, basic	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Net (loss) income per share attributable to stockholders, diluted	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01

The following table summarizes the weighted average potentially dilutive securities that were excluded from the computation of diluted net (loss) income per share because their effect would have been anti-dilutive for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Stock options	9,724,802	5,258,244	10,915,759	4,948,521
Restricted stock	5,042,094	4,376,479	4,496,061	3,879,743
Restricted stock units	102,541	47,703	108,444	48,707

17. Related Party Transactions

Goldman Sachs and some of its affiliates, each an affiliate of our Sponsor, are clients of the Company and the Company had sales to Goldman Sachs and some of its affiliates in the amount of $1.0 million and $0.7 million for the three months ended June 30, 2024 and 2023, respectively, and $2.1 million and $1.8 million for the six months ended June 30, 2024 and 2023, respectively. Outstanding accounts receivable from Goldman Sachs as of June 30, 2024 and December 31, 2023 were $0.4 million and $0.7 million, respectively. Additionally, the Company is currently a party to a $75.0 million notional value interest rate swap through November 29, 2027 with J. Aron & Company LLC, a wholly-owned subsidiary of Goldman Sachs. Outstanding accounts receivable from swap with J. Aaron & Company LLC were less than $0.1 million as of June 30, 2024 and December 31, 2023.

In connection with entering into the Merger Agreement, on February 28, 2024, the Company entered into a Support Agreement by and among the Company, First Advantage and the Specified Stockholders. In connection with the Support Agreement and acting as a financial advisor to the Company, Goldman Sachs will receive a fee of up to $30.0 million for such services provided in connection with the Merger payable upon completion of the Merger. Refer to "Note 13. Commitments and Contingencies" for further information regarding these fees.

An affiliate of certain stockholders that, to the Company's knowledge, collectively own greater than 10% of the Company's outstanding shares of common stock (the "Stockholders") is a client of the Company, and the Company had sales to an affiliate of the Stockholders in the amount of less than $0.1 million for the three months ended June 30, 2024 and 2023, and $0.1 million for the six months ended June 30, 2024 and 2023. Outstanding accounts receivable from an affiliate of the Stockholders were less than $0.1 million as of June 30, 2024 and December 31, 2023.

18. Revenue

Performance Obligations

Substantially all of the Company's revenues are recognized at a point in time as results from services are provided through a screening report and the customer takes control of the product when the report is completed. Accordingly, revenue is generally recognized at the point in time when the customer receives and can use the report.

For revenue arrangements containing multiple products or services, the Company accounts for the individual products or services as separate performance obligations if they are distinct, the product or service is separately identifiable from other terms in the contract, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. If these criteria are not met, the promised products or services are accounted for as a combined performance obligation. The Company allocates the contract price to each performance obligation based on the standalone selling prices of each distinct product or service in the contract.

Disaggregation of Revenues

The following tables set forth total revenue by type of service for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2024**	**2023**	**2024**	**2023**
Screening services	$ 199,071	$ 188,650	$ 382,091	$ 365,521
Other services	1,457	1,734	4,436	4,137
Total revenue	$ 200,528	$ 190,384	$ 386,527	$ 369,658

The following table sets forth total revenue by geographic area in which the revenues and invoicing are recorded for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2024**	**2023**	**2024**	**2023**
United States	$ 173,976	$ 162,198	$ 333,803	$ 311,940
All other countries	26,552	28,186	52,724	57,718
Total revenue	$ 200,528	$ 190,384	$ 386,527	$ 369,658

Other than the U.S., no single country accounted for more than 10% of the Company's total revenues during the three and six months ended June 30, 2024 and 2023. Substantially all of the Company's long-lived assets were located in the U.S. as of June 30, 2024 and December 31, 2023.

Contract Assets and Liabilities

The incremental costs of obtaining a contract with a customer are recognized as an asset if the benefit of such costs is expected to be longer than one year, with a majority of contracts being multi-year. Incremental costs include commissions to the sales force and are amortized over three years, as management estimates that this corresponds to the period over which a customer benefits from the contract. As of June 30, 2024 and December 31, 2023, $3.4 million of deferred commissions are included in other current assets on the unaudited condensed consolidated balance sheets and approximately $2.5 million and $2.7 million, respectively, of deferred commissions are included in other noncurrent assets, net on the unaudited condensed consolidated balance sheets.

The Company did not have any material contract liabilities as of June 30, 2024 and December 31, 2023.

Concentrations

For the three and six months ended June 30, 2024 and 2023, no single customer accounted for more than 10% of the Company's revenue. No single customer had an accounts receivable balance greater than 10% of total accounts receivable as of June 30, 2024 and December 31, 2023.

19. Subsequent Events

As of June 30, 2024, the Company had $555.5 million outstanding under the 2022 Credit Agreement, $129.5 million of capacity remaining under the Revolving Credit Facility and $0.7 million outstanding letters of credit. On July 18, 2024, the Company used available cash on hand to repay $20.0 million on the Revolving Credit Facility. As of the date of this filing, the Company has $535.5 million outstanding under the 2022 Credit Agreement, $149.5 million of capacity remaining under the Revolving Credit Facility and $0.7 million outstanding letters of credit.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes for the three and six months ended June 30, 2024. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results described in or implied by the forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those identified below and those discussed in the sections titled "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the U.S. Securities and Exchange Commission ("SEC") on March 6, 2024 ("2023 Annual Report") and "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q.

Basis of Presentation

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to "Sterling," "we," "us," "our," the "Company," and similar references refer to Sterling Check Corp.

Numerical figures included in this Quarterly Report on Form 10-Q have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them. In addition, we may round certain percentages presented in this Quarterly Report on Form 10-Q to the nearest whole number. As a result, figures expressed as percentages in the text may not total 100% or, when aggregated, may not be the arithmetic aggregation of the percentages that precede them.

Overview

We are a leading global provider of technology-enabled background and identity verification services. We provide the foundation of trust and safety that our clients need to create great environments for their most essential resource—people. We offer a comprehensive hiring and risk management solution that begins with identity verification, followed by criminal background screening, credential verification, drug and health screening, processing of employee documentation required for onboarding and ongoing risk monitoring. Our services are generally delivered through our purpose-built, proprietary, cloud-based technology platform that empowers organizations with real-time and data-driven insights to conduct and manage their employment screening programs efficiently and effectively. Our clients face a dynamic and rapidly evolving global labor market with increasing complexity and regulatory requirements. We believe that our services and platform enable organizations to make more informed employment decisions, improve workplace safety, protect their brand and mitigate risk. As a result, we believe our solutions are mission-critical to our clients' core human resources, risk management and compliance functions. During the twelve months ended December 31, 2023, we completed over 103 million searches for over 50,000 clients, including nearly 60% of the Fortune 100 and over 50% of the Fortune 500.

Our client-centric approach underpins everything we do. We serve a diverse and global client base in a wide range of industries, such as healthcare, gig economy, financial and business services, industrials, retail, contingent, technology, media and entertainment, transportation and logistics, hospitality, education and government. Employers are facing numerous challenges, including complex and changing legal and regulatory requirements, a rise in fraudulent job applications, a growing spotlight on reputation and a more complex global workforce. Successfully navigating these challenges requires an industry-specific perspective, given differing candidate profiles, economics, competitive dynamics and regulatory demands. To serve these differing needs, our sales and support delivery model is organized around teams dedicated to specific industries ("Verticals") and geographic markets ("Regions"). Our delivery model provides our clients with both the personal touch and consultative partnership of a small boutique firm and the global reach, scale, innovation and resources of an industry leader. Additionally, this delivery model supports our principle of "Compliance by Design", enabling clients to maintain compliance globally. We believe the combination of our deep market expertise from our sales and support combined with the flexibility of our proprietary technology platform enable us to deliver industry-relevant, highly specialized solutions to our clients in a scalable manner, driving growth and differentiating us from our competitors.

We offer an extensive suite of global products addressing a wide range of complex client needs, and we see compelling opportunities to continue extending our operating presence in other geographies. We believe we have a unique ability to translate client needs into superior local market solutions through a combination of portfolio depth and breadth, local know-how and language capabilities. Additionally, we view a targeted, disciplined approach to strategic mergers and acquisitions ("M&A") as highly complementary to our other key growth objectives, compounding and/or accelerating related opportunities. Through our investments in technology, we have established a unified platform, allowing us to quickly integrate targets and drive synergies. Our core platform processes approximately 79% of our global revenue. We expect the revenue processed on our core platform to increase in 2024. We expect Sterling's proven track record of M&A—with 14 acquisitions over the last 13 years—to continue to support and elevate the various layers of our future growth profile.

Throughout our more than 45-year operating history, innovation and self-disruption have been at the core of what we do every day. Our history of unique, industry-oriented market insights allows us to be at the forefront of innovation which includes multiple industry-leading solutions. For example, we pioneered criminal fulfillment technology (CourtDirect), arrest record and incarceration alert products, post-hire monitoring capabilities, artificial intelligence-enhanced record review and validation process and the industry's only proprietary technology in a single-sourced U.S.-nationwide fingerprint network. Our commitment to innovation has continued with the recent development of enhanced global language support capabilities, a cloud-based operating platform, our exclusive partnership with the Financial Industry Regulatory Authority, Inc. serving as their fingerprint services provider, and a comprehensive global identity verification solution through our partnership with ID.me in the U.S. and Yoti internationally. Enabled by our market leadership and platform investments, we have established a foundation and roadmap for future innovation which includes industry-specific products, growing our Identity-as-a-Service capabilities and further geographic expansion.

As part of our journey of growth and optimization, we continue to refine our corporate strategy and are committed to our goal of delivering stockholder value by executing on the growth opportunities in front of us. We have a number of key execution elements to help us achieve our goals, including increasing our revenues with existing clients, acquiring new clients, growing market share internationally, and utilizing M&A to supplement our organic revenue growth. We believe we are differentiated from competitors and well-positioned to achieve our goal of being the world's most trusted background and identity services company due to our deep market expertise, unrivaled client service, best-in-class data, and seamless workflows. In 2023, we continued our focus on cost savings targets through a three-pillar approach. First, through Project Nucleus, which we launched at the end of 2022, an initiative to drive meaningful cost savings and efficiency gains, with the goal to enhance our organization by re-engineering processes, driving fulfillment cost reductions and identifying and executing on additional automation opportunities. Second, we are reducing our facilities costs by leaning more into our virtual-first approach and reducing our real estate and facilities footprint. Third, we are focused on continued enhancement of our functional alignment by streamlining our organization to align with the go-to-market structure that we established in 2022.

Merger with First Advantage

On February 28, 2024, we entered into a Merger Agreement with First Advantage and Merger Sub. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, Merger Sub will be merged with and into Sterling, with Sterling continuing as the surviving corporation in the Merger and becoming an indirect wholly-owned subsidiary of First Advantage. Upon the effective time of the Merger, each share of our common stock issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive, at the election of the holder of such share of common stock, and subject to proration in accordance with the Merger Agreement: (i) $16.73 per share in cash, without interest (the "Cash Consideration"), or (ii) 0.979 shares of common stock, par value $0.001 per share, of First Advantage (the "Stock Consideration"). The election will be subject to a proration mechanism, such that the total number of shares of our common stock entitled to receive the Cash Consideration will be equal to 72%, and the total number of shares of our common stock entitled to receive the Stock Consideration will be equal to 28%, of the aggregate number of shares of our common stock issued and outstanding immediately prior to the consummation of the Merger. Following the consummation of the Merger, our stockholders are expected to own approximately 16% of the combined company, and current First Advantage stockholders are expected to own approximately 84% of the combined company. The transaction has been unanimously approved by the boards of directors of both companies and is expected to close in approximately the fourth quarter of 2024, with the closing and timing thereof subject to required regulatory approvals, clearances, and other customary closing conditions. See Part I, Item 1. "Business—Sterling Overview" in the 2023 Annual Report on Form 10-K for additional information.

M&A Activity

On January 2, 2024, the Company acquired the equity interests of Vault Workforce Screening ("Vault"), a U.S. clinic management platform, bringing a network of 17,000 clinics and a flexible service model to enhance our existing drug and health services. The aggregate purchase price for the Vault acquisition totaled approximately $76.1 million, was funded with $65.0 million of proceeds from the Revolving Credit Facility and available cash on hand and included initial contingent consideration of $2.8 million recorded at fair value.

Trends and Other Factors Affecting Our Performance

Macroeconomic and Job Environment

Our business is impacted by the overall economic environment and our clients' hiring volumes. In the latter half of the third quarter of 2022, base growth began to moderate due to macroeconomic uncertainty related to factors including inflation, monetary policy and fiscal policy. This moderation has continued throughout 2023 and through the first half of 2024 during which we experienced year-over-year declines in base business with our existing clients that offset positive trends in other revenue drivers, including growth from new clients, up-sell and cross-sell and retention. The ongoing macroeconomic factors have caused uncertainty among our clients and general populace of a future economic downturn or recession. Given the uncertain conditions, it is challenging to predict the hiring and turnover trends of our clients.

Effects of Inflation

As a result of inflation and other macroeconomic factors, we have experienced declines in base business growth with our existing clients. If inflation continues or worsens, it could further negatively impact us by increasing our operating expenses. For example, inflation may lead to cost increases in multiple areas across our business, including the cost of labor. Further, inflation may also cause our customers to reduce their use of our products and services. To the extent that we are unable to pass on these costs through increased prices, revised budget estimates or offset them otherwise, or that we experience lower demand from our customers due to inflation, the rising rate of inflation may adversely affect our business, results of operations and financial condition.

Recent Accounting Standards Updates

Emerging Growth Company

The Jumpstart Our Business Startups Act of 2021 permits us, as an "emerging growth company," to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to use this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for private companies.

We will cease to be an emerging growth company upon the earliest of (a) the last day of the fiscal year in which we have total annual gross revenues of $1.235 billion or more; (b) the last day of our fiscal year following the fifth anniversary of the date of the initial public offering ("IPO"); (c) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (d) the date on which we are deemed to be a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur as of the last day of a fiscal year in which the market value of our common stock held by non-affiliates equals or exceeds $700 million as of the last business day of the second fiscal quarter of such fiscal year, which threshold was not exceeded as of June 30, 2024.

Refer to Note 3, "Recent Accounting Standards Updates" of the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information about recent accounting pronouncements.

Components of Our Results of Operations

The following discussion summarizes the key components of our unaudited condensed consolidated statements of operations and comprehensive (loss) income. We have one operating and reportable segment.

Revenues

We generate revenue by providing identity verification and background services to our clients. We have an attractive business model underpinned by stable and highly recurring transactional revenues, significant operating leverage and low capital requirements that contribute to strong cash flow generation. We recognize revenue under the Financial Accounting Standards Board's Accounting Standards Codification Topic No. 606, "Revenue from Contracts with Customers" ("ASC 606"). Under ASC 606, we recognize revenue when control of the promised goods or services is transferred to clients, generally at a point in time, in an amount that reflects the consideration that we are entitled to for those goods or services. A majority of our enterprise client contracts are exclusive to Sterling or require Sterling to be used as the primary provider. Additionally, they are typically multi-year agreements with automatic renewal terms, no termination for convenience clauses and set pricing with Sterling's right to increase prices annually upon notice, including the ability to increase pass-through costs to our clients with 30 days' notice. The strength of our contracts combined with our high levels of client retention results in a high degree of revenue visibility.

Our revenue drivers are acquiring new clients measured by new client growth, growing our existing client base through retaining existing clients measured by gross retention rate, and growing our existing client relationships through upselling, cross-selling, and organic and inorganic growth in our client's operations that lead to an increase in hiring measured by base business growth with existing clients. The aforementioned metrics are calculated as discussed in the following paragraph.

New client growth for the relevant period is calculated as revenues from clients that are in the first twelve months of billing with Sterling divided by total revenues from the prior period, expressed as a percentage. Existing client growth is defined as: (i) base business with existing clients due to increased or decreased volumes, which is calculated as change in revenues in the current period from clients that have been billing with us for longer than twelve calendar months, plus (ii) additional revenue from cross-sell and up-sell, net of (iii) attrition, which is the revenue impact from accounts considered lost. Existing client growth is expressed as a percentage, where the denominator is total revenues from the prior period. Gross retention rate is a percentage, the numerator of which is prior period revenues less the revenue impact from accounts considered lost and the denominator is prior period revenues. The revenue impact is calculated as revenue decline of lost accounts in the relevant period from the prior period for the months after they were considered lost. Therefore, the attrition impact of clients lost in the current year may be partially captured in both the current and following period's retention rates depending on what point during the period they are lost. Our gross retention rate does not factor in the revenue impact, whether growth or decline, attributable to existing clients or the incremental revenue impact of new clients.

In addition to organic growth through the drivers mentioned above, we may from time to time consider acquisitions that drive growth in our business. In those instances, inorganic growth will refer to the revenue from acquisitions for the twelve months following an acquisition. Any incremental revenue generation thereafter will be considered organic growth.

Our revenues come from the following services which are sold as a bundle or individually, with revenue recognized at the time of delivery of background screening reports.

- Identity Verification - Leveraging innovative technologies in fingerprinting, facial recognition and ID validation to verify that candidates are who they say they are.
- Background Checks - County, state and federal criminal checks fulfilled through proprietary automation technology enabling global criminal screening capabilities in over 240 countries and territories. Other services include credit checks, civil checks, motor vehicle registration confirmation and social media checks.
- Credential Verification - Thorough employment and education verification services and licensing certification backed by a powerful fulfillment engine.
- Drug and Health Screening - Comprehensive, accurate and fast drug and health screening services through a network of approximately 20,000 collection sites supporting the Substance Abuse and Mental Health Services Administration in the U.S.
- Onboarding - Custom forms including I-9 and eVerify employment eligibility, tax withholding forms and Equal Employment Opportunity disclosure forms, with built-in compliance and dynamic validation.
- Post-Hire Monitoring - Continuous screening allowing for greater mobility and safety for remote, onsite and contingent jobs and also ensuring prompt risk warnings on any changes to an employee's profile.

Operating Expenses

Our cost structure is flexible and provides us with operational leverage to be able to effectively adapt to changing client needs and broader economic events. Additionally, in 2023, we implemented strategic structural changes in our business to improve operating leverage and accelerate modernizing our technological infrastructure including increasing the use of robotics process automation and leveraging artificial intelligence. These changes have allowed us to optimize processes, reduce manual touch points and improve productivity of our internal teams and experience of our customers. We moved to a virtual-first strategy in 2020 and began to close or reduce the size of other offices globally and reduce our data center footprint as we executed moving our revenue to the cloud and streamlined our sales and operations organization for greater operational efficiency. Due to the success to date of the virtual-first strategy, we continued our real estate consolidation efforts to exit or reduce the size of remaining offices during 2023. In the second quarter of 2023, we closed our former principal executive office and headquarters in New York and moved our headquarters to an existing administrative office in Ohio and closed or reduced the size of additional offices. As of June 30, 2024, we have closed or reduced the size of 25 offices globally since we launched our virtual first strategy.

As part of our refreshed strategy, in 2022, we began executing on a restructuring program to realign senior leadership and functions and streamline our organization, with the goal of elevating our go-to-market strategy and accelerating our technology and product innovation. At the end of 2022, we also launched Project Nucleus which we expect to drive meaningful cost savings and efficiency gains in our cost of revenues. This initiative enhances our organization by re-engineering processes, driving fulfillment cost reductions and identifying and executing on additional automation opportunities. In any given period, operating expenses are driven by the amount of revenue, mix of clients and products, and impact of automation, productivity and procurement initiatives. While we expect operating expenses to increase in absolute dollars to support our continued growth, we believe that operating expenses will decline gradually as a percentage of total revenues in the future as we expect our business to grow and our operating scale to continue to improve.

Operating expenses include the following costs:

Cost of Revenues

Cost of revenues includes costs related to delivery of services and includes third-party vendor costs associated with acquisition of data and to a lesser extent, costs related to our onshore and offshore fulfillment teams and facilities and hosting costs for our cloud-based platforms. Our ability to grow profitably depends on our ability to manage our cost structure. Our costs are affected by third-party costs including government fees and data vendor costs, as these third parties have discretion to adjust pricing.

Third-party data costs include amounts paid to third parties for access to government records, other third-party data and services, as well as costs related to our court runner network. Third-party costs of services are largely variable in nature. Where applicable, these are typically invoiced to our clients as direct pass-through costs.

Cost of revenues also includes salaries, benefits and stock-based compensation expense for personnel involved in the processing and fulfillment of our screening products and solutions, as well as our client care organization, and facilities costs for our onshore and offshore fulfillment centers. Additional vendor costs are third-party costs for robotics process automation related to fulfillment, and third-party costs related to hosting our fulfillment platforms in the cloud. We do not allocate depreciation and amortization to cost of revenues.

Corporate Technology and Production Systems

Included in this line item are costs related to maintaining our corporate information technology infrastructure and non-capitalizable costs to develop and maintain our production systems.

Corporate information technology expenses consist of personnel costs, including stock-based compensation, supporting internal operations such as information technology support and the maintenance of our information security and business continuity functions. Also included are third-party costs including cloud computing costs that support our corporate internal systems, software licensing and maintenance, telecommunications and other technology infrastructure costs.

Production systems costs consist of non-capitalizable personnel costs including contractor costs incurred for the development of platform and product initiatives, and production support and maintenance. Platform and product initiatives facilitate the development of our technology platform and the launch of new screening products. Production support and maintenance includes costs to support and maintain the technology underlying our existing screening products, and to enhance the ease of use for our cloud applications. Certain personnel costs related to new products and features are capitalized and amortization of these capitalized costs is included in the depreciation and amortization line item.

Included within Corporate technology and production systems are non-capitalizable production system and corporate information technology expenses related to Project Ignite, a three-phase strategic investment initiative. Phase one of Project Ignite modernized client and candidate experiences and is complete. Phase two of Project Ignite, which was completed in 2022, focused on decommissioning our on-premises data centers and migrating our production systems and corporate information technological infrastructure to a managed service provider in the cloud and resulted in approximately 99% of our revenue being processed through platforms hosted in the cloud and allows us to consistently maintain 99.9% platform availability while being prepared to scale into the future. Phase three of Project Ignite was decommissioning of platforms purchased over the prior ten years and the migration of the clients to one global platform. This third and final phase, which was completed in the first quarter of 2023, unified our clients onto a single global platform. Our core platform now processes approximately 79% of our global revenue. We expect to increase the revenue processed on our core platform as a percent of global revenue in 2024.

Selling, General and Administrative

Selling expenses consist of personnel costs, travel expenses and other expenses for our client success, sales and marketing teams. Additionally, selling expenses include the cost of marketing and promotional events, corporate communications and other brand-building activities. General and administrative expenses consist of personnel and related expenses for human resources, legal and compliance, finance, global shared services and executives. Additional costs include professional fees, stock-based compensation, insurance premiums and other corporate expenses.

While our selling, general and administrative ("SG&A") expenses have increased over the last several years due to additional public company related reporting and compliance costs, we expect expenses to stabilize in the future as a result of strategic initiatives to drive operational efficiencies.

In addition, non-cash stock-based compensation expense associated with special one-time bonus grants in connection with the IPO of options and restricted stock under our Sterling Check Corp. 2021 Omnibus Incentive Plan (discussed in Note 15, "Stock-based Compensation" to our audited consolidated financial statements included in Part II, Item 8. "Financial Statements and Supplementary Data" of our 2023 Annual Report) began in the third quarter of 2021 and will continue over the following four years. Over the long term, we expect our SG&A expenses to decrease as a percentage of our revenue as we leverage our past investments.

Depreciation and Amortization

Definite-lived intangible assets consist of intangibles acquired through acquisition and the costs of developing internal-use software. They are amortized using a straight-line basis over their estimated useful lives except for customer lists, to which we apply an accelerated method of amortization. The costs of developing internal-use software are capitalized during the application development stage. Amortization commences when the software is placed into service and is computed using the straight-line method over the useful life of the underlying software of three years.

Depreciation of our property and equipment is computed on the straight-line basis over the estimated useful life of the assets, generally three to five years or, for leasehold improvements, the shorter of seven years or the term of the lease.

Impairment of Long-Lived Assets

Long-lived assets, such as property, equipment and capitalized internal use software subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, such as (i) a significant adverse change in the extent or manner in which it is being used or in its physical condition, (ii) a significant adverse change in legal factors or in business climate that could affect its value, or (iii) a current-period operation or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with its use. An asset is considered impaired if the carrying amount exceeds the undiscounted future net cash flows the asset is expected to generate. An impairment charge is recognized for the amount by which the carrying amount of the assets exceeds its fair value. The adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated or amortized over the remaining useful life of that asset. Assets held for sale are reported at the lower of the carrying amount or fair value, less selling costs.

Interest Expense, Net

Interest expense consists of interest, the amortization of loan discount and deferred financing fees on the outstanding debt, and includes proceeds received or settlements paid on our designated interest rate swaps.

On February 28, 2023, we entered into an amortizing $300.0 million notional value interest rate swap. The notional value steps down from $300.0 million to $150.0 million on February 27, 2026. The swap provides for us to pay, as applied to the notional value, a fixed rate of interest of 4.26% monthly and receive, on a monthly basis, an amount equal to the greater of the one-month term Secured Overnight Financing Rate ("SOFR") and a floor of (0.10%), as applied to the notional value (the "Floating Leg"). The interest rate swap matures on November 29, 2027.

Income Tax Provision or Benefit

Income tax provision or benefit consists of domestic and foreign corporate income taxes related to earnings from our sale of services, with statutory tax rates that differ by jurisdiction. Income earned by our international entities could grow over time as a percentage of total income, which may impact our effective income tax rate. Our effective tax rate will be affected by many other factors including changes in tax laws, regulations or rates, new interpretations of existing laws or regulations, shifts in the allocation of income earned throughout the world and changes in overall levels of income before tax.

During the three and six months ended June 30, 2024, our interim income tax provision was determined using the discrete effective tax rate method, as allowed by ASC Topic 740-270-30-18, "*Income Taxes - Interim Reporting*". The discrete method is applied when the application of the estimated annual effective tax rate yields an estimate that is not reliable and the actual effective rate for the year-to-date results represents the best estimate of the annual effective tax rate. The discrete method treats the year-to-date period as if it was the annual period and determines the income tax expense or benefit on that basis. We determined that since small changes in forecasted income would result in significant variability in the estimated annual effective tax rate, the historical method would not provide a reliable estimate of the annual effective tax rate to apply to year-to-date income or loss before tax.

Results of Operations

Three Months Ended June 30, 2024 compared to the Three Months Ended June 30, 2023

The following table sets forth certain historical consolidated and comparative financial information for the periods presented:

	Three Months Ended June 30,		Increase/ (Decrease)	
(dollars in thousands, except per share amounts)	**2024**	**2023**	**$**	**%**
Revenues	$ 200,528	$ 190,384	10,144	5.3 %
Cost of revenues (exclusive of depreciation and amortization below)	110,859	102,056	8,803	8.6 %
Corporate technology and production systems	12,755	11,428	1,327	11.6 %
Selling, general and administrative	50,379	44,910	5,469	12.2 %
Depreciation and amortization	15,820	16,120	(300)	(1.9)%
Impairments and disposals of long-lived assets	32	7,039	(7,007)	(99.5)%
Total operating expenses	189,845	181,553	8,292	4.6 %
Operating income	10,683	8,831	1,852	21.0 %
Interest expense, net	10,143	8,990	1,153	12.8 %
Other income	(322)	(397)	(75)	18.9 %
Total other expense, net	9,821	8,593	1,228	14.3 %
Income before income taxes	862	238	624	262.2 %
Income tax provision (benefit)	7,094	(85)	7,179	N/M
Net (loss) income	$ (6,232)	$ 323	(6,555)	N/M
Net (loss) income margin	(3.1)%	0.2 %		(330) bps
Net (loss) income per share—basic	$ (0.07)	$ 0.00	$ (0.07)	N/M
Net (loss) income per share—diluted	$ (0.07)	$ 0.00	$ (0.07)	N/M

N/M—Not meaningful.

Revenues

Revenues increased by 5.3%, or $10.1 million, from $190.4 million for the three months ended June 30, 2023 to $200.5 million for the three months ended June 30, 2024. The 5.3% increase in revenue was driven by 6.2% inorganic growth from the acquisition of Vault Workforce Screening ("Vault"), partially offset by a 0.9% decrease in organic constant currency revenue. The organic revenue decrease reflected a decline in existing client business of approximately 8% including base business, cross-sell and up-sell, and net of attrition offset by new client growth of approximately 7%. Year-over-year decline in base business was driven by lower hiring volumes by our clients due to macroeconomic uncertainty. Our investments in technology and products, coupled with our best-in-class turnaround times and customer-first focus, enabled our gross retention rate to remain strong at approximately 96% for the last twelve months ended June 30, 2024. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

Total revenue in our U.S. business increased 7.3% year-over-year. This increase is primarily driven by our acquisition of Vault as well as growth in our Healthcare, Retail, and Gig, Consumer, and Volunteers Verticals, partially offset by decreases in our Contingent, Industrials, and Financial and Business Services Verticals. Our international business experienced total revenue decline of 5.8% driven by a decline in base business.

Cost of Revenues

Cost of revenues increased by 8.6%, or $8.8 million, from $102.1 million for the three months ended June 30, 2023 to $110.9 million for the three months ended June 30, 2024. The increase in cost of revenues was primarily driven by the acquisition of Vault, partially offset by lower costs driven by our cost optimization efforts resulting from Project Nucleus.

Cost of revenues as a percentage of revenues increased by 170 basis points from 53.6% for the three months ended June 30, 2023 to 55.3% for the three months ended June 30, 2024 driven by increased volume from Vault at lower margins and higher third-party vendor costs as a percentage of revenue, partially offset by lower costs driven by our cost optimization efforts. The increase in third party vendor costs was due to the combination of organic revenue growth in certain lower-margin products and revenue declines within our higher-margin base business.

Corporate Technology and Production Systems

Corporate technology and production systems increased by 11.6%, or $1.3 million, from $11.4 million for the three months ended June 30, 2023 to $12.8 million for the three months ended June 30, 2024. These expenses include costs related to maintaining our corporate information technology infrastructure and non-capitalizable costs to develop and maintain our production systems. Costs related to maintaining our corporate information technology infrastructure increased by $0.4 million from $4.9 million for the three months ended June 30, 2023 to $5.3 million for the three months ended June 30, 2024 primarily due to higher payroll and related expenses, facilities costs and professional fees. Costs to develop platform and product initiatives increased by $0.6 million from $4.3 million for the three months ended June 30, 2023 to $4.9 million for the three months ended June 30, 2024, driven by higher payroll and related expenses and software licenses, primarily from the acquisition of Vault, along with higher professional fees. Costs related to maintaining our production systems increased by $0.3 million from $2.2 million for the three months ended June 30, 2023 to $2.5 million for the three months ended June 30, 2024, primarily due to higher payroll and related expenses and software licenses, resulting from the acquisition of Vault, along with higher professional fees.

Selling, General and Administrative

Selling, general and administrative expenses increased by 12.2%, or $5.5 million, from $44.9 million for the three months ended June 30, 2023 to $50.4 million for the three months ended June 30, 2024. The year-over-year increase is primarily driven by a $3.5 million increase in professional fees and transaction costs related to the merger with First Advantage, a $2.6 million increase in payroll and related expenses primarily resulting from the acquisition of Vault, $2.1 million increase in stock-based compensation, and $1.0 million in legal settlements.These year-over year increases were partially offset by a $2.7 million decrease as a result of reassessing the estimated fair value of contingent consideration, and a $1.5 million decrease in office rent and other facilities related costs in connection with our real estate consolidation efforts as the three months ended June 30, 2023 included $1.3 million of accelerated rent and facilities costs.

Depreciation and Amortization

Depreciation and amortization expense decreased by 1.9%, or $0.3 million, from $16.1 million for the three months ended June 30, 2023 to $15.8 million for the three months ended June 30, 2024, due primarily to a $1.6 million decrease in intangible asset amortization resulting from assets being fully amortized partially offset by a $1.3 million increase in amortization of intangible assets acquired from the Vault acquisition.

Impairments and Disposals of Long-Lived Assets

Impairments and disposals of long-lived assets decreased by 99.5%, or $7.0 million from $7.0 million for the three months ended June 30, 2023 to less than $0.1 million for the three months ended June 30, 2024. The impairments and disposals of long-lived assets during the three months ended June 30, 2023 primarily resulted from a $5.3 million impairment charge on right-of-use (“ROU”) assets and $1.7 million of asset disposals in connection with our real estate consolidation efforts.

Interest Expense, Net

Interest expense increased by 12.8%, or $1.2 million, from $9.0 million for the three months ended June 30, 2023 to $10.1 million for the three months ended June 30, 2024 primarily due to an increase in interest expense as a result of drawing an additional $65 million of proceeds from the Revolving Credit Facility to fund the acquisition of

Vault on January 2, 2024. The realized gain or loss on interest rate swaps designated as hedging instruments that we entered into in February 2023 is included in interest expense. This realized gain was $0.8 million and $0.6 million for the three months ended June 30, 2024 and 2023, respectively, and was recorded as a reduction to interest expense. Amortization of the loan discount and deferred financing fees resulted in expense of $0.5 million for the three months ended June 30, 2024 and 2023.

Income Tax Provision (Benefit)

Income tax provision increased $7.2 million from a benefit of $0.1 million for the three months ended June 30, 2023 to an income tax provision of $7.1 million for the three months ended June 30, 2024, resulting in an effective tax rate of (35.7)% and 823.0%, respectively. The increase in the income tax provision is primarily due to increased income before taxes, and other permanent items, including the impact of stock-based compensation. For the three months ended June 30, 2024 and 2023, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items including the impact of stock-based compensation.

Net (Loss) Income and Net (Loss) Income Margin

Net (loss) income decreased $6.6 million from $0.3 million net income for the three months ended June 30, 2023 to $(6.2) million net loss for the three months ended June 30, 2024. Net (loss) income margin decreased from net income margin of 0.2% for the three months ended June 30, 2023 to a net loss margin of (3.1)% for the three months ended June 30, 2024.

The decrease in both net income and net income margin resulted primarily from an increase in cost of revenues due to lower margin volume from Vault and higher third-party vendor costs as a percentage of revenue, increase in income tax provision, and higher Selling, General, and Administrative costs due to higher professional fees and transaction costs related to the Merger.

Net (Loss) Income per Share

Net (loss) income per share—basic decreased $0.07 per share from $0.00 per share for the three months ended June 30, 2023 to net loss per share of $(0.07) for the three months ended June 30, 2024 and net (loss) income per share—diluted decreased $0.07 per share from $0.00 per share for the three months ended June 30, 2023 to net loss per share of $(0.07) for the three months ended June 30, 2024 due to the decrease in net income.

Six Months Ended June 30, 2024 compared to the Six Months Ended June 30, 2023

The following table sets forth certain historical consolidated and comparative financial information for the periods presented:

(dollars in thousands, except per share amounts)	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Increase/ (Decrease) $	Increase/ (Decrease) %
Revenues	$ 386,527	$ 369,658	16,869	4.6 %
Cost of revenues (exclusive of depreciation and amortization below)	214,900	196,810	18,090	9.2 %
Corporate technology and production systems	25,969	23,380	2,589	11.1 %
Selling, general and administrative	110,269	92,361	17,908	19.4 %
Depreciation and amortization	31,590	31,242	348	1.1 %
Impairments and disposals of long-lived assets	200	7,145	(6,945)	(97.2)%
Total operating expenses	382,928	350,938	31,990	9.1 %
Operating income	3,599	18,720	(15,121)	(80.8)%
Interest expense, net	20,455	17,598	2,857	16.2 %
Other income	(745)	(809)	(64)	(7.9)%
Total other expense, net	19,710	16,789	2,921	17.4 %
(Loss) income before income taxes	(16,111)	1,931	(18,042)	(934.3)%
Income tax (benefit) provision	(1,924)	1,017	(2,941)	(289.2)%
Net (loss) income	$ (14,187)	$ 914	(15,101)	N/M
Net (loss) income margin	(3.7)%	0.2 %		(390) bps
Net (loss) income per share—basic	$ (0.16)	$ 0.01	$ (0.17)	N/M
Net (loss) income per share—diluted	$ (0.16)	$ 0.01	$ (0.17)	N/M

N/M—Not meaningful.

Revenues

Revenues increased by 4.6%, or $16.9 million, from $369.7 million for the six months ended June 30, 2023 to $386.5 million for the six months ended June 30, 2024. The 4.6% increase in revenue was driven by 7.4% inorganic growth from the acquisitions of Vault and A-Check, partially offset by a 2.8% decrease in organic constant currency revenue. The organic revenue decrease reflected a decline in existing client business of approximately 9% including base business, cross-sell and up-sell, and net of attrition offset by new client growth of approximately 6%. Year-over-year decline in base business was driven by lower hiring volumes by our clients due to macroeconomic uncertainty. Our investments in technology and products, coupled with our best-in-class turnaround times and customer-first focus, enabled our gross retention rate to remain strong at approximately 96% for the last twelve months ended June 30, 2024. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

Total revenue in our U.S. business increased 7.0% year-over-year. This increase is primarily driven by our acquisitions of Vault and A-Check as well as growth in our Healthcare, Retail, and Gig, Consumer, and Volunteers Verticals, partially offset by decreases in our Contingent, Industrials, and Financial and Business Services Verticals. Our international business experienced total revenue decline of 8.7% driven by a decline in base business.

Cost of Revenues

Cost of revenues increased by 9.2%, or $18.1 million, from $196.8 million for the six months ended June 30, 2023 to $214.9 million for the six months ended June 30, 2024. The increase in cost of revenues was primarily driven by the acquisitions of Vault and A-Check, partially offset by lower costs driven by our cost optimization efforts resulting from Project Nucleus.

Cost of revenues as a percentage of revenues increased by 240 basis points from 53.2% for the six months ended June 30, 2023 to 55.6% for the six months ended June 30, 2024 driven by increased volume from Vault and A-Check at lower margins and higher third-party vendor costs as a percentage of revenue, partially offset by lower costs driven by our cost optimization efforts. The increase in third party vendor costs was due to the combination of organic revenue growth in certain lower-margin products and revenue declines within our higher-margin base business.

Corporate Technology and Production Systems

Corporate technology and production systems increased by 11.1%, or $2.6 million, from $23.4 million for the six months ended June 30, 2023 to $26.0 million for the six months ended June 30, 2024. These expenses include costs related to maintaining our corporate information technology infrastructure and non-capitalizable costs to develop and maintain our production systems. Costs related to maintaining our corporate information technology infrastructure decreased by $0.1 million from $10.2 million for the six months ended June 30, 2023 to $10.1 million for the six months ended June 30, 2024. Costs to develop platform and product initiatives increased by $1.8 million from $8.7 million for the six months ended June 30, 2023 to $10.5 million for the six months ended June 30, 2024 primarily due to higher payroll and related expenses and software licenses resulting from the acquisition of Vault, along with higher professional fees. Costs related to maintaining our production systems increased by $0.9 million from $4.5 million for the six months ended June 30, 2023 to $5.4 million for the six months ended June 30, 2024, primarily due to higher payroll and related expenses and software licenses resulting from the acquisition of Vault, along with higher professional fees.

These expenses also include non-capitalizable costs related to Project Ignite. We incurred $3.1 million related to phase three during the six months ended June 30, 2023. The third and final phase of Project Ignite was completed in the first quarter of 2023. For more information about Project Ignite, please see "—Components of our Results of Operations—Operating Expenses—Corporate Technology and Production Systems."

Selling, General and Administrative

Selling, general and administrative expenses increased by 19.4%, or $17.9 million, from $92.4 million for the six months ended June 30, 2023 to $110.3 million for the six months ended June 30, 2024. The year-over-year increase is primarily driven by a $11.5 million increase in professional fees and transaction costs related to the merger with First Advantage, $4.1 million increase in payroll and related expenses primarily resulting from the acquisition of Vault, a $4.0 million increase as a result of the out-of-period adjustment to the estimated fair value of contingent consideration related to the acquisition of Employment Background Investigations, Inc. ("EBI"), a $3.2 million increase in stock-based compensation, and $1.0 million in legal settlements. These year-over year increases were partially offset by a $2.7 million decrease as a result of reassessing the estimated fair value of contingent consideration, a $2.2 million decrease in office rent and other facilities related costs in connection with our real estate consolidation efforts, and $0.8 million of lower insurance and marketing costs.

Depreciation and Amortization

Depreciation and amortization expense increased by 1.1%, or $0.3 million, from $31.2 million for the six months ended June 30, 2023 to $31.6 million for the six months ended June 30, 2024, due primarily to the additional amortization of the intangible assets related to our acquisition of Vault in January 2024.

Impairments and Disposals of Long-Lived Assets

Impairments and disposals of long-lived assets decreased by $6.9 million from $7.1 million for the six months ended June 30, 2023 to $0.2 million for the six months ended June 30, 2024. The impairments and disposals of long-lived assets during the six months ended June 30, 2023 primarily resulted from a $5.3 million impairment charge on ROU assets and $1.8 million of asset disposals in connection with our real estate consolidation efforts.

Interest Expense, Net

Interest expense increased by 16.2%, or $2.9 million, from $17.6 million for the six months ended June 30, 2023 to $20.5 million for the six months ended June 30, 2024 primarily due to an increase in interest expense as a result of drawing an additional $65.0 million of proceeds from the Revolving Credit Facility to fund the acquisition of Vault on January 2, 2024. The realized gain or loss on interest rate swaps designated as hedging instruments that we entered into in February 2023 is included in interest expense. This realized gain was $1.6 million and $0.6 million for the six months ended June 30, 2024 and 2023, respectively, and was recorded as a reduction to interest expense. Amortization of the loan discount and deferred financing fees resulted in expense of $0.9 million for the six months ended June 30, 2024 and 2023.

Income Tax Provision (Benefit)

Income tax provision decreased by $2.9 million from an income tax provision of $1.0 million for the six months ended June 30, 2023 to an income tax benefit of $1.9 million for the six months ended June 30, 2024, resulting in an effective tax rate of 52.7% and 11.9%, respectively. The decrease in income tax provision is primarily due to the decrease in income before taxes. Income before taxes decreased $18.0 million from $1.9 million income before taxes for the six months ended June 30, 2023 to $16.1 million loss before income taxes for the six months ended June 30, 2024. For the six months ended June 30, 2024 and 2023, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items including the impact of stock-based compensation.

Net (Loss) Income and Net (Loss) Income Margin

Net (loss) income decreased by $15.1 million from $0.9 million net income for the six months ended June 30, 2023 to a net loss of $(14.2) million for the six months ended June 30, 2024. Net (loss) income margin decreased from a net income margin of 0.2% for the six months ended June 30, 2023 to a net loss margin of (3.7)% for the six months ended June 30, 2024.

The decrease in both net income and net income margin resulted primarily from higher cost of revenues due to from lower margin volume from Vault and A-Check and higher third-party vendor costs as a percentage of revenue, higher Selling, General, and Administrative costs due to higher professional fees and transaction costs related to the Merger, and higher interest expense.

Net (Loss) Income per Share

Net (loss) income per share—basic decreased $0.17 per share from $0.01 per share for the six months ended June 30, 2023 to net loss per share of $(0.16) for the six months ended June 30, 2024 and net (loss) income per share—diluted decreased $0.17 per share from $0.01 per share for the six months ended June 30, 2023 to net loss per share of $(0.16) for the six months ended June 30, 2024 due to the decrease in net income.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q contains "non-GAAP financial measures," which are financial measures that are not calculated and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Specifically, we make use of the non-GAAP financial measures "organic constant currency revenue growth (decline)", "Adjusted EBITDA," "Adjusted EBITDA Margin," "Adjusted Net Income," "Adjusted Earnings Per Share" and "Free Cash Flow" to assess the performance of our business.

Organic constant currency revenue growth (decline) is calculated by adjusting for inorganic revenue growth (decline), which is defined as the impact to revenue growth (decline) in the current period from M&A activity that has occurred over the past twelve months, and converting the current period revenue at foreign currency exchange rates consistent with the prior period. For the three months ended June 30, 2024, we have provided the impact of revenue from the acquisition of Vault (acquired in January 2024) and for the six months ended June 30, 2024, we have provided the impact of revenue from the acquisitions of Vault as well as A-Check (acquired in March 2023). For the three and six months ended June 30, 2023, we have provided the impact of revenue from the acquisition of Socrates Limited and its affiliates ("Socrates") (acquired in January 2023) as well as A-Check. We present organic constant currency revenue growth (decline) because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance; however, it has limitations as an analytical tool, and you should not consider such a measure either in isolation or as a substitute for analyzing our results as reported under GAAP. In particular, organic constant currency revenue growth (decline) does not reflect M&A activity or the impact of foreign currency exchange rate fluctuations.

Adjusted EBITDA is defined as net income (loss) adjusted for provision (benefit) for income taxes, interest expense, depreciation and amortization, stock-based compensation, transaction expenses related to the IPO, one-time public company transition expenses and costs associated with financing transactions, M&A activity, optimization and restructuring, technology transformation costs, foreign currency (gains) and losses and other costs affecting comparability. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue for the applicable period. We present Adjusted EBITDA and Adjusted EBITDA Margin because we believe they assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. Management and our board of directors use Adjusted EBITDA and Adjusted EBITDA Margin to evaluate the factors and trends affecting our business to assess our financial performance and in preparing and approving our annual budget and believe they are helpful in highlighting trends in our core operating performance. Further, our executive incentive compensation is based in part on components of Adjusted EBITDA. Adjusted EBITDA and Adjusted EBITDA Margin have limitations as analytical tools and should not be considered in isolation or as substitutes for our results as reported under GAAP. Adjusted EBITDA excludes items that can have a significant effect on our profit or loss and should, therefore, be considered only in conjunction with net income (loss) for the period. Because not all companies use identical calculations, these measures may not be comparable to other similarly titled measures of other companies.

Adjusted Net Income is a non-GAAP profitability measure. Adjusted Net Income is defined as net income (loss) adjusted for amortization of acquired intangible assets, stock-based compensation, transaction expenses related to the IPO, one-time public company transition expenses and costs associated with financing transactions, M&A activity, optimization and restructuring, technology transformation costs, and certain other costs affecting comparability, adjusted for the applicable tax rate. Adjusted Earnings Per Share is defined as Adjusted Net Income divided by diluted weighted average shares for the applicable period. We present Adjusted Net Income and Adjusted Earnings Per Share because we believe they assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding certain material non-cash items and unusual items that we do not expect to continue at the same level in the future. Our management believes that the inclusion of supplementary adjustments to net income (loss) applied in presenting Adjusted Net Income provide additional information to investors about certain material non-cash items and about items that we do not expect to continue at the same level in the future. Adjusted Net Income and Adjusted Earnings Per Share have limitations as analytical tools, and you should not consider such measures either in isolation or as substitutes for analyzing our results as reported under GAAP.

Free Cash Flow is defined as Net Cash provided by (used in) Operating Activities minus purchases of property and equipment and purchases of intangible assets and capitalized software. We present Free Cash Flow because we believe it provides cash available for strategic measures, after making necessary capital investments in property and equipment to support ongoing business operations, and provides investors with the same measures that management uses as the basis for making resource allocation decisions. Free Cash Flow has limitations as an analytical tool, and you should not consider such measure either in isolation or as a substitute for analyzing our results as reported under GAAP.

Organic Constant Currency Revenue Decline

The following table reconciles revenue growth (decline), the most directly comparable GAAP measure, to organic constant currency revenue decline for the periods presented. For the three months ended June 30, 2024, we have provided the impact of revenue from the acquisition of Vault. For the six months ended June 30, 2024, we have provided the impact of revenue from the acquisitions of Vault and A-Check. For the three and six months ended June 30, 2023, we have provided the impact of revenue from the acquisition of Socrates and A-Check.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Reported revenue growth (decline)	5.3 %	(7.4)%	4.6 %	(7.0)%
Inorganic revenue growth[(1)]	6.2 %	3.2 %	7.4 %	2.4 %
Impact from foreign currency exchange[(2)]	— %	(0.5)%	— %	(0.7)%
Organic constant currency decline	(0.9)%	(10.1)%	(2.8)%	(8.7)%

(1) Impact to revenue decline in the current period from M&A activity that has occurred over the past twelve months.

(2) Impact to revenue decline in the reported periods from fluctuations in foreign currency exchange rates.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA decreased by 7.4%, or $3.7 million, from $50.0 million for the three months ended June 30, 2023 to $46.3 million for the three months ended June 30, 2024. Adjusted EBITDA Margin decreased by 320 basis points year-over-year from 26.3% for the three months ended June 30, 2023 to 23.1% for the three months ended June 30, 2024. The decrease in Adjusted EBITDA was predominantly driven by higher third-party vendor costs driven by the combination of organic revenue growth in certain lower-margin product categories and revenue declines within our higher-margin base business, partially offset by lower costs driven by our cost optimization efforts. The decrease to Adjusted EBITDA margin was driven by these same factors decreasing Adjusted EBITDA, as well as increased volume from M&A activity at lower margins.

Adjusted EBITDA decreased by 11.3%, or $10.8 million, from $95.6 million for the six months ended June 30, 2023 to $84.8 million for the six months ended June 30, 2024. Adjusted EBITDA Margin decreased by 390 basis points year-over-year from 25.8% for the six months ended June 30, 2023 to 21.9% for the six months ended June 30, 2024. The decrease in Adjusted EBITDA was predominantly driven by higher third-party vendor costs driven by the combination of organic revenue growth in certain lower-margin product categories and revenue declines within our higher-margin base business, partially offset by lower costs driven by our cost optimization efforts. The decrease to Adjusted EBITDA margin was driven by these same factors decreasing Adjusted EBITDA, as well as increased volume from M&A activity at lower margins.

The following table reconciles net (loss) income, the most directly comparable GAAP measure, to Adjusted EBITDA for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Net (loss) income	$ (6,232)	$ 323	$ (14,187)	$ 914
Income tax provision (benefit)	7,094	(85)	(1,924)	1,017
Interest expense, net	10,143	8,990	20,455	17,598
Depreciation and amortization	15,820	16,120	31,590	31,242
Stock-based compensation	11,703	9,358	21,045	17,401
Loss on extinguishment of debt	—	—	—	—
Transaction expenses(1)	4,120	3,133	21,108	8,259
Restructuring(2)	1,566	11,490	4,767	14,763
Technology transformation(3)	455	179	830	3,412
Settlements impacting comparability(4)	1,000	—	1,000	—
Other(5)	615	489	110	946
Adjusted EBITDA	$ 46,284	$ 49,997	$ 84,794	$ 95,552
Adjusted EBITDA Margin	23.1 %	26.3 %	21.9 %	25.8 %

(1) Consists of transaction expenses related to M&A, associated earn-outs, one-time public company transition expenses and ancillary non-recurring public company expenses and fees associated with financing transactions. For the three months ended June 30, 2024, costs consisted of $3.7 million of transaction costs and professional fees to support the merger with First Advantage, $3.1 million related to M&A activity for the acquisitions of Vault, A-Check, and Socrates, offset by a $2.7 million gain as a result of reassessing the estimated fair value of contingent consideration. For the three months ended June 30, 2023, costs consisted primarily of $1.9 million of M&A related costs for the acquisitions of Socrates and A-Check and $1.2 million of costs to support the Secondary Public Offering in June 2023. For the six months ended June 30, 2024, costs consisted of $14.0 million of transaction costs and professional fees to support the merger with First Advantage, $5.8 million related to M&A activity for the acquisitions of Vault, A-Check, and Socrates, $4.0 million due to an out-of-period adjustment to the earn-out liability for the EBI acquisition, offset by a $2.7 million gain as a result of reassessing the estimated fair value of contingent consideration.For the six months ended June 30, 2023, costs consisted primarily of $4.6 million of M&A related costs for the acquisitions of Socrates and A-Check, $1.2 million of M&A costs for the EBI acquisition primarily due to the acceleration of contract costs related to the completion of the EBI platform migration, $2.5 million of registration statement costs, costs to support the Secondary Public Offering in June 2023, one-time public company transition expenses and expenses related to executing our interest rate swap.

(2) Consists of restructuring-related costs, including executive recruiting and severance charges, and lease termination costs and disposal of fixed assets related to our real estate consolidation efforts. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. In 2022, we began executing on a restructuring program to realign senior leadership and functions with the goal of elevating our go-to-market strategy and accelerating our technology and product innovation. At the end of 2022, we also launched Project Nucleus which we expect to drive meaningful cost savings and efficiency gains in our cost of revenues. For the three months ended June 30, 2024, costs include $1.6 million of restructuring-related charges. For the three months ended June 30, 2023, costs consisted of $8.9 million in connection with executing against our real estate consolidation program which included a $5.3 million impairment charge on ROU assets, $1.9 million of accelerated rent and facilities costs, and $1.7 million of fixed asset disposals. The remaining $2.6 million consists of restructuring related charges to support our strategy refresh and the execution of Project Nucleus. For the six months ended June 30, 2024, costs include $4.6 million of restructuring-related charges and $0.2 million of fixed asset disposals in connection with office closures. For the six months ended June 30, 2023, costs consisted of $9.2 million of real estate consolidation costs and $5.5 million of restructuring-related charges.

(3) Includes costs related to technology modernization, as well as costs related to decommissioning of on-premise production systems and redundant fulfillment systems of acquired companies and the migration to our platform. We believe that these costs are discrete and non-recurring in nature, as they relate to a one-time restructuring and decommissioning of our on-premise production systems and corporate technological infrastructure and the move to a managed service provider, decommissioning redundant fulfillment systems and modernizing internal functional systems. As such, they are not normal, recurring operating expenses and are not reflective of ongoing trends in the cost of doing business. The significant majority of these are related to the last two phases of Project Ignite, a three-phase strategic investment initiative launched in 2019 to create an enterprise-class global platform, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure. Phase two of Project Ignite was completed in 2022 and phase three of Project Ignite was completed in the first quarter of 2023. For the three months ended June 30, 2024, $0.5 million related to

decommissioning of the redundant production and fulfillment systems of A-Check and the redundant production systems of Vault and integrating the fulfillment systems of Vault with Sterling to enhance the delivery of drug and health services. For the three months ended June 30, 2023, $0.2 million related to decommissioning of the redundant production and fulfillment systems of A-Check and the redundant fulfillment systems of Socrates. For the six months ended June 30, 2024, $0.8 million related to decommissioning of the redundant production and fulfillment systems of A-Check, the redundant fulfillment systems of Socrates, and the redundant production systems of Vault and integrating the fulfillment systems of Vault with Sterling to enhance the delivery of drug and health services.For the six months ended June 30, 2023, investment related to the conclusion of Project Ignite was $3.1 million and the remaining $0.3 million related to costs for decommissioning of the on-premise production system and decommissioning of the redundant fulfillment system of EBI and migrating onto our platform and decommissioning costs of the A-Check and Socrates systems.

(4) Consists of non-recurring settlements and the related legal fees impacting comparability. For the three and six months ended June 30, 2023, the Company did not incur costs related to non-recurring settlements and legal fees impacting comparability. For the three and six months ended June 30, 2024, costs include legal settlements totaling $1.0 million for certain settled legal litigation in the year or anticipated settlements based on claims existing as of the end of the reporting period. These legal settlement related costs were discrete and non-recurring in nature and we do not expect them to occur in future periods.

(5) Consists of gains or losses on foreign currency transactions and impairment of capitalized software.

The following table presents the calculation of net (loss) income margin and Adjusted EBITDA Margin for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2024**	**2023**	**2024**	**2023**
Net (loss) income	$ (6,232)	$ 323	$ (14,187)	$ 914
Adjusted EBITDA	$ 46,284	$ 49,997	$ 84,794	$ 95,552
Revenues	$ 200,528	$ 190,384	$ 386,527	$ 369,658
Net (loss) income margin	(3.1)%	0.2 %	(3.7)%	0.2 %
Adjusted EBITDA Margin	23.1 %	26.3 %	21.9 %	25.8 %

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted Net Income decreased by 16.8%, or $4.4 million, from $26.2 million for the three months ended June 30, 2023 to $21.8 million for the three months ended June 30, 2024. Adjusted Earnings Per Share—basic decreased by 17.9%, or $0.05 per share, from $0.28 per share for the three months ended June 30, 2023 to $0.23 per share for the three months ended June 30, 2024. Adjusted Earnings Per Share—diluted decreased from $0.28 per share for the three months ended June 30, 2023 to $0.23 per share for the three months ended June 30, 2024. The decrease in Adjusted Net Income, Adjusted Earnings Per Share—basic, and Adjusted Earnings Per Share—diluted was primarily driven by higher third-party vendor costs driven by the combination of organic revenue growth in certain lower-margin product categories and revenue declines within our higher-margin base business, partially offset by lower costs driven by our cost optimization efforts.

Adjusted Net Income decreased by 20.8%, or $10.3 million, from $49.5 million for the six months ended June 30, 2023 to $39.2 million for the six months ended June 30, 2024. Adjusted Earnings Per Share—basic decreased by 18.9%, or $0.10 per share, from $0.53 per share for the six months ended June 30, 2023 to $0.43 per share for the six months ended June 30, 2024. Adjusted Earnings Per Share—diluted decreased from $0.52 per share for the six months ended June 30, 2023 to $0.42 per share for the six months ended June 30, 2024. The decrease in Adjusted Net Income, Adjusted Earnings Per Share—basic, and Adjusted Earnings Per Share—diluted was primarily driven by higher third-party vendor costs driven by the combination of organic revenue growth in certain lower-margin product categories and revenue declines within our higher-margin base business, partially offset by lower costs driven by our cost optimization efforts.

The following table reconciles net (loss) income, the most directly comparable GAAP measure, to Adjusted Net Income and Adjusted Earnings Per Share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	**2024**	**2023**	**2024**	**2023**
Net (loss) income	$ (6,232)	$ 323	$ (14,187)	$ 914
Income tax provision (benefit)	7,094	(85)	(1,924)	1,017
Income (Loss) before income taxes	862	238	(16,111)	1,931
Amortization of acquired intangible assets	10,687	10,625	21,318	20,686
Stock-based compensation	11,703	9,358	21,045	17,401
Transaction expenses(1)	4,120	3,133	21,108	8,259
Restructuring(2)	1,566	11,490	4,767	14,763
Technology transformation(3)	455	179	830	3,412
Settlements impacting comparability(4)	1,000	—	1,000	—
Other(5)	615	489	110	946
Adjusted Net Income before income tax effect	31,008	35,512	54,067	67,398
Income tax effect(6)	9,216	9,308	14,864	17,908
Adjusted Net Income	$ 21,792	$ 26,204	$ 39,203	$ 49,490
Net (loss) income per share—basic	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Net (loss) income per share—diluted	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Adjusted Earnings Per Share—basic	$ 0.23	$ 0.28	$ 0.43	$ 0.53
Adjusted Earnings Per Share—diluted	$ 0.23	$ 0.28	$ 0.42	$ 0.52

(1) Consists of transaction expenses related to M&A, associated earn-outs, one-time public company transition expenses and ancillary non-recurring public company expenses and fees associated with financing transactions.

(2) Consists of restructuring-related costs, including executive recruiting and severance charges, and lease termination costs and disposal of fixed assets related to our real estate consolidation efforts. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. In 2022, we began executing on a restructuring program to realign senior leadership and functions with the goal of elevating our go-to-market strategy and accelerating our technology and product innovation. At the end of 2022, we also launched Project Nucleus which we expect to drive meaningful cost savings and efficiency gains in our cost of revenues.

(3) Includes costs related to technology modernization, as well as costs related to decommissioning of on-premise production systems and redundant fulfillment systems of acquired companies and the migration to our platform. We believe that these costs are discrete and non-recurring in nature, as they relate to a one-time restructuring and decommissioning of our on-premise production systems and corporate technological infrastructure and the move to a managed service provider, decommissioning redundant fulfillment systems and modernizing internal functional systems. As such, they are not normal, recurring operating expenses and are not reflective of ongoing trends in the cost of doing business. The significant majority of these are related to the last two phases of Project Ignite, a three-phase strategic investment initiative launched in 2019 to create an enterprise-class global platform, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure. Phase two of Project Ignite was completed in 2022 and phase three of Project Ignite was completed in the first quarter of 2023.

(4) Consists of non-recurring settlements and the related legal fees impacting comparability.

(5) Consists of gains or losses on foreign currency transactions and impairment of capitalized software.

(6) Normalized effective tax rates of 29.7% and 26.2% have been used to compute Adjusted Net Income for the three months ended June 30, 2024 and 2023, respectively. Normalized effective tax rates of 27.5% and 26.6% have been used to compute Adjusted Net Income for the six months ended June 30, 2024 and 2023, respectively. As of December 31, 2023, we had net operating loss carryforwards of approximately $15.7 million for federal income tax purposes and deferred tax assets of approximately $5.6 million related to state and foreign income tax loss carryforwards available to reduce future income subject to income taxes. The amount of actual cash taxes we pay for federal, state, and foreign income taxes differs significantly from the effective income tax rate computed in accordance with US GAAP, and from the normalized rate shown above.

The following table reconciles net (loss) income per share, the most directly comparable GAAP measure, to Adjusted Earnings Per Share for the periods presented:

(in thousands, except share and per share amounts)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net (loss) income	$ (6,232)	$ 323	$ (14,187)	$ 914
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ (6,232)	$ 323	$ (14,187)	$ 914
Weighted average number of shares outstanding—basic	92,778,209	92,723,901	91,526,151	92,800,279
Weighted average number of shares outstanding—diluted	92,778,209	94,498,666	91,526,151	94,924,080
Net (loss) income per share—basic	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Net (loss) income per share—diluted	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Adjusted Net Income	$ 21,792	$ 26,204	$ 39,203	$ 49,490
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ 21,792	$ 26,204	$ 39,203	$ 49,490
Weighted average number of shares outstanding—basic	92,778,209	92,723,901	91,526,151	92,800,279
Weighted average number of shares outstanding—diluted	95,361,511	94,498,666	94,380,452	94,924,080
Adjusted Earnings Per Share—basic	$ 0.23	$ 0.28	$ 0.43	$ 0.53
Adjusted Earnings Per Share—diluted	$ 0.23	$ 0.28	$ 0.42	$ 0.52

The following table presents the calculation of Adjusted Diluted Earnings Per Share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net (loss) income per share—diluted	$ (0.07)	$ 0.00	$ (0.16)	$ 0.01
Adjusted Net Income adjustments per share				
Income tax provision (benefit)	0.07	0.00	(0.02)	0.01
Amortization of acquired intangible assets	0.11	0.11	0.23	0.22
Stock-based compensation	0.12	0.10	0.22	0.18
Loss on extinguishment of debt	0.00	0.00	0.00	0.00
Transaction expenses(1)	0.04	0.04	0.22	0.09
Restructuring(2)	0.02	0.12	0.05	0.16
Technology transformation(3)	0.01	0.00	0.01	0.03
Settlements impacting comparability(4)	0.01	0.00	0.01	0.00
Other(5)	0.01	0.01	0.01	0.01
Income tax effect(6)	(0.09)	(0.10)	(0.15)	(0.19)
Adjusted Earnings Per Share—diluted	$ 0.23	$ 0.28	$ 0.42	$ 0.52
Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:				
Weighted average number of shares outstanding—diluted (GAAP)	92,778,209	94,498,666	91,526,151	94,924,080
Options not included in weighted average number of shares outstanding—diluted (GAAP) (using treasury stock method)	2,583,302	—	2,854,301	—
Weighted average number of shares outstanding—diluted (non-GAAP) (using treasury stock method)	95,361,511	94,498,666	94,380,452	94,924,080

(1) Consists of transaction expenses related to M&A, associated earn-outs, one-time public company transition expenses and ancillary non-recurring public company expenses and fees associated with financing transactions.

(2) Consists of restructuring-related costs, including executive recruiting and severance charges, and lease termination costs and disposal of fixed assets related to our real estate consolidation efforts. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. In 2022, we began executing on a restructuring program to realign senior leadership and functions with the goal of elevating our go-to-market strategy and accelerating our technology and product innovation. At the end of 2022, we also launched Project Nucleus which we expect to drive meaningful cost savings and efficiency gains in our cost of revenues.

(3) Includes costs related to technology modernization, as well as costs related to decommissioning of on-premise production systems and redundant fulfillment systems of acquired companies and the migration to our platform. We believe that these costs are discrete and non-recurring in nature, as they relate to a one-time restructuring and decommissioning of our on-premise production systems and corporate technological infrastructure and the move to a managed service provider, decommissioning redundant fulfillment systems and modernizing internal functional systems. As such, they are not normal, recurring operating expenses and are not reflective of ongoing trends in the cost of doing business. The significant majority of these are related to the last two phases of Project Ignite, a three-phase strategic investment initiative launched in 2019 to create an enterprise-class global platform, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure. Phase two of Project Ignite was completed in 2022 and phase three of Project Ignite was completed in the first quarter of 2023.

(4) Consists of non-recurring settlements and the related legal fees impacting comparability.

(5) Consists of gains or losses on foreign currency transactions and impairment of capitalized software.

(6) Normalized effective tax rates of 29.7% and 26.2% have been used to compute Adjusted Net Income for the three months ended June 30, 2024 and 2023, respectively. Normalized effective tax rates of 27.5% and 26.6% have been used to compute Adjusted Net Income for the six months ended June 30, 2024 and 2023, respectively. As of December 31, 2023, we had net operating loss carryforwards of approximately $15.7 million for federal income tax purposes and deferred tax assets of approximately $5.6 million related to state and foreign income tax loss carryforwards available to reduce future income subject to income taxes. The amount of actual cash taxes we pay for federal, state, and foreign income taxes differs significantly from the effective income tax rate computed in accordance with US GAAP, and from the normalized rate shown above.

Liquidity and Capital Resources

Overview

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs to meet operating expenses, debt service, acquisitions, capital expenditures, other commitments and contractual obligations. We consider liquidity in terms of cash flows from operations and their sufficiency to fund our operating and investing activities.

Our primary liquidity requirements are for working capital, debt principal and interest obligations, continued investments in software development and other capital expenditures, and other strategic investments. In the third quarter of 2023, we fully utilized our remaining U.S. federal income tax net operating loss carryforwards that were not subject to annual use limitations. Our remaining net operating loss carryforwards are subject to annual use limitations and expire between 2026 and 2031. As a result, income taxes will become a material use of funds, depending on our future profitability, and future tax rates. Our liquidity needs are met primarily through existing balance sheet cash, cash flows from operations, as well as funds available under our revolving credit facility. Our cash flows from operations include cash received from customers, less cash costs to provide services to our customers, which includes general and administrative costs and interest payments.

Our capital expenditures can vary depending on the timing of the development of new products and services and technological enhancement-related investments. Capital expenditures, excluding acquisitions, for the six months ended June 30, 2024 and 2023 were approximately $11.3 million and $9.2 million, respectively, primarily related to capitalizable software development.

We believe that our projected cash position and cash flows from operations will be sufficient to fund our liquidity requirements for at least the next twelve months. However, our future liquidity requirements could be higher than we currently expect as a result of various factors. For example, any future investments, acquisitions, joint ventures or other similar transactions may require additional capital. In addition, our ability to continue to meet our future liquidity requirements will depend on, among other things, our ability to achieve anticipated levels of revenues and cash flows from operations and our ability to manage costs and working capital successfully, all of which are subject to general economic, financial, competitive and other factors beyond our control. In the event we require any additional capital, it will take the form of equity or debt financing, or both, and there can be no assurance that we will be able to raise any such financing on terms acceptable to us or at all.

As of December 31, 2023, we had cash and cash equivalents of approximately $54.2 million. As of June 30, 2024, we had cash and cash equivalents of approximately $74.2 million. We used $70.4 million (net of cash acquired) primarily to purchase Vault and $6.8 million to repurchase shares of our common stock in the first six months of 2024. All cash and cash equivalents are held with independent financial institutions with a minimum credit rating of “A” as defined by the three main credit rating agencies. As of June 30, 2024, all cash and cash equivalents were held in accounts with banks such that the funds are immediately available or in fixed term deposits with a maximum maturity of three months. The bank failures of Silicon Valley Bank, Signature Bank and First Republic Bank in 2023 created significant market disruption and uncertainty within the U.S. banking sector, in particular with respect to regional banks. We hold minimal cash balances with regional banks in the U.S. We have a robust and disciplined cash management process to protect our cash, maintain financial stability and diversify as we deem appropriate.

Credit Facility

On November 29, 2022 (the “Closing Date”), Sterling Infosystems, Inc. (the “Borrower”), a Delaware corporation and a subsidiary of the Company, entered into a credit agreement (the “2022 Credit Agreement”) by and among the Borrower, as borrower, Sterling Intermediate Corp. (“Parent”), KeyBank National Association, as administrative agent (the “Administrative Agent”), certain guarantors party thereto (the “Guarantors”) and the lenders party thereto.

The 2022 Credit Agreement provides for aggregate principal borrowings of $700.0 million, comprised of $300.0 million aggregate principal amount of term loans (the “Term Loans”) and a $400.0 million revolving credit facility (the “Revolving Credit Facility”). The Term Loans and the Revolving Credit Facility mature on November 29, 2027.

Amounts outstanding under the 2022 Credit Agreement bear interest under either of the following two rates, elected in advance by the Borrower: (1) a base rate (equal to the greatest of (a) the prime rate, (b) the federal funds rate plus ½ of 1% and (c) the one-month adjusted term SOFR rate plus 1%); or (2) an adjusted term SOFR rate (equal to the sum of (a) term SOFR plus (b) 0.10%), in each case, plus a tiered floating interest rate margin based on the net leverage ratio of the Borrower and its subsidiaries. Interest on adjusted term SOFR borrowings is payable on the last business day of the one, three or six-month interest period selected by the Borrower (except in the case of a six-month election, in which case it is payable on the last business day of the third and sixth month). Interest on base rate borrowings is payable on the last business day of each quarter. The applicable interest rate at June 30, 2024 was 7.69%.

We, as borrower, will pay a quarterly unused commitment fee at a rate per annum ranging from 0.20% to 0.30%, on the unused portion of the Revolving Credit Facility based on the net leverage ratio of the Borrower and its subsidiaries. We can use available funding capacity under the Revolving Credit Facility to issue letters of credit, subject to a sublimit equal to the lesser of $40.0 million and amounts available for borrowing under the Revolving Credit Facility.

The Term Loans amortize quarterly in the following amounts: $1.875 million per quarter (for the first four full quarters ending after the Closing Date), $3.75 million per quarter (for the next eight quarters) and $5.625 million per quarter (for the next seven quarters).

The 2022 Credit Agreement contains covenants that, among other things, restrict our ability to: incur certain additional indebtedness; transfer money between various subsidiaries; pay dividends on, repurchase or make distributions with respect to subsidiaries' capital stock or make other restricted payments; issue stock of subsidiaries; make certain investments, loans or advances; transfer and sell certain assets; create or permit liens on assets; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into certain transactions with affiliates; and amend certain documents.

The 2022 Credit Agreement also contains financial covenants that require us to comply with (a) a maximum net leverage ratio of 4.00:1.00 (which may be increased to 4.50:1.00 for four quarters if the Borrower and its subsidiaries consummate acquisitions during any 6-month period for which the total aggregate cash consideration is greater than or equal to $75.0 million) and (b) a minimum interest coverage ratio of 3.00:1.00. Both financial covenants are tested quarterly. Since origination, we have been in compliance with all covenants under the 2022 Credit Agreement.

The Term Loans and the Revolving Credit Facility (and related revolving borrowings) are guaranteed by Parent and all of our material wholly owned domestic subsidiaries. Obligations under the 2022 Credit Agreement are collateralized by a first lien on substantially all of our assets and outstanding capital stock of our material domestic subsidiaries, subject to certain exceptions. The 2022 Credit Agreement also contains various events of default, including, without limitation, the failure to pay interest or principal when the same is due, cross default and cross acceleration provisions, the failure of representations and warranties contained therein to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding under the 2022 Credit Agreement, together with all accrued and unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders.

The net proceeds of the Term Loans, together with borrowings of approximately $223.0 million under the Revolving Credit Facility, were used to repay all outstanding indebtedness, including accrued and unpaid interest, in an aggregate amount of approximately $513.9 million, under that certain First Lien Credit Agreement, dated June 19, 2015 (as amended, the “2015 Credit Agreement”), by and among the Borrower, as borrower, the guarantors party thereto, KeyBank National Association, as administrative agent, and the lenders party thereto, and to pay related fees and expenses.

As of June 30, 2024, amounts outstanding under the 2022 Credit Agreement totaled $555.5 million and we had $129.5 million of capacity remaining under the Revolving Credit Facility and outstanding letters of credit in the amount of $0.7 million.

On July 18, 2024, we used available cash on hand to repay $20.0 million on the Revolving Credit Facility. As of the date of this filing, we had $535.5 million outstanding under the 2022 Credit Agreement, $149.5 million of capacity remaining under the Revolving Credit Facility and $0.7 million outstanding letters of credit.

Off-Balance Sheet Arrangements

As of June 30, 2024, we did not have any off-balance sheet arrangements.

Cash Flows

The following table presents a summary and comparison of our condensed consolidated cash flows from operating, investing and financing activities for the periods presented:

	Six Months Ended June 30,	
(in thousands)	**2024**	**2023**
Net cash provided by operations	$ 20,167	$ 32,898
Net cash used in investing activities	(81,782)	(57,698)
Net cash provided by (used in) financing activities	82,063	(29,358)
Effect of exchange rate changes on cash	(490)	(120)
Net change in cash and cash equivalents	19,958	(54,278)
Cash and cash equivalents at beginning of period	54,224	103,095
Cash and cash equivalents at end of period	$ 74,182	$ 48,817

Operating Activities

Net cash provided by operations of $20.2 million for the six months ended June 30, 2024 reflects the adjustment to net loss for non-cash charges totaling $45.9 million, primarily driven by $31.6 million of depreciation and amortization and $21.0 million of stock-based compensation offset by deferred income taxes of $9.5 million. Changes in operating assets and liabilities for the six months ended June 30, 2024 reduced cash flow from operating activities by $11.6 million.

Net cash provided by operations of $32.9 million for the six months ended June 30, 2023 reflects the adjustment to net income for non-cash charges totaling $58.5 million, primarily driven by $31.2 million of depreciation and amortization, $17.4 million of stock-based compensation. Changes in operating assets and liabilities for the six months ended June 30, 2023 reduced cash flow from operating activities by $27.1 million.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2024 and 2023 was $81.8 million and $57.7 million, respectively. Net cash used in investing activities for the six months ended June 30, 2024 primarily consisted of $70.4 million of cash used for acquisitions, net of cash acquired, in addition to a $10.4 million investment in capitalized software. Net cash used in investing activities for the six months ended June 30, 2023 primarily consisted of $48.6 million of cash used for acquisitions, net of cash acquired, in addition to a $8.6 million investment in capitalized software.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2024 was $82.1 million consisting primarily of a draw of an additional $65.0 million of proceeds from the Revolving Credit Facility to fund the acquisition of Vault, and $42.6 million from the issuance of common stock offset by $11.9 million of cash paid on tax withholding for the exercise of employee stock options and vesting of restricted shares, $6.8 million of share repurchases and $7.5 million of payments of long-term debt. Net cash used in financing activities for the six months ended June 30, 2023 was $29.4 million consisting primarily of $25.3 million of share repurchases and $3.8 million of payments of long-term debt.

Free Cash Flow

For the six months ended June 30, 2024, we generated $8.8 million of Free Cash Flow compared to $23.7 million for the six months ended June 30, 2023. The decrease in Free Cash Flow compared to the prior year period was driven by lower operating income and higher cash paid for taxes.

The following table reconciles net cash flow provided by operating activities, the most directly comparable GAAP measure, to Free Cash Flow for the periods presented:

	Six Months Ended June 30,	
(in thousands)	**2024**	**2023**
Net cash provided by operations	$ 20,167	$ 32,898
Purchases of intangible assets and capitalized software	(10,355)	(8,589)
Purchases of property and equipment	(993)	(593)
Free Cash Flow	$ 8,819	$ 23,716

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with GAAP requires management to make estimates, assumptions and judgments that can affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” in our 2023 Annual Report for a description of our critical accounting estimates and Note 2, “Summary of Significant Accounting Policies” to our 2023 consolidated financial statements in our 2023 Annual Report for our significant accounting policies. There were no significant changes to our critical accounting estimates for the six months ended June 30, 2024.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

We earn revenues, pay expenses, hold assets and incur liabilities in currencies other than the U.S. dollar. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations from period to period. In particular, fluctuations in exchange rates for non-U.S. dollar currencies may reduce the U.S. dollar value of revenues, earnings and cash flows we receive from non-U.S. markets, increase our operating expenses (as measured in U.S. dollars) in those markets, negatively impact our competitiveness in those markets or otherwise adversely impact our results of operations or financial condition. Key currencies affecting our results of operations at this time are the Canadian dollar (CAD), British pound (GBP), Australian dollar (AUD), Indian rupee (INR) and Philippine peso (PHP). As we expand into other markets, other currencies may become relevant. Future fluctuations of foreign currency exchange rates and their impact on our results of operations and financial condition are inherently uncertain. As we continue to pursue growth of our global operations, these fluctuations may be material. We may from time to time enter into foreign currency options and forward contracts to mitigate the foreign exchange risk on expected future cash outlays to fund our fulfillment centers.

Credit Risk

As of June 30, 2024 and December 31, 2023, we had accounts receivable, net of allowance for expected credit losses, of $172.1 million and $142.2 million, respectively. For the three and six months ended June 30, 2024 and 2023, no single client accounted for more than 3% of our revenue. No single client had an accounts receivable balance greater than 4% of total accounts receivable as of June 30, 2024 and December 31, 2023.

Interest Rate Risk

Our exposure to market risk is influenced by the changes in interest rates paid on any outstanding balance on our borrowings under our 2022 Credit Agreement. Amounts outstanding under the 2022 Credit Agreement bear interest under either of the following two rates, elected in advance by us: (1) a base rate (equal to the greatest of (a) the prime rate, (b) the federal funds rate plus 1⁄2 of 1% and (c) the one-month adjusted term SOFR rate plus 1%); or (2) an adjusted term SOFR rate (equal to the sum of (a) term SOFR plus (b) 0.10%), in each case, plus a tiered floating interest rate margin based on the net leverage ratio. Our borrowings as of June 30, 2024 and December 31, 2023 accrued interest at 7.69% and 7.71%, respectively, based on an adjusted term SOFR rate (equal to the sum of (a) term SOFR plus (b) 0.10%) plus a tiered floating interest rate margin based on our net leverage ratio.

We hedge against changes in the interest rates through interest rate swaps. On February 28, 2023, we entered into an amortizing $300.0 million notional value interest rate swap. The notional value steps down from $300.0 million to $150.0 million on February 27, 2026. The swap provides for us to pay, as applied to the notional value, a fixed rate of interest of 4.26% monthly and receive, on a monthly basis, an amount equal to the greater of the one-month term SOFR and a floor of (0.10%), as applied to the notional value (the "Floating Leg"). The interest rate swap matures on November 29, 2027. The interest expense related to the 2022 Credit Agreement will be offset by proceeds received or increased from settlements paid for the Floating Leg of the interest rate swap. As of June 30, 2024, we are currently party to four interest rate swaps which hedge the future cash flows on approximately 54% of the outstanding principal balance of the aggregate amounts due under our 2022 Credit Agreement.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management has evaluated, under the supervision and with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of June 30, 2024. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management of the company, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based upon the evaluation of our disclosure controls and procedures as of June 30, 2024, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, we believe would individually or taken together have a material adverse effect on our business, financial condition, or liquidity.

For more information, see Note 13, “Commitments and Contingencies” to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes with respect to the risk factors as previously disclosed in our 2023 Annual Report.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased[(1)] (a)	Average Price Paid per Share[(1)] (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[(2)] (c)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs[(2)] (d) (in thousands)
04/01/2024 to 04/30/2024	967	$ 15.88	—	$ 11,586
05/01/2024 to 05/31/2024	—	—	—	11,586
06/01/2024 to 06/30/2024	17,837	15.20	—	11,586
Total	18,804		—	

(1) During the three months ended June 30, 2024, we received 18,804 shares of our common stock that were surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock awards. In the above table, these shares are included in columns (a) and (b), but excluded from columns (c) and (d). These shares do not reduce the number of shares that may yet be purchased under our share repurchase program.

(2) On November 23, 2022, our board of directors authorized the repurchase of up to $100.0 million of our shares of common stock over a period through December 31, 2024. The share repurchase program is expected to be funded through our existing cash and future free cash flow. The share repurchase program is being executed on a discretionary basis through open market repurchases, private transactions, or other transactions, including through block trades and Rule 10b-18 and Rule 10b5-1 trading plans. We are not obligated to repurchase any specific number of shares, and the timing and amount of any share repurchases will be subject to several factors including share price, trading volume, market conditions, and capital allocation priorities. The share repurchase program may be suspended, terminated or modified without notice at any time. We have suspended repurchases of our common stock under the share repurchase program pending consummation of the Merger.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Rule 10b5-1 Trading Arrangements and Non-Rule 10b5-1 Trading Arrangements

During the three months ended June 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits.

(a) Exhibits.

Exhibit No.	Exhibit Description
2.1	Agreement and Plan of Merger, dated as of February 28, 2024, by and among First Advantage Corporation, Sterling Check Corp., and Slider Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on March 1, 2024).
2.2	Waiver, dated as of March 25. 2024, by and among First Advantage Corporation, Sterling Check Corp, and Starter Merger Sub, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2024).
10.1	Support Agreement, dated as of February 28, 2024, by and among First Advantage Corporation, Sterling Check Corp., Broad Street Principal Investments, L.L.C., Checkers Control Partnership, L.P., and Broad Street Control Advisors, L.L.C. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 1, 2024).
10.2*	Offer Letter dated as of May 31, 2024 by and between Richard Dziadzio and Sterling Infosystems, Inc.
10.3*	Restricted Stock Grant Notice and Agreement by and between Richard Dziadzio and Sterling Check Corp., dated as of June 5, 2024.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Filed herewith.

** Furnished herewith.

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.

STERLING CHECK CORP.

By: /s/ JOSHUA PEIREZ
Joshua Peirez
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2024

By: /s/ RICHARD DZIADZIO
Richard Dziadzio
Executive Vice President and Interim Chief Financial Officer
(Principal Financial Officer)

Date: August 8, 2024

05/31/2024

Richard Dziadzio
c/o rdziadzio@live.com

Dear Richard,

It is a pleasure to offer you the position of Interim EVP, Chief Financial Officer with Sterling Check Corp. In this role, you will report to Josh Peirez, Chief Executive Officer. Your anticipated start date in this new position will be June 5, 2024. For this role you will work remotely from your home in Florida.

Your total compensation package is outlined below:

Base Salary: $500,000 annually, payable semi-monthly the 15th and last business day of the month

Status: Exempt, for purposes of federal wage-hour law, which means that you will not be eligible for overtime pay.

Incentive Compensation: In addition to the base compensation above, Sterling will provide you with a target annual bonus opportunity for 2024 of 37.5% of your annualized base salary, pursuant to the terms of the Annual Incentive Plan. The Annual Incentive Plan is set by the Compensation Committee of the Board each year and typically provides for an opportunity between 0% and 200% of your annual target, which includes an overachievement component. Please note that Sterling reserves the right to amend, cancel or otherwise modify its Annual Incentive Plan from time to time at its discretion.

Sign on Equity Award: You will receive an initial sign on equity award in the form of a Restricted Stock Award equal to $500,000. The award is subject to your execution of the related award agreement and all terms, including vesting, set forth in the award agreement and the 2021 Omnibus Incentive Plan. The award will also have a double trigger Change in Control provision, whereby all unvested equity will accelerate and vest in the event a Change in Control (as defined in the Plan) occurs and during the 3 month period preceding or the 24 month period following such Change in Control, your service is Terminated in a Qualifying Termination (as defined in the award agreement). The award will be granted on or around your start date and will vest equally on each grant anniversary over 3 years (1/3 per year). The award will be based on the closing stock price of Sterling Check's common stock at the time of grant.

Cash Sign-on Bonus: You will receive a cash sign-on Bonus equal to $500,000 payable over 1 year from your start date. It will be paid in 4 equal installments within 30 days of each of the following dates: September 30, 2024, December 31, 2024, March 31, 2025, and May 31, 2025 - with acceleration if the First Advantage transaction closes prior to 1 year from your start date.

In your interim role, you will not be eligible for any severance, including under Sterling's severance policy upon termination.

In your role, you shall be an Executive and Section 16 officer of the Sterling. You will be subject to all applicable SEC requirements, and you are expected to sign all required forms and documents

Sterling

In addition to your compensation, your total rewards package also includes:

Vacation: You will be eligible for 22 Vacation days per year. All eligible employees will receive a pro-rated number of Vacation days based on the number of months worked in the calendar year.

Holidays: In addition to paid time off, you will receive a number of paid holidays per year. More specific details regarding recognized holidays for 2024 and the holiday policy will be shared with you at New Hire Orientation and are contained in the Employee Handbook.

Comprehensive Benefits Programs: There is a wide array of other benefits in which you may choose to participate as a Sterling employee, including, but not limited to: Medical, Dental, Vision, Paid Sick Leave, Parental Leave and 401(k) Plan. You will be scheduled to attend a New Hire Introduction and Benefits Orientation on your first day of employment or shortly thereafter to learn more about these programs.

Please have documentation ready on your first day to complete your I-9 Form and new hire paperwork. Examples: a passport OR both your social security card or birth certificate and driver's license or state identification card.

This offer is not intended to be, nor should it be construed, as a guarantee that employment or any benefit program will be continued for any period of time. Any salary figures stated in annual terms are stated for the sake of convenience or to facilitate comparisons and are not intended to create an employment contract for any specific period of time. In accordance with our policy, this offer is contingent upon satisfactory completion of one or more of the following: a background check including a check of criminal and credit and business references. The background inquiries required are subject to local law. This offer is also contingent upon you signing several policy acknowledgments and agreements prior to, or on your first day of employment.

Sterling complies with federal immigration law and as such, any fraud or misrepresentation on the I-9 Form is ground for disciplinary action up to and including termination. Sterling is an equal opportunity employer and complies with laws that prohibit discrimination and harassment.

Covenants: This offer is contingent upon you being free from any legal or contractual commitments that would prevent you from working at Sterling. By accepting this offer, you represent that working in your new position will not violate any contractual commitments to your prior employer. You also acknowledge that you returned all property and documents (including any computer files) belonging to your former employer and that you will not use any such property or documents in performing your duties at Sterling. You further acknowledge that you understand your continuing confidentiality obligations to your former employer and that you will honor those obligations.

We're so happy that you're joining Sterling and are confident that you'll make a positive contribution to our team!

/s/ JOSHUA PEIREZ
Joshua Peirez
Chief Executive Officer

Sterling Infosystems, Inc. (dba Sterling)
By signing below, I accept this offer:

/s/ RICHARD DZIADZIO	May 31, 2024
Richard Dziadzio	Date

STERLING CHECK CORP.
2021 OMNIBUS INCENTIVE PLAN
RESTRICTED STOCK GRANT NOTICE

Sterling Check Corp. a Delaware corporation (the "Company"), pursuant to its 2021 Omnibus Incentive Plan, as it may be amended and restated from time to time (the "Plan"), hereby grants to the Participant set forth below the number of Shares of Restricted Stock set forth below. The Restricted Stock is subject to all of the terms and conditions as set forth in this Grant Notice (the "Notice"), in the Restricted Stock Agreement - Time Vesting Form attached hereto as Exhibit A (the "Agreement") and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms used but not defined herein shall have the meaning attributed to such terms in the Agreement or, if not defined therein, in the Plan, unless the context requires otherwise.

Participant:	Richard Dziadzio
Grant Date:	June 5, 2024
Number of Shares of Restricted Stock:	32,363
Vesting Schedule:	Subject to the Participant's not having experienced a Termination as of the applicable Vesting Date, the Restricted Shares shall vest according to the following schedule: 33% of Covered Shares on the 1st Anniversary of the Grant Date 33% of Covered Shares on the 2nd Anniversary of the Grant Date 34% of Covered Shares on the 3rd Anniversary of the Grant Date If a Change in Control occurs and during the 3 month period preceding or the 24 month period following such Change in Control, the Participant's service is Terminated in a Qualifying Termination, all unvested Restricted Shares shall become fully vested upon the Date of Termination.

The Restricted Stock shall be subject to the execution and return of this Notice by the Participant to the Company within thirty (30) days of the date hereof (including by utilizing an electronic signature and/or web-based approval and notice process or any other process as may be authorized by the Company). By executing this Notice, the Participant acknowledges that his or her agreement to the covenants set forth in Section 8 of the Agreement is a material inducement to the Company in granting this Award to the Participant.

This Notice may be executed by facsimile or electronic means (including, without limitation, PDF) and in one or more counterparts, each of which shall be considered an original instrument, but all of which together shall constitute one and the same agreement, and shall become binding when one or more counterparts have been signed by each of the parties hereto and delivered to the other party hereto.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Notice as of the Grant Date set forth above.

STERLING CHECK CORP.

By: /s/ STEVE BARNETT
Name: Steve Barnett
Title: General Counsel and Chief Legal & Risk Officer

PARTICIPANT

By: /s/ RICHARD DZIADZIO
Name: Richard Dziadzio

[Signature Page to Restricted Stock Grant Notice]

STERLING CHECK CORP.
2021 OMNIBUS INCENTIVE PLAN
RESTRICTED STOCK AGREEMENT

TIME VESTING FORM

Pursuant to the Restricted Stock Grant Notice (the "Notice") delivered to the Participant (as defined in the Notice), and subject to the terms of this Restricted Stock Agreement (this "Agreement") and the Sterling Check Corp. 2021 Omnibus Incentive Plan, as it may be amended and restated from time to time (the "Plan"), Sterling Check Corp. (the "Company") and the Participant agree as follows:

1. Definitions. As used in this Agreement, the following capitalized terms shall have the meanings set forth below. Terms not otherwise defined herein will have the meanings ascribed to them in the Plan and, if not defined therein, to the extent a Participant is a party to an Employee Agreement (as defined below), the definition in the Employee Agreement shall control.

(a) "**Agreement**" means this Restricted Stock Agreement.

(b) "**Cause**" means Termination for any of the following: (1) material dishonesty; (2) serious misconduct; (3) breach of fiduciary duty to the Company; (4) indictment, conviction, or plea of guilty or nolo, contendere to any felony or any job-related crime; (5) failure or refusal to follow, carry out, or execute a lawful order, instruction or directive from Participant's immediate supervisor, the Company's board of directors, or the CEO or Participant's failure to perform in Participant's role; or (6) any material breach of any Company policy or any obligations under the agreements Participant was required to sign as a condition of employment or under any other agreements to which Participant and the Company are parties; to the extent any breach set forth under subclause (6) hereof is curable, Participant will have twenty (30) days following notification from the Company to cure the breach to the Company's satisfaction.

(c) "**Date of Termination**" means the date that the Participant experiences a Termination.

(d) "**Good Reason**" means if such resignation is for one of the following reasons that occurs without the Participant's consent: (i) material diminution in the Participant's duties, responsibilities and authority; or (ii) material reduction in base salary from the base salary in effect as of the date of the Grant Date (i.e., a reduction of 10% or more); provided, that, the Participant delivers written notice to the Company of the event giving rise to Good Reason within sixty (60) days following the occurrence of the event and the Company fails to cure such event within thirty (30) days following its receipt of such written notice, in which case the Participant's resignation for Good Reason shall automatically be effective on the first day following the end of such cure period.

(e) "**Qualifying Termination**" means a Termination by the Company or a Subsidiary without Cause or due to the Participant's resignation for Good Reason.

(f) "**Restrictive Covenants**" shall have the meaning set forth in Section 8.

(g) "**Restricted Shares**" means the aggregate number of Shares of Restricted Stock granted pursuant to the Notice and this Agreement, as set forth in the Notice.

(h) "**Vesting Date**" means the date on which the Award becomes vested with respect to a portion of the Restricted Shares, pursuant to the Notice.

2. Issuance of Restricted Shares.

(a) *Award*. The Participant is hereby granted the Restricted Shares upon the terms and conditions set forth in this Agreement.

(b) *Restrictions on Transfer and Legend on Stock Certificate*. Unless otherwise determined by the Committee, the Company will retain possession of certificates for Restricted Shares until all restrictions on such Restricted Shares have lapsed. Each certificate for Restricted Shares, unless held by the Company, will contain a legend giving appropriate notice of the restrictions in the award of Restricted Stock. With respect to book entry Restricted Shares issued to the Participant, the Committee may cause appropriate stop-transfer instructions to be delivered to the account custodian, administrator, or the Company's corporate secretary as determined by the Committee in its sole discretion. The Committee may determine that the Company will not issue certificates for the Restricted Shares until all restrictions on such Restricted Shares have lapsed. Subject to the provisions of Sections 3 and 5 of this Agreement, upon the lapse of the restrictions on Restricted Shares, the Committee shall cause a stock certificate or evidence of book entry Restricted Shares to be delivered to the Participant with respect to such Restricted Shares, free of all restrictions hereunder. The Participant shall deliver to the Company a duly-executed blank stock power in a form to be provided by the Company. The Company may provide a reasonable delay in the issuance or delivery of vested Shares as it determines appropriate to address tax withholding and other administrative matters.

(c) *Section 83(b) Election*. Section 83 of the Code provides that the Participant is not subject to federal income tax until the restrictions on the Restricted Shares lapse. If the Participant chooses, the Participant may make an election under Section 83(b) of the Code, which would cause the Participant to recognize income as of the Grant Date in the amount equal to the Fair Market Value of the Restricted Shares (determined as of the Grant Date). If the Participant chooses to make an election under Section 83(b) of the Code, such Section 83(b) election must be filed with the Internal Revenue Service within thirty (30) days after the Grant Date and promptly filed with the Company. **The Participant acknowledges that it is the Participant's sole responsibility to timely file the Section 83(b) election and that failure to file a Section 83(b) election within the applicable thirty (30)-day period may result in the recognition of ordinary income when the restrictions lapse. The Participant should consult his or her personal tax advisor about the effect of filing or failing to file an election under Section 83(b) of the Code. The form for making a Section 83(b) election is attached as Exhibit A.**

3. Vesting.

(a) *Vesting.* The Restricted Shares granted by this Agreement shall vest as provided in the Notice.

(b) *Termination*. Any unvested Restricted Shares, together with any other assets or securities in respect of such Restricted Shares (e.g., dividends) as of the Participant's Date of Termination with the Company for any reason (the "Unvested Shares"), shall be forfeited and deemed retransferred to and reacquired by the Company, without consideration, effective as of the Date of Termination, and the Participant shall forfeit all rights in connection with the Unvested Shares; provided, however, that upon a Qualifying Termination prior to a Change in Control, the Unvested Shares shall not automatically be forfeited as a result of such Termination and shall remain eligible to vest solely upon the consummation of a Change in Control that occurs within three (3) months following the Participant's Date of Termination; provided, further, that upon a Termination for Cause, all Restricted Shares (whether vested or unvested), together with any other assets or securities in respect of such Restricted Shares (e.g., dividends) shall be forfeited and deemed retransferred to and reacquired by the Company, without consideration. Upon forfeiture of any Restricted Shares, this Award shall be cancelled with respect to such Restricted Shares and the Company shall have no further obligation hereunder with respect to such Restricted Shares.

(c) *Prohibitions on Vesting After Termination.* Except for any vesting that may occur in connection with a Change in Control that occurs within three (3) months prior to a Qualifying Termination, no Restricted Shares shall vest following the Participant's Date of Termination.

4. Forfeiture Events; Clawback; Forfeiture. The Participant agrees and acknowledges that this grant of Restricted Stock is subject to Section 14.2 of the Equity Plan including, without limitation, the terms of any clawback policy maintained by the Company, whether adopted prior to or subsequent to the Grant Date, or as required by law, regulation, or exchange requirement, as it may be amended from time to time.

5. Rights as a Stockholder. The Participant shall be the record owner of the Restricted Shares until or unless such Restricted Shares are forfeited pursuant to the terms of this Agreement, and as record owner shall be entitled to all rights of a common stockholder of the Company, including, without limitation, voting rights with respect to the Restricted Shares and rights to dividends or other distributions; *provided, that* (i) the Shares shall be subject to the limitations on transfer and encumbrance set forth in this Agreement and the Plan and (ii) no dividends or other distributions made in respect of any Restricted Shares shall be paid to the Participant unless and until the Restricted Shares have become vested.

6. No Issuance in Violation of Law. The issuance or delivery of any stock certificates representing Restricted Shares pursuant to this Agreement may be postponed by the Company if and to the extent the Company determines that such issuance or delivery would violate applicable state or federal securities laws or the rules and regulations of any securities exchange on which the Shares are traded. If the Company makes such a determination, it shall use all reasonable efforts to obtain compliance with such laws, rules and regulations. In making any determination hereunder, the Company may rely on the opinion of counsel for the Company.

7. Withholding. The Participant shall pay or make adequate provision for any federal, state, local and other withholding tax obligations of the Company. All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. If approved in advance by the Committee and subject to applicable law, the Participant may, in satisfaction of such withholding tax obligations, elect to (a) have withheld a portion of the Restricted Shares, (b) surrender Shares owned by the Participant prior to the vesting of the Restricted Shares, in each case having an aggregate Fair Market Value equal to such tax withholding, or (c) utilize such other method as deemed acceptable by the Committee. All withholding tax obligations hereunder will be satisfied through Share withholding as a

result of which the number of Shares to be delivered upon the lapse of the restrictions on Restricted Shares will be reduced by a number of Shares having an aggregate Fair Market Value equal to the aggregate withholding tax obligations.

8. Restrictive Covenants. As a condition to receiving this grant of Restricted Stock, the Participant shall be subject to the provisions of this Section 8 (the "Restrictive Covenants"):

(a) *Confidential Information*. As a result of the Participant's work for the Company, the Participant may develop or acquire knowledge of Confidential Information relating to any member of the Company Group (including, in each case, its business, potential business or that of its customers or suppliers or their respective affiliates) (the "Company Parties"). "Confidential Information" includes all trade secrets, know-how, show-how, technical, operating, financial, and other business information and materials, whether or not reduced to writing or other medium and whether or not marked or labeled confidential, proprietary or the like, specifically including, but not limited to, information regarding source codes, software programs, computer systems, logos, designs, graphics, writings or other materials, algorithms, formulae, works of authorship, techniques, documentation, models and systems, sales and pricing techniques, procedures, inventions, products, improvements, modifications, methodology, processes, concepts, records, files, memoranda, reports, plans, proposals, price lists, customer and supplier lists, and customer and supplier information. Confidential Information does not include general skills, experience or information that is generally available to the public, other than information which has become generally available as a result of the Participant's direct or indirect act or omission. With respect to Confidential Information of the Company Parties, the Participant agrees that:

(i) the Participant will use it only in the performance of the Participant's duties for the Company. The Participant will not use it at any time (during or after Participant's employment or service) for the Participant's personal benefit, for the benefit of any other person or firm, or in any manner adverse to the interests of the Company Parties;

(ii) the Participant will not disclose it at any time (during or after Participant's employment or service) except to authorized Company personnel, unless the Company expressly consents in advance in writing or unless the information becomes clearly of public knowledge or enters the public domain (other than through an unauthorized disclosure by the Participant or through a disclosure not by the Participant which the Participant knew or reasonably should have known was an unauthorized disclosure), or to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency;

(iii) the Participant will safeguard it by all reasonable steps and abide by all policies and procedures of the Company and its customers in effect from time to time regarding storage, copying, destroying, publication or posting, or handling of such Confidential Information, in whatever medium or format that Confidential Information takes;

(iv) the Participant will execute and abide by all confidentiality agreements which the Company reasonably requests the Participant to sign or abide by, whether those agreements are for the benefit of the Company, an affiliate, a supplier, or an actual or a potential customer thereof; and

(v) the Participant will return all materials containing or relating to Confidential Information, together with all other Company property (including, without limitation, laptop computers, cell phones, documents and other equipment) to the Company, when the Participant's employment and other service with the Company and its subsidiaries terminates or otherwise on demand and, at that time the Participant will certify to the Company, in writing, that the Participant has complied with this Agreement. The Participant shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs, or other documents relating in any way to the affairs of Company or the customers, suppliers, or affiliates of the foregoing. Notwithstanding the above provisions of this Section 8(a), the Participant shall be permitted to retain the Participant's personal contact list and personal files (including those relating to the Participant's compensation, benefits, entitlements and obligations).

(b) *Intellectual Property*.

(i) The Participant acknowledges and agrees that all patent, trademark, copyright, trade secret and other intellectual property rights (the "Intellectual Property") which the Participant conceives, makes, obtains or develops prior to, on, or after the date hereof and during the term of the Participant's employment or other service with the Company or any of its subsidiaries or affiliates (whether during or outside of working hours) and which is related in any way to the business of the Company Parties is and will be the sole property of the Company Parties as "works for hire" (as that term is used under U.S. copyright law), regardless of whether or not patent, trademark, copyright and/or other intellectual property right applications are or can be filed on such Intellectual Property; provided, however, that the Company Parties shall not own Intellectual Property for which no equipment, supplies, facility, trade secret information or Confidential Information of the Company was used and which was developed entirely on the Participant's time, and (A) which does not relate in any way (I) to the business of the Company or (II) to the actual or demonstrably anticipated research or development of the Company, and (B) which does not result from any work performed by the Participant for the Company.

(ii) Subject to Section 8(b)(i), to the extent that title to any such Intellectual Property, contributions or inventions do not, by operation of law, vest in the Company, the Participant hereby irrevocably assigns to the Company all right, title and interest, including, without limitation, tangible and intangible rights such as patent rights, trademarks and copyrights, that the Participant may have or may acquire in and to all such Intellectual Property, contributions and inventions, benefits and/or rights resulting therefrom, and agrees to promptly execute any further specific assignments related to such Intellectual Property, contributions or inventions, benefits and/or rights at the request of the Company.

(iii) Subject to Section 8(b)(i), the Participant will make full and prompt disclosure to the Company of all Intellectual Property and, at the Company's request and expense (but without additional compensation to the Participant), will at any time and from time to time during and after the Participant's employment or other service with the Company execute and deliver to the Company such applications, assignments and other papers and take such other actions (including but not limited to testifying in any legal proceedings) at the Company's expense as the Company, in its sole discretion, considers necessary to vest, perfect, defend or maintain the Company's rights in and to such Intellectual Property.

(c) *Noncompetition.* The Participant agrees that during the course of the Participant's employment or other service with any Company Party and during the period of twelve (12) months commencing from the Date of Termination (the "Restricted Period"), the Participant will not, without the express prior written consent of the Company, anywhere, either directly or indirectly, whether alone or as an owner, shareholder, partner, member, joint venturer, officer, director, consultant, independent contractor agent, employee or otherwise, assist in, engage in or otherwise be connected to or benefit from any Competitive Business. For purposes of this Agreement, a "Competitive Business" is one that engages in or provides, or intends to engage in or provide, employment, volunteer or tenant-related background checks and related services or engages in any other business that is the same or substantially the same as any business engaged in or in development by the Company as of the Date of Termination. Notwithstanding the foregoing, nothing herein shall be deemed to prohibit the Participant's passive ownership of less than two percent (2%) of the outstanding shares of any publicly traded corporation that conducts a business competitive with that of the Company.

(d) *Nonsolicitation.* The Participant further agrees that, during the course of the Participant's employment or other service with any Company Party and during the period of two (2) years commencing from the Date of Termination, the Participant will not, without the express prior written consent of the Company, directly or indirectly, (i) in connection with a Competitive Business, solicit, transact business with or perform services for (or assist any third party in soliciting, transacting business with or performing any services for) any person or entity that is or was (at any time within twelve (12) months prior to the contact, communication, solicitation, transaction of business, or performance of services), a customer or prospective customer (as defined below) of any Company Party; (ii) hire or solicit or encourage any employee of any Company Party to leave the employment of such Company Party, in each case except for general solicitations of employment by the Participant (or its affiliates, including solicitations through employee search firms or similar agents) not specifically directed towards employees of any Company Party; or (iii) interfere with, disrupt or attempt to interfere with or disrupt the relationship, contractual or otherwise, between any Company Party and any of its customers, suppliers, vendors, lessors, independent contractors, agents or employees. A "prospective customer" is any individual or entity with respect to whom or which any Company Party was engaged in a solicitation at any time during the twelve (12) months preceding the Date of Termination and in which solicitation the Participant was in any way involved or otherwise had knowledge of or reasonably should have had knowledge of.

(e) *Nondisparagement.* From and after the Grant Date and at all times thereafter, the Participant shall not, to the fullest extent permissible by law, make, directly or indirectly, any public or private statements, or verbal or nonverbal, direct or indirect communications that are or could be harmful to, reflect negatively on, or that are otherwise disparaging of, any member of the Company Group and/or their respective businesses, or any of their past, present or future officers, directors, employees, advisors, agents, policies, procedures, practices, decision-making, conduct, professionalism or compliance with standards.

(f) *Reasonable Restrictions/Damages Inadequate Remedy*. The Participant acknowledges that the restrictions contained in this Section 8 are reasonable and necessary to protect the legitimate business interests of the Company and that any breach or threatened breach by the Participant of any provision contained in this Section 8 may result in immediate irreparable injury to the Company for which a remedy at law may be inadequate. The Participant further acknowledges that the restrictions contained in this Section 8(c) will not prevent the Participant from earning a livelihood during the Restricted Period. Accordingly, the Participant acknowledges that the Company shall be entitled to seek temporary, preliminary and permanent injunctive relief in any court of competent jurisdiction (without being obligated to post a bond or other collateral) in the event of any breach or threatened breach by the Participant of the provisions of this Section 8. Any remedy specified by any provision of this Agreement shall, unless expressly providing to the contrary, be a nonexclusive remedy for that provision and shall not preclude any and all other remedies at law or in equity from also being applicable.

(g) *Separate Covenants*. The parties intend that the covenants and restrictions in this Section 8 be given the broadest interpretation permitted by law. Accordingly, in the event that any of the provisions of this Agreement should ever be adjudicated to exceed the time, geographic, product or service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, product or service, or other limitations permitted by applicable law. The covenants and restrictions contained in this Section 8 shall be deemed a series of separate covenants and restrictions, one for each of the fifty states of the United States of America and any other jurisdiction. If the covenants of this Section 8 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Company's right to enforce such covenants in any other jurisdiction. If, in any judicial or arbitration proceedings, a court of competent jurisdiction or arbitration panel should refuse to enforce all of the separate covenants and restrictions in this Section 8, then such unenforceable covenants and restrictions shall be eliminated from the provisions of this Agreement for the purpose of such proceeding to the extent necessary to permit the remaining separate covenants and restrictions to be enforced in such proceeding.

9. Transferability. The Restricted Shares are not transferable other than as designated by the Participant by will or by the laws of descent and distribution.

10. Exercisability Following Death. If any rights exercisable by the Participant or benefits deliverable to the Participant under this Agreement have not been exercised or delivered, respectively, at the time of the Participant's death, such rights shall be exercisable by the legal representative of the estate of the Participant.

11. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it acting reasonably and in good faith with respect to the Agreement is final and binding on all persons.

12. Plan Governs. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall be subject to the terms of the Plan, a copy of which may be obtained by the Participant from the office of the Secretary of the Company, and this Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.

13. Not an Employment Contract. The Award will not confer on the Participant any right with respect to continuance of employment or other service with any member of the Company Group, nor will it interfere in any way with any right any member of the Company Group would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

14. Representation. The Participant acknowledges and represents to the Company that, as of the date hereof, it is the Participant's good faith intention that the Participant will be acquiring the Restricted Shares solely for the Participant's own account, for investment purposes only, and not with a view to, or for resale in connection with, any distribution of the Restricted Shares.

15. Notices. Any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal business office.

16. Governing Law. This Agreement shall be governed by and construed according to the laws of the State of Delaware, without regard to its principles of conflict of laws.

17. Amendment. This Agreement may be amended by written agreement of the Participant and the Company, without the consent of any other person.

18. Waiver. Waiver by any party of any breach of this Agreement or failure to exercise any right hereunder shall not be deemed to be a waiver of any other breach or right whether or not of the same or a similar nature. The failure of any party to take action by reason of such breach or to exercise any such right shall not deprive the party of the right to take action at any time while or after such breach or condition giving rise to such rights continues.

19. Headings. Headings are for convenience only and are not deemed to be part of this Agreement. Unless otherwise indicated, any reference to a Section herein is a reference to a Section of this Agreement.

20. Binding Effect. This Agreement shall be binding upon the parties hereto, together with their personal executors, administrators, successors, personal representatives, heirs and permitted assigns.

21. Entire Agreement. This Agreement, together with the Notice and the Plan, supersedes all prior written and oral agreements and understandings among the parties as to its subject matter and constitutes the entire agreement of the parties with respect to the subject matter hereof.

<u>Exhibit A</u>
Section 83(b) Election

The undersigned taxpayer elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "<u>Code</u>"), to include in gross income as compensation for services rendered the excess (if any) of the fair market value of property received in connection with such services over the amount paid for the property (if any), and supplies the following information in accordance with the regulations promulgated thereunder.

1. The name, taxpayer identification number, address of the undersigned, and the taxable year for which this election is being made are:

TAXPAYER'S NAME: __

TAXPAYER'S SOCIAL SECURITY NUMBER:__

ADDRESS:__

TAXABLE YEAR: Calendar Year <u>2021</u>

2. The property which is the subject of this election is: Common stock of Sterling Check Corp.

3. The property was transferred to the undersigned on: .

4. The properly is subject to the following restrictions: Subject to a vesting schedule, the taxpayer's rights in and to a portion of the property may be forfeited.

5. The fair market value of the property at the time of transfer (determined without regard to any restriction other than a nonlapse restriction as defined in Treasury Regulation Section 1.83-3(h)) is: $ ___.

6. For the property transferred, the undersigned paid $<u>0</u>.

7. The amount to include in gross income is $.

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

Dated: ________________________

Taxpayer Signature: _____________________

Taxpayer Name: ________________________

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joshua Peirez, certify that:

i. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2024 of Sterling Check Corp.;

ii. 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;

iii. 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;

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

i. 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;

ii. 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;

iii. 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

iv. 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

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

i. 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

ii. 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.

By: /s/ JOSHUA PEIREZ

Joshua Peirez

Chief Executive Officer

Date: August 8, 2024

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard Dziadzio, certify that:

i. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2024 of Sterling Check Corp.;

ii. 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;

iii. 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;

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

i. 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;

ii. 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;

iii. 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

iv. 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

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

i. 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

ii. 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.

By: /s/ RICHARD DZIADZIO

Richard Dziadzio
Executive Vice President and
Interim Chief Financial Officer

Date: August 8, 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 of Sterling Check Corp. (the “Company”) for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joshua Peirez, Chief Executive Officer of the Company, hereby 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 15(d) of the Securities Exchange Act of 1934; and

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

By: /s/ JOSHUA PEIREZ

Joshua Peirez

Chief Executive Officer

August 8, 2024

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 of Sterling Check Corp. (the “Company”) for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard Dziadzio, Executive Vice President and Interim Chief Financial Officer of the Company, hereby 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 15(d) of the Securities Exchange Act of 1934; and

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

By: /s/ RICHARD DZIADZIO
Richard Dziadzio
Executive Vice President and
Interim Chief Financial Officer

August 8, 2024