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, 2023

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, 2023 was 96,330,894 (excluding treasury shares of 3,496,098).

STERLING CHECK CORP. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023
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PART I—FINANCIAL INFORMATION

PART II – OTHER INFORMATION

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 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:

- 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;
- the continued impact of COVID-19 on global markets, economic conditions and the response by governments and third parties;
- 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 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 2, 2023 and in this Quarterly Report on Form 10-Q.

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 per share amounts)	December 31, 2022	June 30, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 103,095	$ 48,817
Accounts receivable (net of allowance of $3,200 and $3,194 as of December 31, 2022 and June 30, 2023, respectively)	139,579	151,274
Insurance receivable	921	3,421
Prepaid expenses	13,433	11,795
Other current assets	13,654	24,847
Total current assets	270,682	240,154
Property and equipment, net	10,341	7,354
Goodwill	849,609	878,696
Intangible assets, net	241,036	251,031
Deferred income taxes	4,452	4,642
Operating leases right-of-use asset	20,084	7,514
Other noncurrent assets, net	11,050	11,212
TOTAL ASSETS	$ 1,407,254	$ 1,400,603
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 38,372	$ 40,017
Litigation settlement obligation	4,165	6,013
Accrued expenses	67,047	58,118
Current portion of long-term debt	7,500	11,250
Operating leases liability, current portion	3,717	4,069
Other current liabilities	12,939	13,712
Total current liabilities	133,740	133,179
Long-term debt, net	493,990	486,882
Deferred income taxes	23,707	31,531
Long-term operating leases liability, net of current portion	16,835	10,182
Other liabilities	2,336	7,942
Total liabilities	$ 670,608	$ 669,716
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; 97,765,120 shares issued and 96,717,883 shares outstanding as of December 31, 2022; 99,810,027 shares issued and 96,758,662 shares outstanding as of June 30, 2023)	76	96
Additional paid-in capital	942,789	960,781
Common stock held in treasury (1,047,237 and 3,051,365 shares as of December 31, 2022 and June 30, 2023, respectively)	(14,859)	(40,773)
Accumulated deficit	(186,448)	(185,534)
Accumulated other comprehensive loss	(4,912)	(3,683)
Total stockholders' equity	736,646	730,887
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,407,254	$ 1,400,603

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 INCOME

(in thousands, except share and per share data)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023	Six Months Ended June 30, 2022	Six Months Ended June 30, 2023
REVENUES	$ 205,591	$ 190,384	$ 397,563	$ 369,658
OPERATING EXPENSES:				
Cost of revenues (exclusive of depreciation and amortization below)	107,576	102,056	208,532	196,810
Corporate technology and production systems	12,539	11,428	25,091	23,380
Selling, general and administrative	41,886	44,910	84,219	92,361
Depreciation and amortization	19,872	16,120	40,028	31,242
Impairments and disposals of long-lived assets	612	7,039	612	7,145
Total operating expenses	182,485	181,553	358,482	350,938
OPERATING INCOME	23,106	8,831	39,081	18,720
OTHER EXPENSE (INCOME):				
Interest expense, net	6,619	8,990	12,955	17,598
Loss (gain) on interest rate swaps	32	—	(296)	—
Other income	(508)	(397)	(862)	(809)
Total other expense, net	6,143	8,593	11,797	16,789
INCOME BEFORE INCOME TAXES	16,963	238	27,284	1,931
Income tax provision (benefit)	5,392	(85)	9,477	1,017
NET INCOME	$ 11,571	$ 323	$ 17,807	$ 914
Unrealized gain (loss) on hedged transactions, net of tax (benefit) expense of $0, $(1,671), $0 and $144, respectively	—	4,751	—	(408)
Foreign currency translation adjustments, net of tax of $0, $0, $0 and $0, respectively	(3,483)	955	(3,200)	1,637
Total other comprehensive (loss) income	(3,483)	5,706	(3,200)	1,229
COMPREHENSIVE INCOME	$ 8,088	$ 6,029	$ 14,607	$ 2,143
Net income per share attributable to stockholders				
Basic	$ 0.12	$ 0.00	$ 0.19	$ 0.01
Diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Weighted average number of shares outstanding				
Basic	94,024,970	92,723,901	93,996,553	92,800,279
Diluted	99,344,563	94,498,666	99,265,668	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 Income (Loss)	Total
BALANCE as of December 31, 2021	95,746,975	$ 68	$916,578	107,820	$ (897)	$ (206,218)	$ 93	$709,624
Issuance of common stock	1,112	—	—	—	—	—	—	—
Common stock issued for exercise of employee stock options	8,486	—	80	—	—	—	—	80
Issuance of restricted shares, net of forfeitures and vestings	533,095	5	(5)	—	—	—	—	—
Stock-based compensation	—	—	5,108	—	—	—	—	5,108
Net income	—	—	—	—	—	6,236	—	6,236
Cumulative effect adjustment for adoption of CECL, net of tax of $56	—	—	—	—	—	(198)	—	(198)
Foreign currency translation adjustment, net of tax	—	—	(8)	—	—	—	283	275
BALANCE as of March 31, 2022	96,289,668	73	921,753	107,820	(897)	(200,180)	$ 376	721,125
Issuance of common stock	1,812	—	—	—	—	—	—	—
Common stock issued for exercise of employee stock options	76,399	—	734	—	—	—	—	734
Issuance of restricted shares, net of forfeitures and vestings	42,388	—	—	—	—	—	—	—
Stock-based compensation	—	—	6,023	—	—	—	—	6,023
Net income	—	—	—	—	—	11,571	—	11,571
Foreign currency translation adjustment, net of tax	—	—	(24)	—	—	—	(3,483)	(3,507)
BALANCE as of June 30, 2022	96,410,267	$ 73	$928,486	107,820	$ (897)	$ (188,609)	$ (3,107)	$735,946

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

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 Income (Loss)	Total
BALANCE as of 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 vestings 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 as of 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 vestings 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, 2022	Six Months Ended June 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 17,807	$ 914
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	40,028	31,242
Deferred income taxes	3,409	188
Stock-based compensation	11,131	17,401
Impairments and disposals of long-lived assets	612	7,145
Provision for bad debts	659	459
Amortization of financing fees	218	539
Amortization of debt discount	959	392
Deferred rent	(146)	1,023
Unrealized translation (gain) loss on investment in foreign subsidiaries	(1,220)	108
Changes in fair value of derivatives	(4,102)	—
Interest rate swap settlements	—	585
Changes in operating assets and liabilities		
Accounts receivable	(36,451)	(7,399)
Insurance receivable	—	(2,500)
Prepaid expenses	(702)	2,251
Other assets	(3,180)	(8,650)
Accounts payable	14,249	1,314
Litigation settlement obligation	—	1,848
Accrued expenses	(8,610)	(10,515)
Other liabilities	(1,382)	(3,447)
Net cash provided by operating activities	33,279	32,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,266)	(593)
Purchases of intangible assets and capitalized software	(7,616)	(8,589)
Acquisitions, net of cash acquired	—	(48,641)
Proceeds from disposition of property and equipment	9	125
Net cash used in investing activities	(10,873)	(57,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	814	611
Repurchases of common stock	—	(25,342)
Payments of initial public offering issuance costs	(225)	—
Cash paid for tax withholding on vesting of restricted shares	—	(572)
Payments of long-term debt	(3,231)	(3,750)
Payment of contingent consideration for acquisition	(215)	(305)
Payments of finance lease obligations	(1)	—
Net cash used in financing activities	(2,858)	(29,358)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,735)	(120)
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,813	(54,278)
CASH AND CASH EQUIVALENTS		
Beginning of period	47,998	103,095
Cash and cash equivalents at end of period	$ 65,811	$ 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)

(in thousands)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2023
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for		
Interest, net of capitalized amounts of $150 and $189 for the six months ended June 30, 2022 and 2023, respectively	$ 17,225	$ 20,239
Income taxes	9,531	9,703
Noncash investing activities		
Purchases of property and equipment in accounts payable and accrued expenses	$ 222	$ 165
Noncash purchase price of business combinations	—	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, 2023, the Company is 51.5% 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.

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 (“US 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 consisting only of normal recurring adjustments necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with US 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, 2022 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 2, 2023.

Use of Estimates

The preparation of financial statements in conformity with US 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, the determination of the fair value of acquired assets and liabilities, collectability of receivables, the valuation of stock-based awards and stock-based compensation and sales and income tax liabilities. The Company also applies an estimated useful life of three years to internally developed software assets. This is based on the historical observed pace of change in the Company’s delivery, technology, and product offerings as well as market competition. 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.

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 $103.1 million and $48.8 million as of December 31, 2022 and June 30, 2023, respectively, include money market instruments with maturities of three months or less. The Company maintained cash outside the U.S. as of December 31, 2022 of $28.0 million with the largest deposits being held in Canada and India, with balances of $9.2 million and $5.1 million, respectively. Cash outside the U.S. was

$25.5 million as of June 30, 2023, with the largest deposits being held in India and Canada, with balances of $4.8 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 income. The cumulative translation adjustment resulted in losses of $5.6 million and $3.6 million as of December 31, 2022 and June 30, 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 $0.9 million and $0.5 million as of December 31, 2022 and June 30, 2023, respectively.

The Company adopted the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) Topic 326, Financial Instruments - Credit Losses (“CECL”) on January 1, 2022. The adoption of CECL resulted in a $0.3 million cumulative effect adjustment recorded in retained earnings as of January 1, 2022.

CECL requires an entity to utilize an impairment model to estimate its lifetime expected credit losses and record an allowance that, when deducted from the amortized cost basis of a financial asset, presents the net amount expected to be collected on the financial asset.

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 $2.3 million and $2.7 million as of December 31, 2022 and June 30, 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)	**2022**	**2023**	**2022**	**2023**
Balance at beginning of period	$ 1,842	$ 2,473	$ 2,949	$ 2,304
Cumulative effect of accounting change upon adoption of CECL	—	—	254	—
Additions	351	215	659	459
Write-offs, net of recoveries	(22)	(30)	(1,691)	(108)
Foreign currency translation adjustment	(10)	—	(10)	3
Balance at end of period	$ 2,161	$ 2,658	$ 2,161	$ 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)	**2022**	**2023**	**2022**	**2023**
Corporate information technology	$ 6,290	$ 4,922	$ 12,413	$ 10,189
Development of platform and product initiatives	4,115	4,280	8,364	8,694
Production support and maintenance	2,134	2,226	4,314	4,497
Total production systems	6,249	6,506	12,678	13,191
Corporate technology and production systems	$ 12,539	$ 11,428	$ 25,091	$ 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, over 98% 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 80% 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 FASB's non-public company timeline. 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, 2023.

4. Acquisitions

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 purchase price for the acquisitions totaled approximately $65.6 million, was funded with available cash on hand and is subject to certain closing adjustments specified in the share purchase agreements and includes contingent consideration related to the A-Check acquisition of $4.7 million recorded at fair value. The contingent consideration will be determined based on actual future results. As of June 30, 2023, the 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 a preliminary 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.

The preliminary 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	Adjusted Purchase Price Allocation June 30, 2023
Consideration			
Cash	$ 11,935	$ —	$ 11,935
Other current assets			
Accounts receivable	4,279	(3)	4,276
Other current assets	805	2	807
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	$ (1,270)	$ 48,073
Accounts payable and accrued expenses	1,156	94	1,250
Other current liabilities	1,291	(72)	1,219
Deferred tax liability	8,388	(143)	8,245
Other liabilities	2	—	2
Total liabilities assumed	$ 10,837	$ (121)	$ 10,716
Total identifiable net assets	38,506	(1,149)	37,357
Goodwill	27,352	874	28,226
Total consideration	$ 65,858	$ (275)	$ 65,583

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, 2023 or results of operations for the three and six months ended June 30, 2023, 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 Employment Background Investigations, Inc. (“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.

5. Property and Equipment, Net

(in thousands)	December 31, 2022	June 30, 2023
Furniture and fixtures	$ 2,568	$ 1,411
Computers and equipment	41,084	37,542
Leasehold improvements	6,565	2,073
	50,217	41,026
Less: Accumulated depreciation	(39,876)	(33,672)
Total property and equipment, net	$ 10,341	$ 7,354

Depreciation expense on property and equipment was $1.1 million and $0.9 million during the three months ended June 30, 2022 and 2023, respectively, and $2.2 million and $2.0 million for the six months ended June 30, 2022 and 2023, respectively. Write down of abandoned property and equipment no longer in use totaled $0.6 million during the three and six months ended June 30, 2022. Write down of abandoned property and equipment no longer in use was $1.7 million for the three and six months ended June 30, 2023.

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, 2022	$ 849,609
Acquisitions	28,226
Foreign currency translation adjustment	861
Goodwill as of June 30, 2023	$ 878,696

Intangible Assets

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

		December 31, 2022			June 30, 2023		
(dollars in thousands)	Estimated Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer lists	7 - 17 years	$ 506,015	$ (340,579)	$ 165,436	$ 532,853	$ (357,449)	$ 175,404
Trademarks	2 - 16 years	77,198	(37,519)	39,679	77,760	(40,597)	37,163
Non-compete agreement	1 - 5 years	3,179	(2,584)	595	3,974	(2,708)	1,266
Technology	3 - 8 years	246,220	(216,330)	29,890	257,035	(224,935)	32,100
Domain names	2 - 15 years	10,118	(4,682)	5,436	10,117	(5,019)	5,098
		$ 842,730	$ (601,694)	$ 241,036	$ 881,739	$ (630,708)	$ 251,031

Included within technology is $28.1 million and $29.8 million of internal-use software, net of accumulated amortization, as of December 31, 2022 and June 30, 2023, respectively. As of June 30, 2023, $5.1 million of technology assets have not yet been put in service.

The Company capitalized $7.6 million of costs to develop internal-use software included in technology during the six months ended June 30, 2022 (consisting of internal costs of $6.1 million and external costs of $1.5 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 and six months ended June 30, 2022, the Company recorded no write-down of capitalized software. For the three and six months ended June 30, 2023, the Company recorded a write-down related to the impairment of capitalized software in the amount of $0.1 million and $0.2 million, respectively.

Amortization expense was $18.7 million and $15.2 million for the three months ended June 30, 2022 and 2023, respectively, and $37.8 million and $29.3 million for the six months ended June 30, 2022 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, 2023 is as follows for each of the next five years:

(in thousands)	
Year Ending December 31,	
Remainder of fiscal year 2023	$ 32,638
2024	49,827
2025	40,918
2026	31,240
2027	24,739
Thereafter	71,669
	$ 251,031

7. Accrued Expenses

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

(in thousands)	December 31, 2022	June 30, 2023
Accrued compensation	$ 29,835	$ 19,202
Accrued cost of revenues	15,721	22,660
Accrued interest	3,143	112
Other accrued expenses	18,348	16,144
Total accrued expenses	$ 67,047	$ 58,118

8. Leases

Effective January 1, 2022 using the effective date method, the Company adopted the FASB's Accounting Standards Update No. 2016-02, "Leases" ("ASC 842"), which requires the recognition of all leases, including operating leases on the unaudited condensed consolidated balance sheets by recording a right-of-use ("ROU") asset and related liability, and elected to exclude short-term leases from adoption. The lease liability and ROU asset will be remeasured when there is a change in the lease term (or upon the occurrence of another reassessment trigger). Upon adoption on January 1, 2022, the Company recognized a ROU asset of $23.5 million and a lease liability of $23.8 million.

The Company determines if a contract is a lease or contains a lease at inception. Operating lease liabilities are measured, on each reporting date, based on the present value of the future minimum lease payments over the remaining lease term. The Company's leases generally do not provide an implicit rate and, therefore, the Company used the incremental borrowing rate of the former first lien term loan credit agreement of 4.50% for all leases entered into for the period prior to November 29, 2022. Operating lease assets are measured by adjusting the lease liability for lease incentives, initial direct costs incurred and asset impairments. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term with the operating lease asset reduced by the amount of the expense. Lease terms may include options to extend or terminate a lease when they are reasonably certain to occur.

The Company leases real estate and equipment for use in its operations. The Company has 17 operating leases with remaining lease terms ranging from 3 months to 67 months as of June 30, 2023. In connection with the real estate consolidation program, during the three months ended June 30, 2023, the Company exited additional offices including the Company's former principal executive office and headquarters in New York. A reduction of the operating leases ROU asset of $5.3 million for impairment charges was recorded in impairments and disposals of long-lived assets in the unaudited condensed consolidated statements of operations and comprehensive income. The Company exercised termination options reducing the lease terms on certain operating leases and recorded lease remeasurements to the operating lease liability and corresponding reductions to the operating leases ROU asset in the amount of $4.7 million during the three months ended June 30, 2023. $1.5 million was recorded to de-recognize the operating lease ROU asset related to certain leases in selling, general and administrative expense due to abandonment, during the three months ended June 30, 2023.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2022**	**2023**	**2022**	**2023**
Components of total lease costs				
Operating lease expense[(1)]	$ 1,302	$ 2,607	$ 2,601	$ 3,986
Sublease income	(216)	(343)	(288)	(565)
Total net lease costs	$ 1,086	$ 2,264	$ 2,313	$ 3,421

(1) Includes $1.5 million of lease expense to de-recognize certain operating ROU assets which were abandoned during the three months ended June 30, 2023.

Information related to the Company's ROU assets and lease liabilities for the period presented is as follows:

(dollars in thousands)	**June 30, 2023**
Operating leases	
Operating leases right-of-use asset	$ 7,514
Operating leases liability, current portion	$ 4,069
Long-term operating leases liability, net of current portion	10,182
Total operating leases liability	$ 14,251
Weighted average remaining lease term in years - operating leases	3.7
Weighted average discount rate - operating leases	5.14 %

Total remaining lease payments under the Company's operating leases for the period presented are as follows:

(in thousands)	**June 30, 2023**
Remainder of fiscal year 2023	$ 2,771
2024	5,284
2025	2,338
2026	2,118
2027	2,149
2028	1,028
Thereafter	85
Total future minimum lease payments	$ 15,773
Less: imputed interest	(1,522)
Total	$ 14,251

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)	December 31, 2022	June 30, 2023
Current portion of long-term debt		
Term Loans	$ 7,500	$ 11,250
Total current portion of long-term debt	$ 7,500	$ 11,250
Long-term debt		
Term Loans, due November 29, 2027 (6.76% and 7.45% at December 31, 2022 and June 30, 2023, respectively)	292,500	285,000
Revolving Credit Facility	205,494	205,494
Unamortized discount and debt issuance costs	(4,004)	(3,612)
Total long-term debt, net	$ 493,990	$ 486,882

The estimated fair value of the Company's 2022 Credit Agreement was $487.1 million and $484.3 million as of December 31, 2022 and June 30, 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 credit agreement as of June 30, 2023.

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 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

December 31, 2022 and June 30, 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.

As of December 31, 2022, the fair value of contingent consideration related to the November 30, 2021 acquisition of EBI totaled $1.2 million and consisted of a $0.9 million earn-out payable two years after the acquisition based upon revenue retention and $0.3 million remaining payable throughout the year following the acquisition based on customer collections on acquired receivables and is considered a Level 3 financial instrument. As of June 30, 2023, contingent consideration for the earn-out payable related to the acquisition of EBI totaled $0.9 million and is considered a Level 3 financial instrument. As of June 30, 2023, contingent consideration related to the A-Check acquisition completed in 2023 totaled $4.7 million and 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. Contingent consideration related to acquisitions is considered a Level 3 financial instrument.

The following table presents 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 December 31, 2022:

(in thousands)	Level 1	Level 2	Level 3
Liabilities			
Contingent consideration - acquisition of EBI	$ —	$ —	$ 1,219

The following table presents 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 June 30, 2023:

(in thousands)	Level 1	Level 2	Level 3
Assets			
Interest rate swaps	$ —	$ 2,857	$ —
Liabilities			
Interest rate swaps	—	3,408	—
Contingent consideration - acquisition of EBI	—	—	914
Contingent consideration - acquisition of A-Check	—	—	4,706

During the three and six months ended June 30, 2022 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

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.

For interest rate swap derivatives designated and that qualify as hedges for accounting purposes, the unrealized gain or loss on the derivative is recorded in OCI.

As of June 30, 2023, 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	Notional[(1)]
Interest Rate Swaps	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			
	As of December 31, 2022		As of June 30, 2023	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other current assets	$ —	Other current assets	$ 2,857

	Liability Derivatives			
	As of December 31, 2022		As of June 30, 2023	
(in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other liabilities	—	Other liabilities	$ 3,408

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)	2022	2023		2022	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	$ —	$ 6,975	Interest expense	$ —	$ 552

	Six Months Ended June 30,			Six Months Ended June 30,	
(in thousands)	2022	2023		2022	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	$ —	$ 98	Interest expense	$ —	$ 649

The tables below present the effect of the Company’s cash flow hedge accounting on the unaudited condensed consolidated statements of operations and comprehensive income for the periods presented:

	Three Months Ended June 30,	
	2022	2023
(in thousands)	Interest Expense	Interest Expense
Total amounts of income and expense line items in which the effects of cash flow hedges are recorded	$ 6,619	$ 8,990
Gain or (loss) on cash flow hedging relationships		
Interest rate swaps:		
Amount of gain or (loss) reclassified from accumulated OCI into income	$ —	$ 552

	Six Months Ended June 30,	
	2022	2023
(in thousands)	Interest Expense	Interest Expense
Total amounts of income and expense line items in which the effects of cash flow hedges are recorded	$ 12,955	$ 17,598
Gain or (loss) on cash flow hedging relationships		
Interest rate swaps:		
Amount of gain or (loss) reclassified from accumulated OCI into income	$ —	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 $2.9 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.

Non-designated Derivatives

Derivatives not designated as hedges are not speculative and are used to manage the Company’s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements and/or the Company has not elected to apply hedge accounting.

Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings.

As of June 30, 2023, the Company did not have any outstanding derivatives not designated as a hedge in qualifying hedging relationships.

The table below presents the effect of the Company’s derivative financial instruments that are not designated as hedging instruments in the unaudited condensed consolidated statements of operations and comprehensive income for the periods presented:

		Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)		2022	2023	2022	2023
Derivatives Not Designated as Hedging Instruments	**Location of Loss (Gain) Recognized in Income on Derivatives**	**Amount of Loss (Gain) Recognized in Income on Derivatives**			
Interest rate swaps	Loss (gain) on interest rate swaps	$ 32	$ —	$ (296)	$ —

12. Income Taxes

The computation of the provision for or benefit from income taxes for interim periods is determined by applying the estimated annual effective tax rate to year-to-date income before tax and adjusting for discrete tax items recorded in the period, if any.

The Company recorded a tax provision of $5.4 million and a benefit of $0.1 million for the three months ended June 30, 2022 and 2023, respectively, which resulted in an effective tax rate of 31.8% and (35.7)%, respectively. The Company recorded a tax provision of $9.5 million and $1.0 million for the six months ended June 30, 2022 and 2023, respectively, which resulted in an effective tax rate of 34.7% and 52.7%, respectively. For the three and six months ended June 30, 2022 and 2023, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items.

13. Commitments and Contingencies

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 December 31, 2022, the Company recorded a legal settlement obligation of $4.2 million and an offsetting insurance receivable of $0.9 million for the settlement of legal matters. As of June 30, 2023, the Company recorded a legal settlement obligation of $6.0 million and an offsetting insurance receivable of $3.4 million for the settlement of legal matters.

Net legal settlement expense recorded in selling, general and administrative expense in the unaudited consolidated statements of operations and comprehensive income for the three months ended June 30, 2022 and 2023 totaled $0.1 million and less than $0.1 million, respectively, and $0.3 million and $0.1 million for the six months ended June 30, 2022 and 2023, 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, 2023.

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 over a period 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 and six months ended June 30, 2023, the Company repurchased 1,465,893 shares of its common stock for $17.6 million and 1,959,819 shares of its common stock for $25.3 million, respectively, 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 income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2022**	**2023**	**2022**	**2023**
Stock-based compensation expense				
Cost of revenues	$ 411	$ 394	$ 824	$ 822
Corporate technology and production systems	499	605	1,030	1,217
Selling, general and administrative	5,113	8,359	9,277	15,362
Total stock-based compensation expense	$ 6,023	$ 9,358	$ 11,131	$ 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, 2023, the Company had approximately $100.7 million of unrecognized pre-tax non-cash stock-based compensation expense related to awards granted under the 2021 Equity Plan, consisting of approximately $31.8 million related to non-qualified stock options (“NQSOs”), $67.9 million related to restricted stock, and approximately $1.0 million related to restricted stock units (“RSUs”), all of which the Company expects to recognize over a weighted average period of 2.61 years.

2015 Long-Term Equity Incentive Plan

The table below provides a summary of service-based vesting options ("SVOs") and performance-based stock options ("PSOs") currently outstanding under the 2015 Plan for the six months ended June 30, 2023:

	Outstanding SVOs				Outstanding PSOs			
	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
(in thousands, except shares and per share amounts)								
Balances as of December 31, 2022	6,208,274	$ 9.59	5.00	$ 36,513	3,081,855	$ 10.05	3.32	$ 16,699
Granted	—	—			—	—		
Forfeited / Cancelled	—	—			—	—		
Exercised	(63,336)	9.66		201	—	—		—
Balances as of June 30, 2023 (1)	6,144,938	$ 9.59	4.48	$ 16,419	3,081,855	$ 10.05	2.82	$ 6,806

(1) All SVOs and PSOs are exercisable as of June 30, 2023.

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. In connection with the option agreement amendments, the option holders agreed that any shares of common stock acquired by such individuals upon exercise of any options outstanding under the 2015 plan (the "LTIP Option Shares") will be subject to the following transfer restrictions, in addition to any other lock-up restrictions, securities trading policies, and other limitations to which such individuals may be subject: (i) the holder will be able to transfer up to 25% of the LTIP Option Shares at any time after six months following the effectiveness of the registration statement of which the IPO Prospectus formed a part (or such earlier time as the transfer restrictions expire under the lock-up agreements described in the IPO Prospectus under "Shares Eligible for Future Sale—Lock-up Agreements") but prior to the first anniversary of the effectiveness of the registration statement of which the IPO Prospectus formed a part; (ii) on or after the first anniversary but prior to the second anniversary of the effectiveness of the registration statement of which the IPO Prospectus formed a part, the holder will be able to transfer up to 50% of the LTIP Option Shares (reduced by any of the LTIP Option Shares sold prior to the first anniversary) and (iii) on or after the second anniversary of the effectiveness of the registration statement of which the IPO Prospectus forms a part, the holder will be able to transfer all of his or her LTIP Option Shares. The foregoing transfer restrictions will not apply to any shares of common stock held by any such individual that are not LTIP Option Shares.

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, 2023, 8,266,376 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, 2023:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value	Weighted Average Fair Value (per share)
Outstanding at December 31, 2022	4,387,501	$ 22.91	8.81	$ —	
Granted	909,431	12.77			$ 7.03
Forfeited / Cancelled	—	—			
Exercised / Released	—	—		—	
Outstanding at June 30, 2023	5,296,932	$ 21.17	8.55	$ —	
Exercisable at June 30, 2023	102,995	$ 22.61	8.50	$ —	

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, 2023:

	Number of Shares	Weighted Average Fair Value (per share)
Unvested at December 31, 2022	3,421,920	$ 20.32
Granted	2,153,406	12.92
Forfeited / Cancelled	(179,989)	20.49
Vested	(174,084)	19.61
Unvested at June 30, 2023	5,221,253	$ 17.28

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, 2023:

	Number of Shares	Weighted Average Fair Value (per share)
Unvested at December 31, 2022	51,249	$ 21.18
Granted	27,279	12.32
Forfeited / Cancelled	(2,378)	23.00
Vested	(1,224)	22.35
Unvested at June 30, 2023	74,926	$ 17.88

Employee Stock Purchase Plan

There were no stock employee purchase offerings under the 2021 Employee Stock Purchase Plan (the "ESPP") during the three and six months ended June 30, 2023 and, accordingly, no eligible employees were enrolled in the ESPP during the three and six months ended June 30, 2023.

16. Net Income per Share

The following table sets forth the computation of basic and diluted net 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)	**2022**	**2023**	**2022**	**2023**
Numerator:				
Net income attributable to stockholders	$ 11,571	$ 323	$ 17,807	$ 914
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ 11,571	$ 323	$ 17,807	$ 914
Denominator:				
Weighted average number of shares outstanding, basic	94,024,970	92,723,901	93,996,553	92,800,279
Weighted average additional shares assuming conversion of potential common shares	5,319,593	1,774,765	5,269,115	2,123,801
Weighted average common shares outstanding - diluted	99,344,563	94,498,666	99,265,668	94,924,080
Net income per share attributable to stockholders, basic	$ 0.12	$ 0.00	$ 0.19	$ 0.01
Net income per share attributable to stockholders, diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01

The following table summarizes the weighted average potentially dilutive securities that were excluded from the computation of diluted net 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,	
	2022	**2023**	**2022**	**2023**
Stock options	8,827,083	5,258,244	8,827,083	4,948,521
Restricted stock	2,719,936	4,376,479	2,719,936	3,879,743
Restricted stock units	42,704	47,703	42,704	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 $1.7 million and $0.7 million for the three months ended June 30, 2022 and 2023, respectively, and $3.6 million and $1.8 million for the six months ended June 30, 2022 and 2023, respectively. Outstanding accounts receivable from Goldman Sachs as of December 31, 2022 and June 30, 2023 were $0.2 million and $0.4 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.

During the three months ended June 30, 2023, in connection with the Secondary Public Offering, the Company repurchased 1,000,000 shares of common stock for $11.7 million directly from BSPI, an affiliate of Goldman Sachs. See Note 14, “Equity” for discussion of the Secondary Public Offering and the share repurchase.

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 $0.1 million and $0.1 million for the three months ended June 30, 2022 and 2023, respectively, and $0.2 million and $0.1 million for the six months ended June 30, 2022 and 2023, respectively. Outstanding accounts receivable from an affiliate of the Stockholders were less than $0.1 million as of December 31, 2022 and June 30, 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)	**2022**	**2023**	**2022**	**2023**
Screening services	$ 204,282	$ 188,650	$ 394,030	$ 365,521
Other services	1,309	1,734	3,533	4,137
Total revenue	$ 205,591	$ 190,384	$ 397,563	$ 369,658

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

(in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023	Six Months Ended June 30, 2022	Six Months Ended June 30, 2023
United States	$ 174,115	$ 162,198	$ 333,431	$ 311,940
All other countries	31,476	28,186	64,132	57,718
Total revenue	$ 205,591	$ 190,384	$ 397,563	$ 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, 2022 and 2023. Substantially all of the Company's long-lived assets were located in the U.S. as of December 31, 2022 and June 30, 2023.

Contract Assets and Liabilities

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 December 31, 2022 and June 30, 2023, $3.3 million of deferred commissions are included in Other current assets on the unaudited condensed consolidated balance sheets and approximately $2.7 million and $2.8 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 December 31, 2022 and June 30, 2023.

Concentrations

For the three and six months ended June 30, 2022 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 December 31, 2022 and June 30, 2023.

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, 2023. 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, 2022 filed with the U.S. Securities and Exchange Commission ("SEC") on March 2, 2023 ("2022 Annual Report") and in this Quarterly Report on Form 10-Q 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 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, 2022, we completed over 110 million searches for over 50,000 clients, including over 50% 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 80% of our global revenue. We expect to continue to increase the revenue processed on our core platform in 2023. We expect Sterling’s proven track record of M&A—with 11 acquisitions over the last 11 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. As part of our refreshed strategy, 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. 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. At the end of 2022, we also launched Project Nucleus, which we expect to drive meaningful cost savings and efficiency gains. The goal of this initiative is to enhance our organization by re-engineering processes, driving fulfillment cost reductions and identifying and executing on additional automation opportunities.

Recent Developments

On June 7, 2023, we 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 our common stock, par value $0.01 per share (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 our common stock, of which 1,145,486 shares were purchased. We 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, we 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 we repurchased from BSPI an aggregate of 1,000,000 shares of our common stock for a total of $11.7 million pursuant to our share repurchase program at a price per share equal to the price paid by the Underwriters in the Secondary Public Offering.

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 through the first half of 2023 during which we experienced a year-over-year decline 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.

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, 2023.

Recent Accounting Standards Updates

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 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 (which we measure by new client growth, calculated as discussed in the following paragraph), and growth in existing client base through retaining existing clients (which we measure by gross retention rate, calculated as discussed in the following paragraph), 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 (which we measure by base business growth with existing clients, 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 over 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 2021 and 2022, we implemented strategic structural changes in our business to improve operating leverage and accelerate modernizing our technological infrastructure including leveraging robotics process automation and artificial intelligence. 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 will continue 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, 2023, we have closed or reduced the size of 19 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, 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 aims to enhance 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 over 98% 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 80% of our global revenue. We expect to continue to increase the revenue processed on our core platform in 2023.

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 2022 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, operating leases right-of-use assets, 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 amortizing $300.0 million notional value interest rate swaps. 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.

Gain or Loss on Interest Rate Swaps

Gain on interest rate swaps consists of realized and unrealized gains or losses on our historical non-designated derivative interest rate swaps, which we entered into to reduce our exposure to variability in expected future cash flows on our previous credit agreement, which bore interest at a variable rate. Unrealized gains and losses result from changes in the fair value of the swap and realized gains and losses reflect the amounts payable or receivable between the fixed rate on the swap and the variable rate under the previous credit agreement. Our non-designated derivative interest rate swap expired in June 2022 and did not qualify for hedge accounting treatment.

Income Tax Provision or Benefit

Income tax provision consists of domestic and foreign corporate income taxes related to earnings from our sale of services, with statutory tax rates that differ by jurisdiction. We expect the income earned by our international entities to grow over time as a percentage of total income, which may impact our effective income tax rate. However, 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. The computation of the provision for or benefit from income taxes for interim periods is determined by applying the estimated annual effective tax rate to year-to-date income or loss before tax and adjusting for discrete tax items recorded in the period, if any.

Results of Operations

Three Months Ended June 30, 2022 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)	**2022**	**2023**	**$**	**%**
Revenues	$ 205,591	$ 190,384	$ (15,207)	(7.4)%
Cost of revenues (exclusive of depreciation and amortization below)	107,576	102,056	(5,520)	(5.1)%
Corporate technology and production systems	12,539	11,428	(1,111)	(8.9)%
Selling, general and administrative	41,886	44,910	3,024	7.2 %
Depreciation and amortization	19,872	16,120	(3,752)	(18.9)%
Impairments and disposals of long-lived assets	612	7,039	6,427	N/M
Total operating expenses	182,485	181,553	(932)	(0.5)%
Operating income	23,106	8,831	(14,275)	(61.8)%
Interest expense, net	6,619	8,990	2,371	35.8 %
Loss on interest rate swaps	32	—	(32)	N/M
Other income	(508)	(397)	(111)	(21.9)%
Total other expense, net	6,143	8,593	2,450	39.9 %
Income before income taxes	16,963	238	(16,725)	(98.6)%
Income tax provision (benefit)	5,392	(85)	(5,477)	(101.6)%
Net income	$ 11,571	$ 323	$ (11,248)	(97.2)%
Net income margin	5.6 %	0.2 %		(540) bps
Net income per share - basic	$ 0.12	$ 0.00	$ (0.12)	N/M

N/M—Not meaningful.

Revenues

Revenues decreased by 7.4%, or $15.2 million, from $205.6 million for the three months ended June 30, 2022 to $190.4 million for the three months ended June 30, 2023. Revenue of $205.6 million for the three months ended June 30, 2022 was a Company record for quarterly revenue. The 7.4% decrease in revenue was driven by a 10.1% decrease in organic constant currency revenue and a 0.5% unfavorable impact from fluctuations in foreign currency partially offset by 3.2% inorganic growth from the acquisitions of Socrates Limited and its affiliates (“Socrates”) and A-Check Global (“A-Check”). The organic revenue decrease reflected a decline in existing client business of approximately 16% including base, cross-sell and up-sell, and net of attrition offset by new client growth of approximately 5%. 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 95% for the last twelve months ended June 30, 2023. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

Total revenue in our U.S. business decreased 6.8% year-over-year. Our Healthcare Vertical experienced year-over-year growth, however, this growth was primarily offset by declines in our Tech and Media, Financial and Business Services and Staffing Verticals. Our international business experienced total revenue decline of 10.5% driven by a decline in base business combined with the unfavorable foreign exchange fluctuation, while EMEA experienced year-over-year growth.

Cost of Revenues

Cost of revenues decreased by 5.1%, or $5.5 million, from $107.6 million for the three months ended June 30, 2022 to $102.1 million for the three months ended June 30, 2023. This was primarily driven by a $7.9 million decrease due to decreased volume partially offset by $2.4 million of higher facilities costs due to accelerated rent for the closure of certain offshore fulfillment centers, and higher fulfillment and hosting costs as a percentage of revenue because a proportion of costs are fixed.

Cost of revenues as a percentage of revenues increased by 130 basis points from 52.3% for the three months ended June 30, 2022 to 53.6% for the three months ended June 30, 2023 driven by the accelerated rent recorded on decommissioned offshore fulfillment centers and higher vendor and hosting costs as a percentage of revenue.

Corporate Technology and Production Systems

Corporate technology and production systems decreased by 8.9%, or $1.1 million, from $12.5 million for the three months ended June 30, 2022 to $11.4 million for the three months ended June 30, 2023. 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 $1.4 million from $6.3 million for the three months ended June 30, 2022 to $4.9 million for the three months ended June 30, 2023 primarily due to lower payroll and related expenses, lower software licenses, software maintenance support, telecommunications and other expenses as a result of restructuring efforts. Costs to develop platform and product initiatives increased slightly from $4.1 million for the three months ended June 30, 2022 to $4.3 million for the three months ended June 30, 2023. Costs related to maintaining our production systems increased slightly from $2.1 million for the three months ended June 30, 2022 to $2.2 million for the three months ended June 30, 2023.

These expenses also include non-capitalizable costs related to Project Ignite. We incurred $1.4 million related to phase two and $2.3 million related to phase three during the three months ended June 30, 2022. 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.”

For the three months ended June 30, 2023, corporate technology and production systems expenses also include $0.4 million of restructuring-related charges to support our strategy refresh and the execution against Project Nucleus.

Selling, General and Administrative

Selling, general and administrative expenses increased by 7.2%, or $3.0 million, from $41.9 million for the three months ended June 30, 2022 to $44.9 million for the three months ended June 30, 2023. The year-over-year increase was primarily driven by a $3.4 million increase in restructuring related charges of which $2.1 million includes charges to support our strategy refresh and the execution against Project Nucleus, and $1.3 million relates to accelerated rent and facilities costs in connection with office closures. Additional year-over-year increases include a $3.2 million increase in stock-based compensation and $0.9 million in professional fees and transaction related expenses to support the Secondary Public Offering executed in June 2023. These year-over-year increases were partially offset by a $3.5 million decrease in payroll, bonus, commissions and other employee related costs due to reduction in headcount from restructuring efforts and a $1.0 million decrease in insurance, marketing and other professional fees.

Depreciation and Amortization

Depreciation and amortization expense decreased by 18.9%, or $3.8 million, from $19.9 million for the three months ended June 30, 2022 to $16.1 million for the three months ended June 30, 2023, primarily due to a $4.2 million decrease in intangible asset amortization resulting from assets being fully amortized and new intangible assets being added at lower rates compared to those which became fully amortized in the period. This year-over-year decrease was partially offset by a $0.9 million increase in amortization of intangible assets acquired from the Socrates and A-Check acquisitions.

Impairments and Disposals of Long-Lived Assets

Impairments and disposals of long-lived assets increased by $6.4 million from $0.6 million for the three months ended June 30, 2022 to $7.0 million for the three months ended June 30, 2023. 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 ROU assets and $1.7 million of asset disposals in connection with our real estate consolidation efforts.

Interest Expense, Net

Interest expense increased by 35.8%, or $2.4 million, from $6.6 million for the three months ended June 30, 2022 to $9.0 million for the three months ended June 30, 2023 primarily due to the increase in interest rates. 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 $0.6 million 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, 2022 and 2023.

Loss on Interest Rate Swaps

Loss on interest rate swaps totaled less than $0.1 million for the three months ended June 30, 2022 due to a realized loss of $1.7 million offset by a mark-to-market gain of $1.6 million. The historical non-designated derivative interest rate swaps expired in June 2022.

Income Tax Provision (Benefit)

Income tax provision decreased $5.5 million from a provision of $5.4 million for the three months ended June 30, 2022 to a benefit of $0.1 million for the three months ended June 30, 2023, resulting in an effective tax rate of 31.8% and (35.7)%, respectively. The decrease in the income tax provision is primarily due to the decrease in income before taxes. Income before taxes decreased $16.7 million from $17.0 million for the three months ended June 30, 2022 to $0.2 million for the three months ended June 30, 2023. For the three months ended June 30, 2022 and 2023, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items.

Net Income and Net Income Margin

Net income decreased $11.2 million from $11.6 million for the three months ended June 30, 2022 to $0.3 million for the three months ended June 30, 2023. Net income margin decreased from 5.6% for the three months ended June 30, 2022 to 0.2% for the three months ended June 30, 2023.

The decrease in both net income and net income margin resulted primarily from lower revenues due to the macroeconomic environment, impairments of long-lived assets incurred in the quarter due to office closures, restructuring and offering expenses, and increased interest expense due to the rising interest rate environment.

Net Income per Share

Net income per share decreased $0.12 per share from $0.12 per share for the three months ended June 30, 2022 to $0.00 per share for the three months ended June 30, 2023 due to the decrease in net income.

Six Months Ended June 30, 2022 compared to the Six Months Ended June 30, 2023

The following table sets forth certain historical consolidated financial performance for the six months ended June 30, 2022 compared to the six months ended June 30, 2023.

	Six Months Ended June 30,		Increase/ (Decrease)	
(dollars in thousands, except per share amounts)	**2022**	**2023**	**$**	**%**
Revenues	$ 397,563	$ 369,658	$ (27,905)	(7.0)%
Cost of revenues (exclusive of depreciation and amortization below)	208,532	196,810	(11,722)	(5.6)%
Corporate technology and production systems	25,091	23,380	(1,711)	(6.8)%
Selling, general and administrative	84,219	92,361	8,142	9.7 %
Depreciation and amortization	40,028	31,242	(8,786)	(21.9)%
Impairments and disposals of long-lived assets	612	7,145	6,533	N/M
Total operating expenses	358,482	350,938	(7,544)	(2.1)%
Operating income	39,081	18,720	(20,361)	(52.1)%
Interest expense, net	12,955	17,598	4,643	35.8 %
Gain on interest rate swaps	(296)	—	296	N/M
Other income	(862)	(809)	(53)	(6.1)%
Total other expense, net	11,797	16,789	4,992	42.3 %
Income before income taxes	27,284	1,931	(25,353)	(92.9)%
Income tax provision	9,477	1,017	(8,460)	(89.3)%
Net income	$ 17,807	$ 914	(16,893)	(94.9)%
Net income margin	4.5 %	0.2 %		(430) bps
Net income per share - basic	$ 0.19	$ 0.01	$ (0.18)	(94.7)%

N/M—Not meaningful.

Revenues

Revenues decreased by 7.0%, or $27.9 million, from $397.6 million for the six months ended June 30, 2022 to $369.7 million for the six months ended June 30, 2023. The 7.0% decrease in revenue was driven by an 8.7% decrease in organic constant currency revenue and a 0.7% unfavorable impact from fluctuations in foreign currency partially offset by 2.4% inorganic growth from the acquisitions of Socrates and A-Check. The organic revenue decrease reflected a decline in existing client business of approximately 14% including base, cross-sell and up-sell, and net of attrition offset by new client growth of approximately 5%. 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 95% for the last twelve months ended June 30, 2023. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

Total revenue in our U.S. business decreased 6.4% year-over-year. We experienced growth in our Healthcare, Volunteers, and Government and Education Verticals, however, this growth was primarily offset by declines in our Tech and Media, Financial and Business Services, and Staffing Verticals. Our international business experienced total revenue decline of 10.0% driven by a decline in base business combined with the unfavorable foreign exchange fluctuation.

Cost of Revenues

Cost of revenues decreased by 5.6%, or $11.7 million, from $208.5 million for the six months ended June 30, 2022 to $196.8 million for the six months ended June 30, 2023. This was primarily driven by a $14.6 million decrease due to decreased volume partially offset by $2.9 million of higher costs of which $0.6 million was accelerated costs related to the completion of the Employment Background Investigations, Inc. ("EBI") platform migration, and the remaining $2.3 million includes facilities costs due to accelerated rent for the closure of certain offshore fulfillment centers and higher fulfillment and hosting costs as a percentage of revenue, because a proportion of costs are fixed.

Cost of revenues as a percentage of revenues increased by 70 basis points from 52.5% for the six months ended June 30, 2022 to 53.2% for the six months ended June 30, 2023 driven by the accelerated costs related to the completion of the EBI platform migration and rent recorded on decommissioned offshore fulfillment centers and higher fulfillment and hosting costs as a percentage of revenue.

Corporate Technology and Production Systems

Corporate technology and production systems decreased by 6.8%, or $1.7 million, from $25.1 million for the six months ended June 30, 2022 to $23.4 million for the six months ended June 30, 2023. 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 $2.2 million from $12.4 million for the six months ended June 30, 2022 to $10.2 million for the six months ended June 30, 2023 primarily due to lower payroll and related expenses, lower software licenses, software maintenance support, telecommunications and other expenses as a result of restructuring efforts. Costs to develop platform and product initiatives increased slightly from $8.4 million for the six months ended June 30, 2022 to $8.7 million for the six months ended June 30, 2023. Costs related to maintaining our production systems increased slightly from $4.3 million for the six months ended June 30, 2022 to $4.5 million for the six months ended June 30, 2023.

These expenses also include non-capitalizable costs related to Project Ignite. We incurred $2.4 million related to phase two and $4.6 million related to phase three during the six months ended June 30, 2022, and $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."

For the six months ended June 30, 2023, corporate technology and production systems expenses also include $0.6 million of restructuring-related charges to support our strategy refresh.

Selling, General and Administrative

Selling, general and administrative expenses increased by 9.7%, or $8.1 million, from $84.2 million for the six months ended June 30, 2022 to $92.4 million for the six months ended June 30, 2023. The year-over-year increase was primarily driven by an increase in stock-based compensation of $6.1 million, a $5.9 million increase in restructuring related charges of which $4.8 million includes charges to support our strategy refresh and the execution against Project Nucleus, and $1.3 million relates to accelerated rent and facilities costs in connection with office closures. Additional year-over-year increases include $3.4 million in professional fees and transaction related expenses to support the Socrates and A-Check acquisitions as well as the Secondary Public Offering executed in June 2023. These year-over-year increases were partially offset by a $6.1 million decrease in payroll, bonus, commissions and other employee related costs from reduction in headcount due to restructuring efforts and a $2.0 million decrease in insurance, marketing and other professional fees.

Depreciation and Amortization

Depreciation and amortization expense decreased by 21.9%, or $8.8 million, from $40.0 million for the six months ended June 30, 2022 to $31.2 million for the six months ended June 30, 2023, primarily due to a $9.9 million decrease in intangible asset amortization resulting from assets being fully amortized and new intangible assets being added at lower rates compared to those which became fully amortized in the period. This year-over-year decrease was partially offset by a $1.8 million increase in amortization of intangible assets acquired from the Socrates and A-Check acquisitions.

Impairments and Disposals of Long-Lived Assets

Impairments and disposals of long-lived assets increased by $6.5 million from $0.6 million for the six months ended June 30, 2022 to $7.1 million for the six months ended June 30, 2023. 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 35.8%, or $4.6 million, from $13.0 million for the six months ended June 30, 2022 to $17.6 million for the six months ended June 30, 2023 primarily due to the increase in interest rates. 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 $0.6 million and was recorded as a reduction to interest expense. Amortization of the loan discount and deferred financing fees resulted in expense of $1.0 million and $0.9 million for the six months ended June 30, 2022 and 2023, respectively.

Gain on Interest Rate Swaps

Gain on interest rate swaps totaled $0.3 million for the six months ended June 30, 2022 due to a mark-to-market gain of $4.1 million partially offset by a realized loss of $3.8 million. The historical non-designated derivative interest rate swaps expired in June 2022.

Income Tax Provision

Income tax provision decreased by $8.5 million from $9.5 million for the six months ended June 30, 2022 to $1.0 million for the six months ended June 30, 2023, resulting in an effective tax rate of 34.7% and 52.7%, respectively. The decrease in income tax provision is primarily due to the decrease in income before taxes. Income before taxes decreased $25.4 million from $27.3 million for the six months ended June 30, 2022 to $1.9 million for the six months ended June 30, 2023. For the six months ended June 30, 2022 and 2023, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items.

Net Income and Net Income Margin

Net income decreased by $16.9 million from $17.8 million for the six months ended June 30, 2022 to $0.9 million for the six months ended June 30, 2023. Net income margin decreased from 4.5% for the six months ended June 30, 2022 to 0.2% for the six months ended June 30, 2023.

The decrease in both net income and net income margin resulted primarily from lower revenues due to the macroeconomic environment, impairments of long-lived assets incurred in the quarter due to office closures, restructuring and offering expenses, and increased interest expense due to the rising interest rate environment.

Net Income per Share

Net income per share decreased $0.18 per share from $0.19 per share for the six months ended June 30, 2022 to $0.01 per share for the six months ended June 30, 2023 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 (“US 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. 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 US 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 US 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 US 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 US GAAP. Historically, we presented Adjusted Free Cash Flow, defined as Net Cash provided by (used in) Operating Activities minus purchases of property and equipment and purchases of intangible assets and capitalized software and reflecting adjustments for one-time, cash, non-operating expenses related to the IPO. As there are no adjustments related to the IPO for the three and six months ended June 30, 2022 and 2023, nor in the subsequent periods from such dates, management believes that Free Cash Flow is a more relevant measure.

Organic Constant Currency Revenue Growth (Decline)

The following table reconciles revenue growth (decline), the most directly comparable US GAAP measure, to organic constant currency revenue growth (decline) for the periods presented. For the three and six months ended June 30, 2022, we have provided the impact of revenue from the acquisition of EBI. For the three and six months ended June 30, 2023, we have provided the impact of revenue from the acquisitions of Socrates and A-Check.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
Reported revenue growth (decline)	29.0 %	(7.4)%	33.1 %	(7.0)%
Inorganic revenue growth[(1)]	7.7 %	3.2 %	7.8 %	2.4 %
Impact from foreign currency exchange [(2)]	(1.5)%	(0.5)%	(1.1)%	(0.7)%
Organic constant currency revenue growth (decline)	22.8 %	(10.1)%	26.4 %	(8.7)%

(1) Impact to revenue growth (decline) in the current period from M&A activity that has occurred over the past twelve months.
(2) Impact to revenue growth (decline) in the current period from fluctuations in foreign currency exchange rates.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA decreased by 11.5%, or $6.5 million, from $56.5 million for the three months ended June 30, 2022 to $50.0 million for the three months ended June 30, 2023. Adjusted EBITDA Margin decreased by 120 basis points year-over-year from 27.5% for the three months ended June 30, 2022 to 26.3% for the three months ended June 30, 2023. The decrease in Adjusted EBITDA and Adjusted EBITDA Margin was predominantly driven by a decline in revenues due to macroeconomic uncertainty resulting in moderation in our base revenue, partially offset by lower costs driven by volume and our cost optimization efforts.

Adjusted EBITDA decreased by 8.2%, or $8.6 million, from $104.1 million for the six months ended June 30, 2022 to $95.6 million for the six months ended June 30, 2023. Adjusted EBITDA Margin decreased by 40 basis points year-over-year from 26.2% for the six months ended June 30, 2022 to 25.8% for the six months ended June 30, 2023. The decrease in Adjusted EBITDA and Adjusted EBITDA Margin was predominantly driven by a decline in revenues due to macroeconomic uncertainty resulting in moderation in our base revenue, partially offset by lower costs driven by volume and our cost optimization efforts.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2022	2023	2022	2023
Net income	$ 11,571	$ 323	$ 17,807	$ 914
Income tax provision (benefit)	5,392	(85)	9,477	1,017
Interest expense, net	6,619	8,990	12,955	17,598
Depreciation and amortization	19,872	16,120	40,028	31,242
Stock-based compensation	6,023	9,358	11,131	17,401
Transaction expenses[(1)]	1,894	3,133	3,782	8,259
Restructuring[(2)]	836	11,490	1,182	14,763
Technology transformation[(3)]	4,537	179	8,299	3,412
Loss (gain) on interest rate swaps[(4)]	32	—	(296)	—
Other[(5)]	(304)	489	(257)	946
Adjusted EBITDA	$ 56,472	$ 49,997	$ 104,108	$ 95,552
Adjusted EBITDA Margin	27.5 %	26.3 %	26.2 %	25.8 %

(1) Consists of transaction expenses related to M&A, associated earn-outs, costs related to the preparation of the IPO, one-time public company transition expenses and fees associated with financing transactions. For

the three months ended June 30, 2022, costs consisted primarily of $1.1 million of one-time public company transition expenses and $0.8 million in costs related to M&A. 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, 2022, costs consisted primarily of $2.6 million of one-time public company transition expenses and $1.1 million in costs related to M&A. 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, and $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, 2022, costs consisted of $0.8 million in expenses related to our real estate consolidation program primarily related to the exit of EBI's office. 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, 2022, costs consisted of $1.2 million in expenses related to our real estate consolidation program, primarily due to the exit of EBI's office. 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, 2022, investment related to Project Ignite was $3.7 million and the remaining $0.8 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. 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, 2022, investment related to Project Ignite was $6.9 million and the remaining $1.3 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. 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 gains or losses on historical non-designated derivative interest rate swaps. See Part I. Item 3. "Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk" for additional information on interest rate swaps.

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

The following table presents the calculation of Net income margin and Adjusted EBITDA Margin for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2022	2023	2022	2023
Net income	$ 11,571	$ 323	$ 17,807	$ 914
Adjusted EBITDA	$ 56,472	$ 49,997	$ 104,108	$ 95,552
Revenues	$ 205,591	$ 190,384	$ 397,563	$ 369,658
Net income margin	5.6 %	0.2 %	4.5 %	0.2 %
Adjusted EBITDA Margin	27.5 %	26.3 %	26.2 %	25.8 %

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted Net Income decreased by 19.4%, or $6.3 million, from $32.5 million for the three months ended June 30, 2022 to $26.2 million for the three months ended June 30, 2023. Adjusted Earnings Per Share—basic decreased by 20.0%, or $0.07 per share, from $0.35 per share for the three months ended June 30, 2022 to $0.28 per share for the three months ended June 30, 2023. Adjusted Earnings Per Share—diluted decreased from $0.33 per share for the three months ended June 30, 2022 to $0.28 per share for the three months ended June 30, 2023. The decrease in Adjusted Net Income, Adjusted Earnings Per Share—basic, and Adjusted Earnings Per Share—diluted was primarily driven by the decline in revenues due to macroeconomic uncertainty resulting in moderation in our base revenue, partially offset by lower costs driven by volume and our cost optimization efforts.

Adjusted Net Income decreased by 13.0%, or $7.4 million, from $56.9 million for the six months ended June 30, 2022 to $49.5 million for the six months ended June 30, 2023. Adjusted Earnings Per Share—basic decreased by 13.1%, or $0.08 per share, from $0.61 per share for the six months ended June 30, 2022 to $0.53 per share for the six months ended June 30, 2023. Adjusted Earnings Per Share—diluted decreased from $0.57 per share for the six months ended June 30, 2022 to $0.52 per share for the six months ended June 30, 2023. The decrease in Adjusted Net Income, Adjusted Earnings Per Share—basic, and Adjusted Earnings Per Share—diluted was primarily driven by the decline in revenues due to macroeconomic uncertainty resulting in moderation in our base revenue partially offset by lower costs driven by volume and our cost optimization efforts.

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

(in thousands, except per share amounts)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023	Six Months Ended June 30, 2022	Six Months Ended June 30, 2023
Net income	$ 11,571	$ 323	$ 17,807	$ 914
Income tax provision (benefit)	5,392	(85)	9,477	1,017
Income before income taxes	16,963	238	27,284	1,931
Amortization of acquired intangible assets	13,363	10,625	27,127	20,686
Stock-based compensation	6,023	9,358	11,131	17,401
Transaction expenses[1]	1,894	3,133	3,782	8,259
Restructuring[2]	836	11,490	1,182	14,763
Technology transformation[3]	4,537	179	8,299	3,412
Loss (gain) on interest rate swaps[4]	32	—	(296)	—
Other[5]	(304)	489	(257)	946
Adjusted Net Income before income tax effect	43,344	35,512	78,252	67,398
Income tax effect[6]	10,845	9,308	21,352	17,908
Adjusted Net Income	$ 32,499	$ 26,204	$ 56,900	$ 49,490
Net Income per share—basic	$ 0.12	$ 0.00	$ 0.19	$ 0.01
Net Income per share—diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Adjusted Earnings Per Share—basic	$ 0.35	$ 0.28	$ 0.61	$ 0.53
Adjusted Earnings Per Share—diluted	$ 0.33	$ 0.28	$ 0.57	$ 0.52

(1) Consists of transaction expenses related to M&A, associated earn-outs, investor management fees, costs related to the preparation of the IPO, one-time public company transition 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 and acquisition-related technology integration and migration efforts. 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, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure.

(4) Consists of gains or losses on historical non-designated derivative interest rate swaps. See Part I. Item 3. "Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk" for additional information on interest rate swaps.

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

(6) Normalized effective tax rates of 25.0% and 26.2% have been used to compute Adjusted Net Income for the three months ended June 30, 2022 and 2023, respectively. Normalized effective tax rates of 27.3%

and 26.6% have been used to compute Adjusted Net Income for the six months ended June 30, 2022 and 2023, respectively. As of December 31, 2022, we had net operating loss carryforwards of approximately $16.3 million for federal income tax purposes and deferred tax assets of approximately $6.3 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 income per share, the most directly comparable US GAAP measure, to Adjusted Earnings Per Share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share and per share amounts)	**2022**	**2023**	**2022**	**2023**
Net income	$ 11,571	$ 323	$ 17,807	$ 914
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ 11,571	$ 323	$ 17,807	$ 914
Weighted average number of shares outstanding – basic	94,024,970	92,723,901	93,996,553	92,800,279
Weighted average number of shares outstanding – diluted	99,344,563	94,498,666	99,265,668	94,924,080
Net income per share – basic	$ 0.12	$ 0.00	$ 0.19	$ 0.01
Net income per share – diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Adjusted Net Income	$ 32,499	$ 26,204	$ 56,900	$ 49,490
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed income allocated to stockholders	$ 32,499	$ 26,204	$ 56,900	$ 49,490
Weighted average number of shares outstanding – basic	94,024,970	92,723,901	93,996,553	92,800,279
Weighted average number of shares outstanding – diluted	99,344,563	94,498,666	99,265,668	94,924,080
Adjusted earnings per share – basic	$ 0.35	$ 0.28	$ 0.61	$ 0.53
Adjusted earnings per share – diluted	$ 0.33	$ 0.28	$ 0.57	$ 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,	
	2022	2023	2022	2023
Net income per share – diluted	$ 0.12	$ 0.00	$ 0.18	$ 0.01
Adjusted Net Income adjustments per share				
Income tax expense	0.05	0.00	0.09	0.01
Amortization of acquired intangible assets	0.13	0.11	0.27	0.22
Stock-based compensation	0.06	0.10	0.11	0.18
Transaction expenses(1)	0.02	0.04	0.04	0.09
Restructuring(2)	0.01	0.12	0.01	0.16
Technology transformation(3)	0.05	0.00	0.09	0.03
Loss (gain) on interest rate swaps(4)	0.00	—	0.00	—
Other(5)	0.00	0.01	0.00	0.01
Income tax effect(6)	(0.11)	(0.10)	(0.22)	(0.19)
Adjusted Earnings Per Share – diluted	$ 0.33	$ 0.28	$ 0.57	$ 0.52
Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:				
Weighted average number of shares outstanding – diluted (US GAAP)	99,344,563	94,498,666	99,265,668	94,924,080
Options not included in weighted average number of shares outstanding – diluted (US GAAP) (using treasury stock method)	—	—	—	—
Weighted average number of shares outstanding – diluted (non-GAAP) (using treasury stock method)	99,344,563	94,498,666	99,265,668	94,924,080

(1) Consists of transaction expenses related to M&A, associated earn-outs, investor management fees, costs related to the preparation of the IPO, one-time public company transition 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 and acquisition-related technology integration and migration efforts. 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, with the remainder related to an investment made to modernize internal functional systems in preparation for our public company infrastructure.

(4) Consists of gains or losses on historical non-designated derivative interest rate swaps. See Part I. Item 3. “Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk” for additional information on interest rate swaps.

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

(6) Normalized effective tax rates of 25.0% and 26.2% have been used to compute Adjusted Net Income for the three months ended June 30, 2022 and 2023, respectively. Normalized effective tax rates of 27.3% and 26.6% have been used to compute Adjusted Net Income for the six months ended June 30, 2022 and 2023, respectively. As of December 31, 2022, we had net operating loss carryforwards of approximately $16.3 million for federal income tax purposes and deferred tax assets of approximately $6.3 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 cash needs are for day-to-day operations, working capital requirements, capital expenditures for ongoing development of our technological offering and other mandatory payments such as taxes, and debt principal and interest obligations. Our liquidity needs are met primarily through cash flows from operations, which include cash received from customers less cash costs related to our operations.

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, 2022 and 2023 were approximately $10.9 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, 2022, we had cash and cash equivalents of approximately $103.1 million. As of June 30, 2023, we had cash and cash equivalents of approximately $48.8 million. We used $48.6 million (net of cash acquired) primarily to purchase Socrates and A-Check and $25.3 million to repurchase shares of our common stock in the first six months of 2023. 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, 2023, 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 recent bank failures of Silicon Valley Bank, Signature Bank and First Republic Bank 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 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 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, 2023 was 7.45%.

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, 2023, amounts outstanding under the 2022 Credit Agreement totaled $501.7 million and we had $194.5 million of capacity remaining under the Revolving Credit Facility and outstanding letters of credit in the amount of $0.7 million.

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)	**2022**	**2023**
Net cash provided by operating activities	$ 33,279	$ 32,898
Net cash used in investing activities	(10,873)	(57,698)
Net cash used in financing activities	(2,858)	(29,358)
Effect of exchange rate changes on cash	(1,735)	(120)
Increase (decrease) in cash and cash equivalents	17,813	(54,278)
Cash and cash equivalents at beginning of the period	47,998	103,095
Cash and cash equivalents at end of the period	$ 65,811	$ 48,817

Operating Activities

Net cash provided by operating activities of $33.3 million for the six months ended June 30, 2022 reflects the adjustment to net income for non-cash charges totaling $51.5 million, primarily driven by $40.0 million in depreciation and amortization, $11.1 million of stock-based compensation and $3.4 million of deferred income taxes partially offset by $4.1 million of changes in the fair value of derivatives and $1.2 million of unrealized translation gain on investment in foreign subsidiaries. Changes in operating assets and liabilities for the six months ended June 30, 2022 reduced cash flow from operating activities by $36.1 million.

Net cash provided by operating activities 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 and $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, 2022 and 2023 was $10.9 million and $57.7 million, respectively. Net cash used in investing activities for the six months ended June 30, 2022 consisted of a $7.6 million investment in capitalized software and $3.3 million in purchases of computer hardware and other property, plant and equipment. 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 an $8.6 million investment in capitalized software.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2022 was $2.9 million. 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, 2022, we generated $22.4 million of Free Cash Flow compared to $23.7 million for the six months ended June 30, 2023. The increase in Free Cash Flow compared to the prior year period was driven by lower cash paid for taxes, increased cash from interest rate swaps and decreased purchases of property and equipment, partially offset by higher interest paid.

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

	Six Months Ended June 30,	
(in thousands)	**2022**	**2023**
Net cash provided by operating activities	$ 33,279	$ 32,898
Purchases of intangible assets and capitalized software	(7,616)	(8,589)
Purchases of property and equipment	(3,266)	(593)
Free Cash Flow	$ 22,397	$ 23,716

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with US GAAP requires management to make estimates, assumptions and judgments about future events that can affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our 2022 Annual Report for a description of our critical accounting estimates and Note 2, “Summary of Significant Accounting Policies” to our 2022 consolidated financial statements in our 2022 Annual Report for our significant accounting policies. There were no changes to our critical accounting estimates for the six months ended June 30, 2023. See Note 3, “Recent Accounting Standards Update” to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q for a discussion of new accounting guidance adopted during 2023.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency and Derivative Risk

We 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. We have, in the past, hedged our Indian rupee denominated expenses through foreign exchange contracts. These contracts were designated as cash flow hedges and qualified for hedge accounting under US GAAP. As of December 31, 2022 and June 30, 2023, we did not have any outstanding foreign currency options or forward contracts. Gains and losses on the derivative representing hedge components excluded from the assessment of effectiveness are recognized over the life of the hedge on a systematic and rational basis. The earnings recognition of excluded components is also presented in the same line of the unaudited condensed consolidated statements of operations and comprehensive income as the earnings effect of the hedged transaction. During the three and six months ended June 30, 2022 and 2023, there were no such gains or losses.

Credit Risk

As of December 31, 2022 and June 30, 2023, we had accounts receivable, net of allowance for expected credit losses, of $139.6 million and $151.3 million, respectively. For the three and six months ended June 30, 2022 and 2023, no single client accounted for more than 3% of our revenue. No single client had an accounts receivable balance greater than 3% of total accounts receivable as of December 31, 2022 or June 30, 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 2015 Credit Agreement through November 2022 and under our 2022 Credit Agreement subsequent to the refinancing. Our 2015 Credit Agreement accrued interest at either (1) an applicable rate of 2.5% plus the greater of (a) the prime rate or (b) the federal funds rate plus 1/2 of 1% (c) the one-month LIBOR plus 1%, or (d) a 2% floor; (2) an applicable rate of 3.5% plus one-month LIBOR which is subject to a 1% floor. 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 December 31, 2022 and June 30, 2023 accrued interest at 6.76% and 7.45%, 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. As of December 31, 2022, we were not party to any outstanding interest rate swaps. On February 28, 2023, we entered into amortizing $300.0 million notional value interest rate swaps. 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, 2023, we are currently party to four interest rate swaps which hedge the future cash flows on approximately 60% of the outstanding principal balance of the aggregate amounts due under our 2022 Credit Agreement.

Effects of Inflation

While inflation may impact our revenues and operating expenses, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. However, if inflation continues or worsens, it could 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.

Off-Balance Sheet Arrangements

As of June 30, 2023, we did not have any off-balance sheet arrangements.

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, 2023. 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, 2023, 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, 2023 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 2022 Annual Report, except as described below:

To the extent our clients reduce their operations, downsize their screening programs, or otherwise demand fewer of our products and solutions, our business could be materially adversely impacted.

Demand for our products and services is subject to our clients' continual evaluation of their need for our products and services and is impacted by several factors, including their budget availability, hiring, and workforce needs, and a changing regulatory landscape. Demand for our offerings is also dependent on the size of our clients' operations. Our clients could reduce their operations for a variety of reasons, including general economic slowdown, divestitures and spin-offs, business model disruption, poor financial performance, or as a result of increasing workforce automation, including artificial intelligence. Demand for drug screenings may decline as a result of evolving U.S. drug laws. For example, the legalization of cannabis in several U.S. states has led to a decrease in orders for marijuana screenings. Our revenues may be significantly reduced should our clients decide to downsize their screening programs or take such programs in-house.

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)
04/01/2023 to 04/30/2023	1,097	$ 11.04	—	$ 78,432
05/01/2023 to 05/31/2023	236,758	12.45	236,758	75,484
06/01/2023 to 06/30/2023	1,235,219	11.89	1,229,135	60,869
Total	1,473,074		1,465,893	

(1) During the three months ended June 30, 2023, we received 7,181 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.

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, 2023, 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, except as described in the table below.

			Trading Arrangement			
Director/Officer Name	**Title**	**Date of Adoption/Termination**	**Rule 10b5-1***	**Non-Rule 10b5-1****	**Trading Arrangement End Date**	**Aggregate Number of Securities to be Purchased or Sold**
Joshua Peirez	Chief Executive Officer and Director	Adopted June 12, 2023, terminated prior plan as of June 13, 2023(1)	X		September 11, 2025	Up to 2,380,426 shares of common stock issuable upon the exercise of options to be sold
Peter Walker	Executive Vice President and Chief Financial Officer	Adopted June 13, 2023, terminated prior plan as of June 13, 2023(2)	X		September 11, 2025	Up to 200,000 shares of common stock issuable upon the exercise of options to be sold and up to 72,292 shares of common stock to be sold
Lou Paglia	President and Chief Operating Officer	Adopted June 20, 2023, prior plan expired as of June 20, 2023	X		September 30, 2024	Up to 100,000 shares of common stock issuable upon the exercise of options to be sold and up to 40,000 shares of common stock to be sold
Steven Barnett	Executive Vice President, Secretary, and Chief Legal & Risk Officer	Adopted May 10, 2023, prior plan expired as of June 20, 2023	X		August 9, 2025	Up to 100,000 shares of common stock issuable upon the exercise of options to be sold and up to 22,505 shares of common stock to be sold

* Intended to satisfy the affirmative defense of Rule 10b5-1(c).

** Not intended to satisfy the affirmative defense of Rule 10b5-1(c).

(1) This trading arrangement was originally adopted on May 13, 2022 for the sale of up to 774,806 shares of common stock issuable upon the exercise of options to be sold until June 15, 2024 and was intended to satisfy the affirmative defense of Rule 10b5-1(c) as in effect at such time.

(2) This trading arrangement was originally adopted on May 18, 2022 for the sale of up to 179,700 shares of common stock issuable upon the exercise of options to be sold and up to 72,292 shares of common stock to be sold until June 15, 2024 and was intended to satisfy the affirmative defense of Rule 10b5-1(c) as in effect at such time.

Item 6. Exhibits.

(a) Exhibits.

Exhibit No.	Exhibit Description
10.1*	Sterling Check Corp. Employee Stock Purchase Plan.
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, 2023

By: /s/ Peter Walker
Peter Walker
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 8, 2023

Exhibit 10.1

STERLING CHECK CORP.
EMPLOYEE STOCK PURCHASE PLAN

ARTICLE I
INTRODUCTION

1.1 Purpose. The Sterling Check Corp. Employee Stock Purchase Plan is intended to provide a method whereby Eligible Employees of Sterling Check Corp. and its Designated Subsidiaries will have an opportunity to purchase shares of Common Stock through accumulated payroll deductions.

1.2 Qualification. It is the intention of the Company that the Plan will qualify as an “employee stock purchase plan” under Section 423 or any successor provision of the Code. The provisions of the Plan shall be construed so as to extend or limit the operation of, and participation in, the Plan as necessary to conform to the requirements of Section 423 of the Code.

ARTICLE II
DEFINITIONS

Capitalized terms used in the Plan shall have the following meanings:

2.1 “Administrative Committee” shall have the meaning set forth in Section 10.1.

2.2 “Board” shall mean the Board of Directors of the Company.

2.3 “Change in Capitalization” means any increase or decrease in the number or kind of shares of Common Stock, any change (including, but not limited to, in the case of a spin-off, dividend, or other distribution in respect of shares of Common Stock, a change in value) in the shares of Common Stock, or any exchange of shares of Common Stock for a different number or kind of shares or other securities of the Company or another entity, in each case by reason of a reclassification, recapitalization, merger, amalgamation, consolidation, reorganization, spin-off, split-up, stock dividend, stock split or reverse stock split, extraordinary or non-recurring cash dividend, property dividend, combination or exchange of shares, repurchase of shares, change in corporate structure, any similar corporate event or transaction, or any other transaction that is an “equity restructuring” within the meaning of ASC Topic 718.

2.4 “Code” shall mean the Internal Revenue Code of 1986, as amended. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.

2.5 “Committee” shall mean the Compensation Committee of the Board; provided, that if there is no Compensation Committee of the Board, or if the Board determines that the Compensation Committee shall not be the Committee, then the Committee shall be the Board or such Directors as are appointed by the Board to be the Committee.

2.6 “Common Stock” shall mean the common stock, par value $0.01 per share, of the Company, and any other securities into which such shares are changed or for which such shares are exchanged.

2.7 “Company” shall mean Sterling Check Corp., a Delaware corporation, and shall include any successor thereto by merger, consolidation, acquisition of substantially all the assets thereof, or otherwise.

2.8 "Compensation" shall mean an Eligible Employee's base salary or hourly wages. The Plan Administrator, in its discretion, may, on a uniform and nondiscriminatory basis and in compliance with Section 423(b) of the Code, establish a different definition of Compensation for a subsequent Offering Period.

2.9 "Contribution" shall mean, for any Offering Period, the total of all payroll deductions from a Participant's Compensation during the Offering Period pursuant to Section 4.1 hereof; provided, however, that a Participant's Contribution may be reduced in whole or in part by the Plan Administrator, in its discretion, at any time during an Offering Period which is scheduled to end during the then-current calendar year to the extent necessary in order to comply with the provisions of Section 423(b)(8) of the Code and Section 3.1(b) hereof; provided, further, however, that a Participant's Contribution in any calendar year may not exceed the Participant's Compensation during such calendar year.

2.10 "Corporate Transaction" means (a) a merger, consolidation, reorganization, recapitalization or other similar change in the Company's capital stock, (b) a liquidation or dissolution of the Company, or (c) a Change in Control (as defined in the Company's 2021 Omnibus Incentive Plan, or any successor plan thereto, as may be amended and restated from time to time).

2.11 "Designated Subsidiary" shall mean any Subsidiary which has been designated by the Committee from time to time in its sole discretion as eligible to participate in the Plan. The Committee may designate, or terminate the designation of, a Subsidiary as a Designated Subsidiary at any time.

2.12 "Director" shall mean a director of the Company.

2.13 "Eligible Employee" shall mean an Employee of the Company or a Designated Subsidiary: (i) who does not, immediately after a Purchase Right is granted, own stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or a Subsidiary (as determined under Section 423(b)(3) of the Code) and (ii) who has been employed by the Company or a Designated Subsidiary for at least twelve (12) consecutive months (or such lesser period of time as may be determined by the Plan Administrator in its discretion). For purposes of clause (i) in the preceding sentence, the rules of Section 424(d) of the Code with regard to the attribution of stock ownership shall apply in determining the stock ownership of an individual. The Plan Administrator, in its discretion, from time to time may, prior to an Offering Date for all Purchase Rights to be granted on such Offering Date in an Offering, determine (on a uniform and nondiscriminatory basis or as otherwise permitted by Treasury Regulation Section 1.423-2) that the definition of Eligible Employee will or will not include (x) an individual (A) if he or she is a highly compensated employee within the meaning of Section 414(q) of the Code, or (B) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act; (y) an individual whose customary employment is less than than twenty (20) hours per week; or (z) an individual whose customary employment is less than five (5) months in any calendar year; provided, that any of the exclusions in clauses (x)-(z) is applied with respect to each Offering in an identical manner to all applicable employees of the Company or Designated Subsidiary whose employees are participating in that Offering. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company or Designated Subsidiary and meeting the requirements of Treasury Regulation Section 1.421-1(h)(2). Where the period of leave exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the first day immediately following such three-month period of leave.

2.14 "Employee" shall mean any individual who renders services to the Company or a Subsidiary in the status of an employee within the meaning of Section 3401(c) of the Code or as determined under applicable local law.

2.15 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.16 "Fair Market Value" shall mean, as of any date (a) if the shares of Common Stock are not listed or admitted to unlisted trading privileges on a nationally recognized stock exchange, the value of such shares of Common Stock on that date, as determined by the Committee in its good faith discretion, or (b) if the shares of Common Stock are listed or admitted to unlisted trading privileges on a nationally recognized stock exchange, the closing price of the shares of Common Stock as reported on the principal nationally recognized stock exchange on which the shares of Common Stock are traded on such date, or if no share prices are reported on such date, the closing price of the shares of Common Stock on the next preceding date on which there were reported share prices.

2.17 "Offering" means an offering of Common Stock pursuant to this Plan.

2.18 "Offering Date" shall mean the first business day of each Offering Period.

2.19 "Offering Price" shall have the meaning set forth in Section 5.3 hereof.

2.20 "Offering Period" shall mean each period during which an Offering is outstanding under the Plan. Each Offering Period shall be of such duration, not exceeding twenty-seven (27) months, as determined by the Plan Administrator prior to the beginning of the applicable Offering Period.

2.21 "Participant" shall mean any Eligible Employee who elects to participate in the Plan in accordance with the provisions of Section 3.2 hereof.

2.22 "Plan" shall mean the Sterling Check Corp. Employee Stock Purchase Plan, as may be amended and restated from time to time.

2.23 "Plan Administrator" shall mean the Compensation Committee or the Administrative Committee to the extent the Administrative Committee is carrying out its administrative functions under the Plan.

2.24 "Purchase Date" shall mean the last business day of each Offering Period, and each other date or dates within an Offering Period, if any, as may be determined by the Committee prior to the commencement of the Offering Period.

2.25 "Purchase Right" shall mean the right to purchase shares of Common Stock granted to an Eligible Employee pursuant to Article V.

2.26 "Securities Act" shall mean the Securities Act of 1933, as amended.

2.27 "Subsidiary" shall mean any corporation which is a subsidiary corporation within the meaning of Section 424(f) of the Code with respect to the Company.

ARTICLE III
ELIGIBILITY AND PARTICIPATION

3.1 Eligibility.

(a) Each Employee who is an Eligible Employee on an Offering Date shall be eligible to participate in the Offering Period commencing on such Offering Date. Persons who are not Eligible Employees on an Offering Date shall not be eligible to participate in the Plan with respect to that Offering Period.

(b) Notwithstanding any provision of the Plan to the contrary, no Eligible Employee shall be granted a Purchase Right to purchase shares of Common Stock under the Plan which permits such Eligible Employee's rights to purchase stock under all employee stock purchase plans of the Company or any Subsidiary subject to Section 423 of the Code to accrue at a rate which exceeds $25,000 of Fair Market Value of the Common Stock (determined at the time such Purchase Right is granted) for each calendar year in which such Purchase Right is outstanding at any time. This limitation shall be applied in accordance with Section 423(b)(8) of the Code.

3.2 Commencement of Participation. An Eligible Employee may become a Participant by completing an authorization for payroll deductions on the form provided by the Plan Administrator and filing the completed form in accordance with the enrollment procedures established by the Plan Administrator (which may include accessing the website designated by the Company and electronically enrolling and authorizing payroll deductions or completing other forms). Payroll deductions for a Participant shall commence on the first pay day administratively feasible following the Offering Date for the Offering Period in which the Participant is enrolled. Each Participant shall be deemed to continue participation in the Plan until the earlier of (a) the termination of the Plan and (b) such Eligible Employee's termination of participation in the Plan pursuant to Article VII hereof.

ARTICLE IV
PARTICIPANT CONTRIBUTIONS

4.1 Amount of Deduction. The form described in Section 3.2 will permit a Participant to elect a percentage (not to exceed 15% of Compensation) or, to the extent permitted by the Plan Administrator, a fixed dollar amount of payroll deductions for each pay period ending during an Offering Period; provided, that a Participant's payroll deductions may be reduced in whole or in part by the Plan Administrator, in its discretion, at any time during an Offering Period which is scheduled to end during the then-current calendar year to the extent necessary in order to comply with the provisions of Section 423(b)(8) of the Code and Section 3.1(b) hereof.

4.2 Participant's Account. All payroll deductions made for a Participant pursuant to Section 4.1 hereof shall be credited to a bookkeeping account established for such Participant under the Plan.

4.3 Changes in Payroll Deductions. A Participant may increase or reduce future payroll deductions (within the limits described in Section 4.1 hereof) during such period as permitted by the Plan Administrator by completing a form provided by the Plan Administrator for such purpose and filing the completed form in accordance with the procedures established by the Plan Administrator. The new rate shall become effective on the start date of the first Offering Period following the filing of such form, unless otherwise determined by the Plan Administrator. Until a Participant has timely submitted a form in the manner specified in this

Section 4.3, payroll deduction will continue throughout the Offering Period and future Offering Periods (unless participation in the Plan ceases pursuant to Section 7.1) in accordance with the most recent payroll deduction authorization form submitted by the Participant.

4.4 Withholding. At any time, the Company or a Designated Subsidiary may withhold from the Participant's Compensation an amount necessary for the Company to satisfy any applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to the early disposition of the Common Stock by the Participant. Furthermore, the Company reserves the right to satisfy its applicable withholding obligations by any other means, as determined by the Plan Administrator. The Company may defer delivery of shares of Common Stock until such withholding requirements are satisfied. The Committee may, in its discretion, permit a Participant or beneficiary to elect, subject to such conditions as the Committee shall impose, to have a number of whole shares of Common Stock otherwise issuable under the Plan withheld that, based on their Fair Market Value on the date immediately preceding the applicable Purchase Date, is a sufficient number, but not more than is required, to satisfy the withholding tax obligations.

ARTICLE V
OFFERINGS

5.1 Offering Periods. Shares of Common Stock shall be offered for purchase under the Plan through a series of successive Offering Periods until such time as (i) the maximum number of shares of Common Stock available for issuance under the Plan shall have been purchased or (ii) the Plan shall have been earlier terminated. The terms and conditions of each Offering Period may vary, and two or more Offering Periods may run concurrently under the Plan, each with its own terms and conditions. In addition, special Offering Periods may be established under such other circumstances as the Plan Administrator deems appropriate. In no event, however, shall the terms and conditions of any Offering Period contravene the express limitations and restrictions of the Plan, and the Participants in each separate Offering Period shall have equal rights and privileges under that offering in accordance with the requirements of Section 423(b)(5) of the Code and the applicable Treasury Regulations thereunder.

5.2 Number of Shares Subject to Purchase Rights. On each Offering Date, each Participant shall be deemed to have been granted a Purchase Right to purchase a number of shares of Common Stock equal to (a) the Contribution divided by (b) the applicable Offering Price determined as provided in Section 5.3 hereof; provided, that in no event will a Participant be permitted to purchase during each Offering Period more than 3,000 shares of Common Stock (subject to any adjustments pursuant to Section 12.3); provided, further, that purchases hereunder shall be subject to the limitations set forth in Sections 3.1(b) and 9.1 hereof.

5.3 Offering Price. Unless otherwise determined by the Committee, the per share purchase price of shares of Common Stock purchased with Contributions made during any Offering Period (the "Offering Price") by a Participant shall be equal to the lesser of:

(a) eighty-five percent (85%) of the Fair Market Value of the Common Stock on the Offering Date of such Offering Period; or

(b) eighty-five percent (85%) of the Fair Market Value of the Common Stock on the Purchase Date of such Offering Period (or if there is more than one (1) Purchase Date in the Offering Period, on the applicable Purchase Date).

If the Committee desires to establish an Offering Price or a formula for setting the Offering Price for an Offering Period that is different than the Offering Price determined above, it shall do so in advance of the applicable Offering Period; provided, that, the Offering Price shall in no event be less than the Offering Price determined above. Any such Offering Price or formula for setting the Offering Price may, if the Committee so determines, remain in effect for subsequent Offering Periods until modified by the Committee.

ARTICLE VI
EXERCISE AND OTHER TERMS OF PURCHASE RIGHTS

6.1 Automatic Exercise. Subject to Section 12.7 hereof, and unless a Participant withdraws from the Plan as provided in Section 7.1 hereof or otherwise becomes ineligible to participate in the Plan, each Participant's right to purchase of shares of Common Stock with Contributions made during any Offering Period shall be exercised automatically on the each Purchase Date within the Offering Period, and the maximum number of full shares of Common Stock subject to the Purchase Right shall be purchased for the Participant at the applicable Offering Price with the accumulated Contributions in such Participant's account as of the applicable Purchase Date. No fractional shares shall be purchased, and any Contributions accumulated in a Participant's account which are not sufficient to purchase a full share of Common Stock on a Purchase Date shall be retained in the Participant's account for the next following Offering Period or, if applicable, the next Purchase Date within the Offering Period. Notwithstanding the foregoing, the Plan Administrator may exercise discretion in the treatment of any fractional shares including, without limitation, electing to refund Contributions attributable to fractional shares to the Participant as soon as administratively practicable or purchasing fractional shares on behalf of the Participant. In addition, if by reason of the accrual limitations set forth in Section 3.1(b), any Purchase Right of a Participant does not accrue for a particular Offering Period, then the Contributions which the Participant made during that Offering Period with respect to such Purchase Right shall be refunded as soon as administratively feasible after the end of the Offering Period.

6.2 Non-Transferability of Rights. Purchase Rights under the Plan may not be assigned, transferred, pledged or otherwise disposed of in any way by the Participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may, in its discretion, treat such act as an election to withdraw from participation in the Plan in accordance with Section 7.1 hereof. During a Participant's lifetime, Purchase Rights held by a Participant shall be exercisable only by such Participant.

6.3 Delivery of Shares. Subject to Section 12.7 hereof, as promptly as practicable after each Purchase Date on which a purchase of shares occurs, the Company shall arrange the delivery to each Participant of the shares of Common Stock purchased by the Participant in a form determined by the Plan Administrator and pursuant to rules established by the Plan Administrator. The Plan Administrator may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Plan Administrator may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. No Participant will have any voting, dividend, or other stockholder rights with respect to shares of Common Stock subject to any Purchase Right granted under the Plan until such shares have been purchased and delivered to the Participant, including to a broker designated by the Company, as provided in this Section 6.3.

6.4 Stock Transfer Restrictions. The Plan is intended to satisfy the requirements of Section 423 of the Code. Shares of Common Stock purchased under the Plan may contain such restrictions, terms and conditions as the Committee may, in its discretion, determine, and the

Committee may, in its discretion, require that an appropriate legend be placed on the certificates evidencing such shares of Common Stock.

ARTICLE VII
WITHDRAWAL/TERMINATION

7.1 In General. During such period prior to a Purchase Date as permitted by the Plan Administrator, a Participant may withdraw all of the Contributions credited to such Participant's account and not yet used to exercise such Participant's Purchase Right under the Plan by giving written notice to the Plan Administrator in accordance with any procedures the Plan Administrator may set. Such withdrawn amount shall be paid to the Participant as soon as reasonably practicable after receipt of the notice of withdrawal, and the Participant's Purchase Right for the Offering Period with respect to such amount shall be automatically terminated. No further contributions for the purchase of shares of Common Stock shall be made during such Offering Period, and such Participant shall not participate in such Offering Period with respect to the withdrawn amount.

7.2 Effect on Subsequent Participation. A Participant's withdrawal from any Offering Period shall not have any effect upon such Participant's eligibility to participate in any subsequent Offering Period or in any similar plan which may hereafter be adopted by the Company and for which such Participant is otherwise eligible. If a Participant withdraws all of the Participant's Contributions with respect to an Offering Period, the Participant may participate in the Plan in successive Offering Periods by providing written notice to the Plan Administrator in accordance with provisions of Section 3.2 hereof and in accordance with any procedures the Plan Administrator may set.

7.3 Termination of Eligible Employee Status. Upon a Participant's ceasing to be an Eligible Employee for any reason, including as a result of a termination of the Participant's employment with the Company or any Designated Subsidiary, as the case may be, for any reason (including retirement or death), such Participant shall be deemed to no longer be a Participant under the Plan, and the Contributions credited to such Participant's account shall be refunded to him or her as soon as reasonably practicable, or, in the case of his or her death, to the person or persons entitled thereto under Section 12.1 hereof.

ARTICLE VIII
NO INTEREST ON CONTRIBUTIONS

8.1 No Interest on Contributions. No interest will be paid or allowed on any Contributions made pursuant to the Plan or credited to the account of or distributed to any Participant.

ARTICLE IX
STOCK

9.1 Maximum Shares. Subject to the provisions of Sections 12.3 and 12.4 hereof, the maximum number of shares of Common Stock that may be issued under the Plan shall be 1,886,000 shares, which number shall be automatically increased on the first day of each calendar year following the calendar year in which the effective date of the Plan falls in an amount equal to the lesser of (a) one percent (1.00%) of the total number of shares of Common Stock outstanding on the last day of the immediately preceding calendar year and (b) a lower number of shares of Common Stock as determined by the Board. Shares issued under the Plan may be authorized but unissued shares of Common Stock or treasury shares (including, without limitation, shares acquired by the Company on the open market). Notwithstanding anything in this Section 9.1 to the contrary, the number of shares of Common Stock that may be issued or transferred pursuant to the rights granted under the Plan shall not exceed an aggregate of 11,319,000 shares of Common Stock, subject to Sections 12.3 and 12.4 hereof.

9.2 Participant's Interest in Shares. No Participant shall be deemed for any purpose to be the owner of shares of Common Stock subject to any Purchase Right held by such Participant unless and until (a) the Purchase Right shall have been exercised as provided in Section 6.1 hereof, (b) the Company shall have issued and delivered shares of Common Stock or evidence of book entry shares to the Participant and (c) the Participant's name shall have been entered as a stockholder of record on the books of the Company. Thereupon, the Participant shall have full voting, dividend and other ownership rights with respect to such shares of Common Stock. Shares of Common Stock purchased by a Participant under the Plan will be recorded in the books and records of the Company in the name of the Participant.

ARTICLE X
ADMINISTRATION

10.1 Plan Administrator. The Plan shall be administered (including the authority to amend the Plan to reflect the authority delegated to the Committee and any further amenments to facilitate administration and implementation of the Plan) by the Committee. The Committee may delegate any or all of its administrative authority under the Plan to a committee comprised of officers or senior level employees of the Company (the "Administrative Committee"). However, the Administrative Committee shall not have the authority to (i) increase the maximum number of shares available for issuance under the Plan or the maximum number of shares that may be purchased by any Participant for any Offering Period (other than for adjustments under Section 12.3), (ii) modify the eligibility requirements under the Plan, (iii) designate a Subsidiary as a Designated Subsidiary, (iv) change the maximum duration of Offering Periods, (v) establish or change the Offering Price for any Offering Period or (vi) take any action specifically reserved by the Committee.

10.2 Actions of Committee and Administrative Committee. The Committee and the Administrative Committee, as applicable, shall hold meetings when it deems necessary and shall keep minutes of its meetings. The acts of a majority of the total membership of the Committee or Administrative Committee at any meeting, or the acts approved in writing by all of its members, shall be the acts of the Committee or the Administrative Committee, as applicable. Determinations or actions under the Plan to be made or taken by the Plan Administrator may be taken by action of either the Committee or the Administrative Committee (subject to the limitations in Section 10.1) and determinations or actions under the Plan to be made or taken by the Committee may only be taken by action of the Committee.

10.3 Authority of Plan Administrator. Subject to the provisions of the Plan, the Plan Administrator shall have the authority to construe the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for administering the Plan. The Plan Administrator may establish any policies or procedures that in its discretion are necessary or appropriate for the operation and administration of the Plan and may adopt rules for the administration of the Plan. All decision and determinations by the Plan Administrator in the exercise of its powers hereunder shall be final, binding and conclusive upon all parties.

10.4 No Liability. No member of the Committee or the Administrative Committee will be liable for any action, failure to act, determination, or interpretation made in good faith with respect to the Plan or any transaction hereunder. The Company will indemnify each member of the Committee and the Administrative Committee for all costs and expenses and, to the extent permitted by applicable law, any liability incurred in connection with defending against, responding to, negotiating for the settlement of, or otherwise dealing with any claim, cause of action, or dispute of any kind arising in connection with any actions in administering the Plan or in authorizing or denying authorization to any transaction hereunder; provided that no Committee or Administrative Committee member may settle any such claim without the written consent of the Board.

ARTICLE XI
FOREIGN JURISDICTIONS

11.1 The Plan Administrator may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing sentence, the Plan Administrator is specifically authorized to adopt rules and procedures regarding handling of payroll deductions, contributing to the Plan by means other than payroll deductions, payment of interest on Contributions, conversion of local currency, withholding procedures, withdrawing from the Plan, beneficiary designations, the use of funds and handling of stock certificates which may vary to comply with or facilitate compliance with local law and procedures. The Plan Administrator may also exclude from any Offering any employee of the Company or a Designated Subsidiary who is a citizen or resident of a foreign jurisdiction where (i) the grant of an option pursuant to the Offering is prohibited under the laws of that jurisdiction or (ii) compliance with the laws of that jurisdiction would cause the Plan to violate the requirements of Section 423 of the Code.

11.2 The Plan Administrator may also adopt Plan supplements applicable to particular Designated Subsidiaries, which supplements may (as determined by the Plan Administrator) constitute provisions of this Plan applicable to such Designated Subsidiaries or one or more sub-plans not intended to comply with Section 423 of the Code. The terms and conditions of any such sub-plan shall supersede the provisions of this Plan to the extent determined by the Plan Administrator, with the exception of Section 9.1, but unless otherwise so superseded, the provisions of this Plan shall be deemed incorporated into any such sub-plan.

ARTICLE XII
MISCELLANEOUS

12.1 Designation of Beneficiary. To the extent permitted by applicable law, the Company may from time to time permit each Participant to name one or more individuals to whom (i) any shares of Common Stock and cash, if any, is to be delivered and paid from such Participant's account under the Plan in the event of such Participant's death subsequent to a Purchase Date but prior to delivery to such Participant of such shares and cash and (ii) cash, if any, is to be paid in the event of such Participant's death prior to a Purchase Date. In the absence of any such designation or if any such designation is not effective under applicable law as determined by the Plan Administrator, any shares of Common Stock or cash remaining in the Participant's account at the Participant's death shall be delivered or paid to the Participant's estate.

12.2 Use of Funds. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

12.3 Adjustment Upon Changes in Capitalization, Dissolution, Liquidation or Corporate Transaction.

(a) Changes in Capitalization.

(i) In the event of a Change in Capitalization, the Committee shall make such adjustments, if any, as it determines are equitable and appropriate to (A) the maximum number and class of shares of Common Stock or other stock or securities with respect to which Purchase Rights may be granted under the Plan, (B) the maximum number and class of shares of Common Stock or other stock or securities that may be issued upon exercise of Purchase Rights under the Plan, (C) the maximum number and class of shares of Common Stock or other stock or securities with respect to which Purchase Rights may be granted to any Eligible Employee in any calendar year and (D) the number and class of shares of Common Stock or other stock or securities which are subject to outstanding Purchase Rights granted under the Plan and the Offering Price therefor, if applicable.

(ii) Any such adjustment in the shares of Common Stock or other stock or securities subject to outstanding Purchase Rights (including any adjustments in the Offering Price) shall be made in such manner as not to constitute a modification as defined by Section 424(h)(3) of the Code and only to the extent permitted by Sections 423 and 424 of the Code.

(iii) If, by reason of any such adjustment, a Participant shall be entitled to, or a Participant shall be entitled to exercise a Purchase Right with respect to, new, additional or different shares of stock or securities of the Company or any other corporation, such new, additional or different shares shall thereupon be subject to all of the conditions and restrictions that were applicable to the shares of Common Stock subject to the Purchase Right prior to such adjustment.

(b) Corporate Transactions.

(i) In the event of a Corporate Transaction, the Committee shall have the option, in its discretion, to (A) cause each Purchase Right to be assumed or an equivalent purchase right substituted by the successor corporation of a parent or subsidiary of the successor corporation, (B) accelerate the next Purchase Date with respect to the Offering Period then in progress to any payroll date preceding the Corporate Transaction and promptly refund (without interest) any cash balance remaining in a Participant's account to such Participant or (C) terminate the Offering Period then in progress immediately prior to the consummation of such Corporate Transaction and refund the entire cash balance of a Participant's account to such Participant as soon as reasonably practicable.

12.4 Amendment and Termination. The Board shall have complete power and authority to terminate or amend the Plan; provided, however, that the Board shall not, without the approval of the stockholders of the Company, (a) increase the aggregate number of shares of Common Stock which may be issued under the Plan (except pursuant to Section 12.3 hereof) or (b) change the class of Employees eligible to receive Purchase Rights under the Plan; and provided, further, however, that no termination, modification or amendment of the Plan may, without the consent of a Participant then having a Purchase Right under the Plan, adversely affect the rights of such Participant under such Purchase Right, except that the foregoing shall not prohibit the Company from terminating the Plan at any time (including during an Offering Period) and applying the amounts theretofore withheld from a Participant to the purchase of shares of Common Stock as if the termination date of the Plan were a Purchase Date and promptly refunding (without interest) any cash balance remaining in such Participant's account to the Participant.

12.5 Non-Exclusivity of the Plan. The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options or purchase rights other than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

12.6 Limitation of Liability. As illustrative of the limitations of liability of the Company, but not intended to be exhaustive thereof, nothing in the Plan shall be construed to:

(a) give any person any right to be granted a Purchase Right except as specifically provided in the Plan;

(b) give any person any rights whatsoever with respect to shares of Common Stock except as specifically provided in the Plan;

(c) limit in any way the right of the Company to terminate the employment of any person at any time; or

(d) be evidence of any agreement or understanding, expressed or implied, that the Company will employ any person at any particular rate of compensation or for any particular period of time.

12.7 Conditions to Issuance of Shares.

(a) The issuance of shares of Common Stock is subject to compliance with all applicable federal, state and foreign law. Further, if at any time the Plan Administrator determines, in its discretion, that the listing, registration or qualification of the shares of Common Stock issuable pursuant to the Plan is required by any securities exchange or under any federal, state or foreign law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance of shares of Common Stock, no shares of Common Stock shall be or shall be deemed to be issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions that are not acceptable to the Plan Administrator. Any person exercising a Purchase Right or receiving shares of Common Stock shall make such representations and agreements and furnish such information as the Plan Administrator may request to assure compliance with the foregoing or any other applicable legal requirements.

(b) Notwithstanding anything contained in the Plan to the contrary, in the event that the disposition of shares of Common Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act and is not otherwise exempt from such registration, such shares of Common Stock shall be restricted against transfer to the extent required by the Securities Act and Rule 144 or other regulations promulgated thereunder. The Plan Administrator may require any individual receiving shares of Common Stock pursuant to exercise of any Purchase Right, as a condition precedent to receipt of such shares of Common Stock, to represent and warrant to the Company in writing that the shares of Common Stock acquired by such individual are acquired without a view to any distribution thereof and will not be sold or transferred other than pursuant to an effective registration thereof under the Securities Act or pursuant to an exemption applicable under the Securities Act or the rules and regulations promulgated thereunder. The certificates evidencing any of such shares of Common Stock shall be appropriately amended or have an appropriate legend placed thereon to reflect their status as restricted securities as aforesaid.

12.8 Governing Law. Except as to matters of federal law, the Plan and the rights of all persons claiming hereunder shall be construed and determined in accordance with the laws of the State of Delaware without giving effect to conflicts of laws principles thereof.

12.9 Effective Date. The effective date of the Plan shall be the date of approval of the Plan by the Board, subject to the approval of the Company's stockholders within twelve (12) months after the Effective Date.

12.10 Data Protection. By participating in the Plan or accepting any rights granted under it, each Participant consents to the collection and processing of personal data relating to the Participant so that the Company and its affiliates can fulfill their obligations and exercise their rights under the Plan and generally administer and manage the Plan. This data will include, but may not be limited to, data about participation in the Plan and shares offered or received, purchased, or sold under the Plan from time to time and other appropriate financial and other data about the Participant and the Participant's participation in the Plan.

12.11 Severability. If any provision of the Plan is or becomes or is deemed to be invalid, illegal, or unenforceable for any reason in any jurisdiction or as to any Participant, such invalidity, illegality or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as to such jurisdiction or Participant as if the invalid, illegal or unenforceable provision had not been included.

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, 2023 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, 2023

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, Peter Walker, certify that:

i. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2023 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/ PETER WALKER

Peter Walker
Executive Vice President and
Chief Financial Officer

Date: August 8, 2023

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, 2023 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, 2023

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, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peter Walker, Executive Vice President and 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/ PETER WALKER

Peter Walker

Executive Vice President and

Chief Financial Officer

August 8, 2023