# 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 March 31, 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.)** |
| **1 State Street Plaza, 24th Floor** | |
| **New York, New York** | **10004** |
| **(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 May 8, 2023 was 98,030,304 (excluding treasury shares of 1,579,388).

**STERLING CHECK CORP. AND SUBSIDIARIES**
**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**
**TABLE OF CONTENTS**

**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.

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 | March 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 103,095 | $ 50,964 |
| Accounts receivable (net of allowance of $3,200 and $3,248 as of December 31, 2022 and March 31, 2023, respectively) | 139,579 | 147,123 |
| Insurance receivable | 921 | 922 |
| Prepaid expenses | 13,433 | 11,201 |
| Other current assets | 13,654 | 16,563 |
| Total current assets | 270,682 | 226,773 |
| Property and equipment, net | 10,341 | 9,600 |
| Goodwill | 849,609 | 877,212 |
| Intangible assets, net | 241,036 | 263,109 |
| Deferred income taxes | 4,452 | 4,518 |
| Operating leases right-of-use asset | 20,084 | 19,652 |
| Other noncurrent assets, net | 11,050 | 11,518 |
| TOTAL ASSETS | $ 1,407,254 | $ 1,412,382 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 38,372 | $ 42,132 |
| Litigation settlement obligation | 4,165 | 3,850 |
| Accrued expenses | 67,047 | 57,091 |
| Current portion of long-term debt | 7,500 | 9,375 |
| Operating leases liability, current portion | 3,717 | 3,565 |
| Other current liabilities | 12,939 | 13,974 |
| Total current liabilities | 133,740 | 129,987 |
| Long-term debt, net | 493,990 | 490,434 |
| Deferred income taxes | 23,707 | 30,102 |
| Long-term operating leases liability, net of current portion | 16,835 | 16,574 |
| Other liabilities | 2,336 | 12,681 |
| Total liabilities | $ 670,608 | $ 679,778 |
| 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; 99,663,997 shares issued and 98,085,706 shares outstanding as of March 31, 2023) | 76 | 95 |
| Additional paid-in capital | 942,789 | 950,813 |
| Common stock held in treasury (1,047,237 and 1,578,291 shares as of December 31, 2022 and March 31, 2023, respectively) | (14,859) | (23,058) |
| Accumulated deficit | (186,448) | (185,857) |
| Accumulated other comprehensive loss | (4,912) | (9,389) |
| Total stockholders' equity | 736,646 | 732,604 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,407,254 | $ 1,412,382 |

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 (LOSS)**

| (in thousands, except share and per share data) | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| REVENUES | $ 191,972 | $ 179,274 |
| OPERATING EXPENSES: | | |
| Cost of revenues (exclusive of depreciation and amortization below) | 100,956 | 94,754 |
| Corporate technology and production systems | 12,552 | 11,952 |
| Selling, general and administrative | 42,333 | 47,451 |
| Depreciation and amortization | 20,156 | 15,122 |
| Impairments of long-lived assets | — | 106 |
| Total operating expenses | 175,997 | 169,385 |
| OPERATING INCOME | 15,975 | 9,889 |
| OTHER EXPENSE (INCOME): | | |
| Interest expense, net | 6,336 | 8,608 |
| Gain on interest rate swaps | (328) | — |
| Other income | (354) | (412) |
| Total other expense, net | 5,654 | 8,196 |
| INCOME BEFORE INCOME TAXES | 10,321 | 1,693 |
| Income tax provision | 4,085 | 1,102 |
| NET INCOME | $ 6,236 | $ 591 |
| Unrealized loss on hedged transactions, net of tax of $0 and $1,815, respectively | — | (5,159) |
| Foreign currency translation adjustments, net of tax of $0 and $0, respectively | 283 | 682 |
| Total other comprehensive income (loss) | 283 | (4,477) |
| COMPREHENSIVE INCOME (LOSS) | $ 6,519 | $ (3,886) |
| Net income per share attributable to stockholders | | |
| Basic | $ 0.07 | $ 0.01 |
| Diluted | $ 0.06 | $ 0.01 |
| Weighted average number of shares outstanding | | |
| Basic | 93,967,819 | 92,877,506 |
| Diluted | 99,186,456 | 95,350,342 |

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 |

| (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 |

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

**STERLING CHECK CORP.**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Three Months Ended March 31, | |
|---|---|---|
| **(in thousands)** | **2022** | **2023** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 6,236 | $ 591 |
| Adjustments to reconcile net income to net cash provided by operations | | |
| Depreciation and amortization | 20,156 | 15,122 |
| Deferred income taxes | 3,412 | 209 |
| Stock-based compensation | 5,108 | 8,043 |
| Impairments of long-lived assets | — | 106 |
| Provision for bad debts | 308 | 244 |
| Amortization of financing fees | 109 | 269 |
| Amortization of debt discount | 478 | 194 |
| Deferred rent | — | 39 |
| Noncash impact of lease accounting under ASC 842 | (55) | — |
| Unrealized translation (gain) loss on investment in foreign subsidiaries | (393) | 135 |
| Changes in fair value of derivatives | (2,464) | — |
| Interest rate swap settlements | — | 23 |
| Gain on disposition of property and equipment | (4) | — |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (20,006) | (3,414) |
| Prepaid expenses | (869) | 2,844 |
| Other assets | (1,736) | (2,534) |
| Accounts payable | 10,255 | 3,716 |
| Litigation settlement obligation | — | 315 |
| Accrued expenses | (12,283) | (12,256) |
| Other liabilities | (4,807) | (2,364) |
| Net cash provided by operating activities | 3,445 | 11,282 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (1,495) | (140) |
| Purchases of intangible assets and capitalized software | (3,742) | (4,120) |
| Acquisitions, net of cash acquired | — | (48,802) |
| Proceeds from disposition of property and equipment | 4 | 7 |
| Net cash used in investing activities | (5,233) | (53,055) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of common stock | 70 | — |
| Repurchases of common stock | — | (7,711) |
| Payments of IPO issuance costs | (225) | — |
| Cash paid for tax withholding on RSA vestings | — | (487) |
| Payments of long-term debt | (1,615) | (1,875) |
| Payment of contingent consideration for acquisition | — | (305) |
| Payments of finance lease obligations | (1) | — |
| Net cash used in financing activities | (1,771) | (10,378) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (92) | 20 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (3,651) | (52,131) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of period | 47,998 | 103,095 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at end of period | $ | 44,347 | $ | 50,964 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | | |
| Cash paid during the period for | | | | |
| Interest, net of capitalized amounts of $73 and $90 for the three months ended March 31, 2022 and 2023, respectively | $ | 8,296 | $ | 11,602 |
| Income taxes | | 4,222 | | 2,978 |
| Noncash investing activities | | | | |
| Purchases of property and equipment in accounts payable and accrued expenses | $ | 245 | $ | 69 |
| Noncash purchase price of business combinations | | — | | 4,821 |

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 New York City, New York, 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 March 31, 2023, the Company is 61.1% 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”). 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 $51.0 million as of December 31, 2022 and March 31, 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 India and Canada, with balances of $5.1 million and $9.2 million, respectively. Cash outside the U.S. was

$26.6 million as of March 31, 2023, with the largest deposits being held in India and Canada, with balances of $5.4 million and $1.9 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 (loss), 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 (loss). The cumulative translation adjustment resulted in losses of $5.6 million and $4.9 million as of December 31, 2022 and March 31, 2023, respectively.

***Accounts Receivable and Allowance for Credit Losses***

Accounts receivable balances consist of trade receivables that are recorded at the invoiced amount, net of allowances for expected credit losses and for potential sales credits and reserves. Sales credits and reserves were $0.9 million and $0.8 million as of December 31, 2022 and March 31, 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 $2.5 million as of December 31, 2022 and March 31, 2023, respectively. The following table summarizes changes in the allowance for expected credit losses for the periods presented:

| | Three Months Ended March 31, | |
|---|---|---|
| **(in thousands)** | **2022** | **2023** |
| Balance at beginning of period | $ 2,949 | $ 2,304 |
| Cumulative effect of accounting change upon adoption of CECL | 254 | — |
| Additions | 308 | 244 |
| Write-offs, net of recoveries | (1,669) | (78) |
| Foreign currency translation adjustment | — | 3 |
| Balance at end of period | $ 1,842 | $ 2,473 |

***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 March 31, | |
|---|---|---|
| (in thousands) | 2022 | 2023 |
| **Corporate information technology** | $ 6,123 | $ 5,267 |
| Development of platform and product initiatives | 4,249 | 4,414 |
| Production support and maintenance | 2,180 | 2,271 |
| **Total production systems** | 6,429 | 6,685 |
| **Corporate technology and production systems** | $ 12,552 | $ 11,952 |

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 95% 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 is 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 complete as of March 31, 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 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, 2022.

## 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 $65.9 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 March 31, 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 $2.7 million of transaction expenses related to the acquisitions during the three months ended March 31, 2023.

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)** | | |
|---|---|---|
| **Consideration** | | |
| Cash | $ | 11,935 |
| Other current assets | | |
| Accounts receivable | | 4,279 |
| Other current assets | | 805 |
| Property and equipment | | 177 |
| Intangible assets | | 32,141 |
| Other long-term assets | $ | 6 |
| Total assets acquired | $ | 49,343 |
| Accounts payable and accrued expenses | | 1,156 |
| Other current liabilities | | 1,291 |
| Deferred tax liability | | 8,388 |
| Other liabilities | | 2 |
| Total liabilities assumed | $ | 10,837 |
| Total identifiable net assets | | 38,506 |
| Goodwill | | 27,352 |
| Total consideration | $ | 65,858 |

Table of Contents

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 March 31, 2023 or results of operations for the three months ended March 31, 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 | March 31, 2023 |
|---|---|---|
| Furniture and fixtures | $ 2,568 | $ 2,516 |
| Computers and equipment | 41,084 | 41,421 |
| Leasehold improvements | 6,565 | 6,587 |
| | 50,217 | 50,524 |
| Less: Accumulated depreciation | (39,876) | (40,924) |
| Total property and equipment, net | $ 10,341 | $ 9,600 |

Depreciation expense on property and equipment was $1.1 million and $1.0 million during the three months ended March 31, 2022 and 2023, respectively. There were no write downs of property and equipment during the three months ended March 31, 2022. Write down of abandoned property and equipment no longer in use was less than $0.1 million for the three months ended March 31, 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 | 27,352 |
| Foreign currency translation adjustment | 251 |
| Goodwill as of March 31, 2023 | $ 877,212 |

***Intangible Assets***

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

| (dollars in thousands) | Estimated Useful Lives | December 31, 2022 Gross Carrying Amount | December 31, 2022 Accumulated Amortization | December 31, 2022 Net | March 31, 2023 Gross Carrying Amount | March 31, 2023 Accumulated Amortization | March 31, 2023 Net |
|---|---|---|---|---|---|---|---|
| Customer lists | 7 - 17 years | $ 506,015 | $ (340,579) | $ 165,436 | $ 533,848 | $ (348,729) | $ 185,119 |
| Trademarks | 2 - 16 years | 77,198 | (37,519) | 39,679 | 77,791 | (39,010) | 38,781 |
| Non-compete agreement | 1 - 5 years | 3,179 | (2,584) | 595 | 3,976 | (2,619) | 1,357 |
| Technology | 3 - 8 years | 246,220 | (216,330) | 29,890 | 252,943 | (220,358) | 32,585 |
| Domain names | 2 - 15 years | 10,118 | (4,682) | 5,436 | 10,117 | (4,850) | 5,267 |
| | | $ 842,730 | $ (601,694) | $ 241,036 | $ 878,675 | $ (615,566) | $ 263,109 |

Included within technology is $28.1 million and $30.2 million of internal-use software, net of accumulated amortization, as of December 31, 2022 and March 31, 2023, respectively. As of March 31, 2023, $5.1 million of technology assets have not yet been put in service.

The Company capitalized $3.7 million of costs to develop internal-use software included in technology during the three months ended March 31, 2022 (consisting of internal costs of $3.0 million and external costs of $0.7 million). The Company capitalized $4.1 million of costs to develop internal-use software included in technology during the three months ended March 31, 2023 (consisting of internal costs of $3.4 million and external costs of $0.7 million).

For the three months ended March 31, 2022, the Company recorded no write-down of capitalized software. For the three months ended March 31, 2023, the Company recorded a write-down related to the impairment of capitalized software in the amount of $0.1 million.

Amortization expense was $19.1 million and $14.1 million for the three months ended March 31, 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 March 31, 2023 is as follows for each of the next five years:

| (in thousands) | |
|---|---|
| **Year Ending December 31,** | |
| Remainder of fiscal year **2023** | $ 71,305 |
| 2024 | 45,083 |
| 2025 | 35,729 |
| 2026 | 27,578 |
| 2027 | 22,070 |
| Thereafter | 61,344 |
| | $ 263,109 |

## 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 | March 31, 2023 |
|---|---|---|
| Accrued compensation | $ 29,835 | $ 18,392 |
| Accrued cost of revenues | 15,721 | 19,005 |
| Accrued interest | 3,143 | 106 |
| Other accrued expenses | 18,348 | 19,588 |
| Total accrued expenses | $ 67,047 | $ 57,091 |

## 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 23 operating leases with remaining lease terms ranging from 1 month to 70 months.

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

| | Three Months Ended March 31, | |
|---|---|---|
| **(in thousands)** | **2022** | **2023** |
| Components of total lease costs | | |
| Operating lease expense | $ 1,299 | $ 1,379 |
| Sublease income | (72) | (222) |
| Total net lease costs | $ 1,227 | $ 1,157 |

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

| **(dollar amounts in thousands)** | **March 31, 2023** |
|---|---|
| **Operating leases** | |
| Operating leases ROU asset - long-term | $ 19,652 |
| Operating leases ROU asset, net | $ 19,652 |
| | |
| Operating leases liability - current | $ 3,565 |
| Operating leases liability - long-term | 16,574 |
| Total operating leases liability | $ 20,139 |
| | |
| Weighted average remaining lease term in years - operating leases | 4.5 |
| Weighted average discount rate - operating leases | 4.50 % |

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

| (in thousands) | March 31, 2023 |
|---|---|
| Remainder of fiscal year 2023 | $ 4,378 |
| 2024 | 4,958 |
| 2025 | 4,610 |
| 2026 | 3,796 |
| 2027 | 3,468 |
| 2028 | 1,073 |
| Thereafter | 85 |
| Total future minimum lease payments | $ 22,368 |
| Less: imputed interest | (2,229) |
| Total | $ 20,139 |

## 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 | March 31, 2023 |
|---|---|---|
| **Current portion of long-term debt** | | |
| Term Loans | $ 7,500 | $ 9,375 |
| Total current portion of long-term debt | $ 7,500 | $ 9,375 |
| | | |
| **Long-term debt** | | |
| Term Loans, due November 29, 2027 (6.76% and 6.91% at December 31, 2022 and March 31, 2023, respectively) | 292,500 | 288,750 |
| Revolving Credit Facility | 205,494 | 205,494 |
| Unamortized discount and debt issuance costs | (4,004) | (3,810) |
| Total long-term debt, net | $ 493,990 | $ 490,434 |

The estimated fair value of the Company’s 2022 Credit Agreement was $487.1 million and $488.7 million as of December 31, 2022 and March 31, 2023, respectively. These fair values were determined based on quoted prices in markets with similar instruments that are less active (Level 2 inputs as defined below) as an observable price of the 2022 Credit Agreement or similar liabilities is not readily available.

The Company was in compliance with all financial covenants under its credit agreement as of March 31, 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 March 31, 2023 based upon the short-term nature of such assets and liabilities (Level 1). See Note 9, “Debt” for discussion of the fair value of the Company's debt.

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

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 March 31, 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 March 31, 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 March 31, 2023:

| (in thousands) | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Interest rate swaps | $ | — | $ | 1,049 | $ | — |
| Liabilities | | | | | | |
| Interest rate swaps | | — | | 8,024 | | — |
| Contingent consideration - acquisition of EBI | | — | | — | | 914 |
| Contingent consideration - acquisitions of Socrates and A-Check | | — | | — | | 4,706 |

During the three months ended March 31, 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 Accumulated other comprehensive income (loss) ("OCI").

As of March 31, 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 |
|---|---|---|---|---|
| Interest Rate Swaps | 4 | February 28, 2023 | November 29, 2027 | $300.0 million USD |

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 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | As of December 31, 2022 | | | As of March 31, 2023 | | |
| **Derivatives designated as hedging instruments:** | | | | | | |
| Interest rate swaps | Other current assets | $ | — | Other current assets | $ | 1,049 |
| Interest rate swaps | Other assets | | — | Other assets | $ | — |
| Total interest rate swaps | | $ | — | | $ | 1,049 |

| | Liability Derivatives | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | As of December 31, 2022 | | | As of March 31, 2023 | | |
| **Derivatives designated as hedging instruments:** | | | | | | |
| Interest rate swaps | Other current liabilities | $ | — | Other current liabilities | $ | — |
| Interest rate swaps | Other liabilities | | — | Other liabilities | | 8,024 |
| Total interest rate swaps | | $ | — | | $ | 8,024 |

The tables below present the effect of cash flow hedge accounting on Accumulated Other Comprehensive Income (Loss) for the periods presented:

| | Three Months Ended March 31, | | | Three Months Ended March 31, | |
|---|---|---|---|---|---|
| **(in thousands)** | **2022** | **2023** | | **2022** | **2023** |
| **Derivatives in Hedging Relationships** | **Amount of Loss Recognized in OCI on Derivative (Included Component)** | | **Location of Gain Reclassified from Accumulated OCI into Income** | **Amount of Gain Reclassified from Accumulated OCI into Income (Included Component)** | |
| Interest rate swaps | $ — | $ (6,877) | Interest expense | $ — | $ 97 |
| Total | $ — | $ (6,877) | | $ — | $ 97 |

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 (loss) for the periods presented:

| | Three Months Ended March 31, | |
|---|---|---|
| **(in thousands)** | **2022** | **2023** |
| | **Interest Expense** | **Interest Expense** |
| Total amounts of income and expense line items in which the effects of fair value or cash flow hedges are recorded | $ 6,336 | $ 8,608 |
| **Gain on cash flow hedging relationships** | | |
| Interest rate swaps: | | |
| Amount of gain reclassified from accumulated other comprehensive income (loss) into income | $ — | $ 97 |

***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 March 31, 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 (loss) for the periods presented:

| | | Three Months Ended March 31, | |
|---|---|---|---|
| **(in thousands)** | | **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 | $ (328) | $ — |
| Total | | $ (328) | $ — |

## 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 $4.1 million and $1.1 million for the three months ended March 31, 2022 and 2023, respectively, which resulted in an effective tax rate of 39.6% and 65.1%, respectively. For the three months ended March 31, 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 March 31, 2023, the Company recorded a legal settlement obligation of $3.9 million and an offsetting insurance receivable of $0.9 million for the settlement of legal matters.

Net legal settlement expense recorded in selling, general and administrative expense in the unaudited consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2022 and 2023 totaled $0.1 million and $0.1 million, respectively.

## 14. Equity

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

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

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

Each share of common stock is entitled to one vote on all matters on which holders of common stock are entitled to vote generally. Holders of common stock are entitled to be paid ratably any dividends as may be declared by the Board of Directors (in its sole discretion), subject to any preferential dividend rights of outstanding preferred stock (if any). No dividends have been declared or paid on the Company's common stock through March 31, 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 months ended March 31, 2023, the Company repurchased 493,926 shares of its common stock for $7.7 million.

## 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 (loss) as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2023 |
| **(in thousands)** | | |
| Stock-based compensation expense | | |
| Cost of revenues | $ 413 | $ 428 |
| Corporate technology and production systems | 531 | 612 |
| Selling, general and administrative | 4,164 | 7,003 |
| Total stock-based compensation expense | $ 5,108 | $ 8,043 |

Prior to the initial public offering ("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 March 31, 2023, the Company had approximately $109.3 million of unrecognized pre-tax non-cash stock-based compensation expense related to awards granted under the 2021 Equity Plan, consisting of approximately $34.8 million related to non-qualified stock options ("NQSOs"), $73.6 million related to restricted stock, and approximately $0.9 million related to restricted stock units ("RSUs"), all of which the Company expects to recognize over a weighted average period of 2.84 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 three months ended March 31, 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 | — | — | | — | — | — | | — |
| **Balances as of March 31, 2023** (1) | 6,208,274 | $ 9.59 | 4.72 | $ 9,693 | 3,081,855 | $ 10.05 | 3.07 | $ 3,385 |

(1) All SVOs and PSOs are exercisable as of March 31, 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 March 31, 2023, 8,403,520 shares were available for issuance pursuant to future granted awards under the 2021 Equity Plan.

*Stock Options*

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

The table below provides a summary of stock option activity under the 2021 Equity Plan for the three months ended March 31, 2023:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Contractual Term (in years) | Aggregate Intrinsic Value | Weighted Average Fair Value (per share) |
|---|---|---|---|---|---|
| | (in thousands, except share and per share amounts) | | | | |
| Outstanding at December 31, 2022 | 4,387,501 | $ 22.91 | 8.81 | $ — | |
| Granted | 869,874 | 12.79 | | | $ 7.07 |
| Forfeited / Cancelled | — | — | | | |
| Exercised / Released | — | — | | — | — |
| Outstanding at March 31, 2023 | 5,257,375 | $ 21.23 | 8.79 | $ — | |
| Exercisable at March 31, 2023 | 102,995 | $ 22.61 | 8.75 | $ — | $ — |

*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 three months ended March 31, 2023:

| | Number of Shares | Weighted Average Fair Value (per share) |
|---|---|---|
| Unvested at December 31, 2022 | 3,421,920 | $ 20.32 |
| Granted | 1,970,881 | 12.93 |
| Forfeited / Cancelled | (77,795) | 21.67 |
| Vested | (92,370) | 22.35 |
| Unvested at March 31, 2023 | 5,222,636 | $ 17.47 |

*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 three months ended March 31, 2023:

| | Number of Shares | Weighted Average Fair Value (per share) |
|---|---|---|
| Unvested at December 31, 2022 | 51,249 | $ 21.18 |
| Granted | 12,262 | 12.79 |
| Forfeited / Cancelled | (2,254) | 23.00 |
| Vested | (1,224) | 22.35 |
| Unvested at March 31, 2023 | 60,033 | $ 19.38 |

***Employee Stock Purchase Plan***

There were no stock employee purchase offerings under the 2021 Employee Stock Purchase Plan (the "ESPP") during the three months ended March 31, 2023 and, accordingly, no eligible employees were enrolled in the ESPP during the three months ended March 31, 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:

| (in thousands, except share and per share amounts) | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| **Numerator:** | | |
| Net income attributable to stockholders | $ 6,236 | $ 591 |
| Less: Undistributed amounts allocated to participating securities | — | — |
| Undistributed income allocated to stockholders | $ 6,236 | $ 591 |
| **Denominator:** | | |
| Weighted average number of shares outstanding, basic | 93,967,819 | 92,877,506 |
| Weighted average additional shares assuming conversion of potential common shares | 5,218,637 | 2,472,836 |
| Weighted average common shares outstanding - diluted | 99,186,456 | 95,350,342 |
| Net income per share attributable to stockholders, basic | $ 0.07 | $ 0.01 |
| Net income per share attributable to stockholders, diluted | $ 0.06 | $ 0.01 |

The following potentially dilutive outstanding securities were excluded from the computation of diluted net income per share because their effect would have been anti-dilutive for the periods presented, or issuance of such shares is contingent upon the satisfaction of certain conditions which were not satisfied by the end of the period:

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| Stock options | 8,866,851 | 12,136,464 |
| Restricted Stock Awards | 2,272,422 | 5,160,978 |
| Restricted Stock Units | 47,663 | 59,895 |

## 17. Related Party Transactions

The Company had sales to Goldman Sachs and affiliates in the amount of $1.9 million and $1.1 million for the three months ended March 31, 2022 and 2023, respectively. Outstanding accounts receivable from Goldman Sachs as of December 31, 2022 and March 31, 2023 were $0.2 million and $0.6 million, respectively. Additionally, the Company is currently a party to a $75.0 million notional value interest rate swap through November 29, 2027 with J. Aron & Company LLC, a wholly-owned subsidiary of Goldman Sachs. Outstanding accounts receivable from J. Aron & Company LLC as of March 31, 2023 were less than $0.1 million.

The Company had sales to 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") in the amount of $0.1 million for the three months ended March 31, 2022 and 2023. Outstanding accounts receivable from an affiliate of the Stockholders were less than $0.1 million as of December 31, 2022 and $0.1 million as of March 31, 2023.

## 18. Revenue

*Performance Obligations*

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

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

*Disaggregation of Revenues*

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

| (in thousands) | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| Screening services | $ 189,748 | $ 176,871 |
| Other services | 2,224 | 2,403 |
| Total revenue | $ 191,972 | $ 179,274 |

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 March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| United States | $ 159,316 | $ 149,742 |
| All other countries | 32,656 | 29,532 |
| Total revenue | $ 191,972 | $ 179,274 |

Other than the U.S., no single country accounted for more than 10% of the Company's total revenues during the three months ended March 31, 2022 and 2023. Substantially all of the Company's long-lived assets were located in the U.S. as of December 31, 2022 and March 31, 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 March 31, 2023, $3.3 million and $3.3 million, respectively, of deferred commissions are included in Other current assets on the unaudited condensed consolidated balance sheets and approximately $2.7 million and $2.7 million, respectively, of deferred commissions are included in Other noncurrent assets, net on the unaudited condensed consolidated balance sheets.

The Company did not have any material contract liabilities as of December 31, 2022 and March 31, 2023.

*Concentrations*

For the three months ended March 31, 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 March 31, 2023.

**19. Subsequent Events**

The Company moved to a virtual-first strategy in 2020 and has closed or reduced the size of 12 offices globally. As a result of the success to date of the Company’s virtual-first strategy, the Company intends to close or reduce the size of its remaining offices during 2023, including the closure of the Company’s current principal executive office in New York. The Company’s new principal executive office will be the Company’s existing office in Ohio. The Company is currently assessing the financial impact of continuing to close multiple offices and relocating its principal executive office location.

## 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 months ended March 31, 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 on March 2, 2023 ("2022 Annual Report") and "Cautionary Note Regarding Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q.*

### BASIS OF PRESENTATION

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

Numerical figures included in this Quarterly Report on Form 10-Q have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them. In addition, we 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.

## 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. Although December 2022 was still the trough for decline in base business, this moderation has continued through the first quarter 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 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, 2022.

**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 (loss). 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. We moved to a virtual-first strategy in 2020 and have closed or reduced the size of 12 offices globally and began reducing 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 exit or reduce the size of remaining offices during 2023, including the closure of our principal office and headquarters in New York and move our headquarters to an existing administrative office in Ohio.

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 our business grows and our operating scale continues 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 95% 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 complete as of March 31, 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 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 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 on Interest Rate Swaps***

Gain on interest rate swaps consists of realized and unrealized losses (gains) 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***

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 (loss) before tax and adjusting for discrete tax items recorded in the period, if any.

**Results of Operations**

***Three Months Ended March 31, 2022 compared to the Three Months Ended March 31, 2023***

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

| (dollars in thousands, except per share amounts) | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 | Increase/ (Decrease) $ | Increase/ (Decrease) % |
|---|---|---|---|---|
| Revenues | $ 191,972 | $ 179,274 | $ (12,698) | (6.6)% |
| Cost of revenues (exclusive of depreciation and amortization below) | 100,956 | 94,754 | (6,202) | (6.1)% |
| Corporate technology and production systems | 12,552 | 11,952 | (600) | (4.8)% |
| Selling, general and administrative | 42,333 | 47,451 | 5,118 | 12.1 % |
| Depreciation and amortization | 20,156 | 15,122 | (5,034) | (25.0)% |
| Impairments of long-lived assets | — | 106 | 106 | 100.0 % |
| Total operating expenses | 175,997 | 169,385 | (6,612) | (3.8)% |
| Operating income | 15,975 | 9,889 | (6,086) | (38.1)% |
| Interest expense, net | 6,336 | 8,608 | 2,272 | 35.9 % |
| Gain on interest rate swaps | (328) | — | 328 | (100.0)% |
| Other income | (354) | (412) | 58 | 16.4 % |
| Total other expense, net | 5,654 | 8,196 | 2,542 | 45.0 % |
| Income before income taxes | 10,321 | 1,693 | (8,628) | 83.6 % |
| Income tax provision | 4,085 | 1,102 | (2,983) | 73.0 % |
| Net income | $ 6,236 | $ 591 | $ (5,645) | 90.5 % |
| Net income margin | 3.2 % | 0.3 % | | 89.9 % |
| Net income per share - basic | $ 0.07 | $ 0.01 | $ (0.06) | (85.7)% |

***Revenues***

Revenues decreased by 6.6%, or $12.7 million, from $192.0 million for the three months ended March 31, 2022 to $179.3 million for the three months ended March 31, 2023. The 6.6% decrease in revenue was driven by a 7.1% decrease in organic constant currency revenue and a 1.0% unfavorable impact from fluctuations in foreign currency partially offset by 1.5% inorganic growth from the acquisitions of Socrates and A-Check. The organic revenue decrease reflected a decline in existing client business of approximately 13% 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 March 31, 2023. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

Total revenue in our U.S. business decreased 6.0% year-over-year. We experienced growth in our Healthcare and Industrials Verticals, however, this growth was primarily offset by declines in our Financial and Business Services, Retail, Contingent and Tech and Media Verticals. Our international business experienced total revenue decline of 9.6% driven by a decline in base business combined with the unfavorable foreign exchange fluctuation.

***Cost of Revenues***

Cost of revenues decreased by 6.1%, or $6.2 million, from $101.0 million for the three months ended March 31, 2022 to $94.8 million for the three months ended March 31, 2023. This was primarily driven by a $6.7 million decrease due to decreased volume partially offset by $0.6 million of accelerated costs related to the completion of the EBI platform migration.

Cost of revenues as a percentage of revenues increased by 30 basis points from 52.6% for the three months ended March 31, 2022 to 52.9% for the three months ended March 31, 2023 driven by the accelerated costs related to the completion of the EBI platform migration.

***Corporate Technology and Production Systems***

Corporate technology and production systems decreased by 4.8%, or $0.6 million, from $12.6 million for the three months ended March 31, 2022 to $12.0 million for the three months ended March 31, 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 $0.9 million from $6.1 million for the three months ended March 31, 2022 to $5.3 million for the three months ended March 31, 2023 primarily due to lower headcount, lower software maintenance support, telecommunications and other expenses as a result of synergies realized from the EBI acquisition. Costs to develop platform and product initiatives increased by $0.2 million from $4.2 million for the three months ended March 31, 2022 to $4.4 million for the three months ended March 31, 2023 primarily due to additional payroll and related expenses. Costs related to maintaining our production systems increased by $0.1 million from $2.2 million for the three months ended March 31, 2022 to $2.3 million for the three months ended March 31, 2023 primarily due to software licenses, maintenance costs and cloud hosting costs.

These expenses also include non-capitalizable costs related to Project Ignite. We incurred $1.0 million related to phase two and $2.2 million related to phase three during the three months ended March 31, 2022, and $3.1 million related to phase three during the three months ended March 31, 2023. The third and final phase of Project Ignite was completed as of March 31, 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 March 31, 2023, corporate technology and production systems expenses also include $0.3 million of restructuring-related charges to support our strategy refresh.

***Selling, General and Administrative***

Selling, general and administrative expenses increased by 12.1%, or $5.1 million, from $42.3 million for the three months ended March 31, 2022 to $47.5 million for the three months ended March 31, 2023. The year-over-year increase was primarily driven by a $2.6 million increase in professional fees and transaction related expenses to support the Socrates and A-check acquisitions, a $2.5 million increase in restructuring-related charges to support our strategy refresh, and a $2.8 million increase in stock-based compensation partially offset by a $3.0 million decrease in payroll, bonus, commissions and other employee related costs due to reduction in headcount.

***Depreciation and Amortization***

Depreciation and amortization expense decreased by 25.0%, or $5.0 million, from $20.2 million for the three months ended March 31, 2022 to $15.1 million for the three months ended March 31, 2023, primarily due to a $5.5 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 $0.5 million increase in amortization of intangible assets acquired from the Socrates and A-Check acquisitions.

***Impairments of Long-Lived Assets***

Impairments of long-lived assets totaled $0.1 million during the three months ended March 31, 2023. The impairments of long-lived assets during the three months ended March 31, 2023 primarily resulted from the write-off of capitalized software.

***Interest Expense, Net***

Interest expense increased by 35.9%, or $2.3 million, from $6.3 million for the three months ended March 31, 2022 to $8.6 million for the three months ended March 31, 2023 primarily due to the increase in interest rates. The realized gain on interest rate swaps for the three months ended March 31, 2023 related to the designated interest rate swaps entered into in February 2023. This realized gain was $0.1 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 March 31, 2022 and 2023.

### *Gain on Interest Rate Swaps*

Gain on interest rate swaps totaled $0.3 million for the three months ended March 31, 2022 due to a realized loss of $2.1 million offset by a mark-to-market gain of $2.4 million. The historical non-designated derivative interest rate swaps expired in June 2022.

### *Income Tax Provision*

Income tax provision decreased $3.0 million from $4.1 million for the three months ended March 31, 2022 to $1.1 million for the three months ended March 31, 2023, resulting in an effective tax rate of 39.6% and 65.1%, respectively. The decrease in the income tax provision is primarily due to the decrease in income before taxes. Income before taxes decreased $8.6 million from $10.3 million for the three months ended March 31, 2022 to $1.7 million for the three months ended March 31, 2023. For the three months ended March 31, 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 $5.6 million from net income of $6.2 million for the three months ended March 31, 2022 to net income of $0.6 million for the three months ended March 31, 2023. Net income margin decreased from a net income margin of 3.2% for the three months ended March 31, 2022 to a net income margin of 0.3% for the three months ended March 31, 2023.

The decrease in both net income and net income margin resulted primarily from lower revenues due to the macroeconomic environment resulting in decreased operating income coupled with the increase in interest expense due to the rising interest rate environment.

### *Net Income per Share*

Net income per share decreased $0.06 per share from net income of $0.07 per share for the three months ended March 31, 2022 to net income of $0.01 per share for the three months ended March 31, 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 and one-time public company transition expenses, 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 and one-time public company transition expenses, 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 months ended March 31, 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 months ended March 31, 2022, we have provided the impact of revenue from the acquisition of EBI. For the three months ended March 31, 2023, we have provided the impact of revenue from the acquisitions of Socrates and A-Check.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2023 |
| Reported revenue growth (decline) | 37.7 % | (6.6)% |
| Inorganic revenue growth (1) | 8.0 % | 1.5 % |
| Impact from foreign currency exchange (2) | (0.7)% | (1.0)% |
| Organic constant currency revenue growth (decline) | 30.4 % | (7.1)% |

(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 4.4%, or $2.0 million, from $47.6 million for the three months ended March 31, 2022 to $45.6 million for the three months ended March 31, 2023 predominantly due to the decrease in net income resulting from a decline in revenues. Adjusted EBITDA Margin increased by 60 basis points year-over-year from 24.8% for the three months ended March 31, 2022 to 25.4% for the three months ended March 31, 2023 due to strong cost controls and financial discipline.

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

| | Three Months Ended March 31, | |
|---|---|---|
| **(dollars in thousands)** | **2022** | **2023** |
| Net income | $ 6,236 | $ 591 |
| Income tax provision | 4,085 | 1,102 |
| Interest expense, net | 6,336 | 8,608 |
| Depreciation and amortization | 20,156 | 15,122 |
| Stock-based compensation | 5,108 | 8,043 |
| Transaction expenses[(1)] | 1,888 | 5,126 |
| Restructuring[(2)] | 346 | 3,273 |
| Technology Transformation[(3)] | 3,762 | 3,233 |
| Gain on interest rate swaps[(4)] | (328) | — |
| Other[(5)] | 47 | 457 |
| Adjusted EBITDA | $ 47,636 | $ 45,555 |
| Adjusted EBITDA Margin | 24.8 % | 25.4 % |

(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 March 31, 2022, costs consisted primarily of $1.5 million of one-time public company transition expenses and $0.3 million related to M&A. For the three months ended March 31, 2023, costs consisted primarily of $2.7 million of M&A related costs for the acquisitions of Socrates and A-Check, $1.1 million of M&A costs for the EBI acquisition primarily due to the acceleration of contract costs related to completion of the EBI platform migration and $1.3 million of registration statement costs, 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. For the three months ended March 31, 2022, costs consisted of $0.3 million in expenses related to our real estate consolidation program. For the three months ended March 31, 2023, costs consisted of $2.9 million of restructuring-related charges and $0.3 million of real estate consolidation costs.

(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 complete as of March 31, 2023. For the three months ended March 31, 2022, investment related to Project Ignite was approximately $3.2 million and the remaining $0.6 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 March 31, 2023, investment related to Project Ignite was approximately $3.1 million. The remaining $0.1 million for the three months ended March 31, 2023 relates to costs for decommissioning of the on-premise production system and decommissioning of the redundant fulfillment system of EBI and migrating onto our platform.

(4) Consists of gain 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 costs related to loss on foreign currency transactions.

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

| | Three Months Ended March 31, | |
|---|---|---|
| (dollars in thousands) | 2022 | 2023 |
| Net income | $ 6,236 | $ 591 |
| Adjusted EBITDA | $ 47,636 | $ 45,555 |
| Revenues | $ 191,972 | $ 179,274 |
| Net income margin | 3.2 % | 0.3 % |
| Adjusted EBITDA Margin | 24.8 % | 25.4 % |

***Adjusted Net Income and Adjusted Earnings Per Share***

Adjusted Net Income decreased by 4.6%, or $1.1 million, from $24.4 million for the three months ended March 31, 2022 to $23.3 million for the three months ended March 31, 2023. The decrease was primarily driven by the decline in revenues.

Adjusted Earnings Per Share—basic decreased by 3.8%, or $0.01 per share, from $0.26 per share for the three months ended March 31, 2022 to $0.25 per share for the three months ended March 31, 2023. Adjusted Earnings Per Share—diluted decreased from $0.25 per share for the three months ended March 31, 2022 to $0.24 per share for the three months ended March 31, 2023. The decrease in Earnings Per Share—basic and Earnings Per Share—diluted was primarily due to the decrease in revenues leading to a decrease in Adjusted Net Income.

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 March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| Net income | $ 6,236 | $ 591 |
| Income tax provision | 4,085 | 1,102 |
| Income before income taxes | 10,321 | 1,693 |
| Amortization of acquired intangible assets | 13,764 | 10,061 |
| Stock-based compensation | 5,108 | 8,043 |
| Transaction expenses(1) | 1,888 | 5,126 |
| Restructuring(2) | 346 | 3,273 |
| Technology Transformation(3) | 3,762 | 3,233 |
| Gain on interest rate swaps(4) | (328) | — |
| Other(5) | 47 | 457 |
| Adjusted Net Income before income tax effect | 34,908 | 31,886 |
| Income tax effect(6) | 10,507 | 8,600 |
| Adjusted Net Income | $ 24,401 | $ 23,286 |
| Net Income per share—basic | $ 0.07 | $ 0.01 |
| Net Income per share—diluted | $ 0.06 | $ 0.01 |
| Adjusted Earnings Per Share—basic | $ 0.26 | $ 0.25 |
| Adjusted Earnings Per Share—diluted | $ 0.25 | $ 0.24 |

(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.

(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 gain 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 costs related to loss on foreign currency transactions.

(6) Normalized effective tax rates of 30.1% and 27.0% have been used to compute Adjusted Net Income for the three months ended March 31, 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 March 31, | |
|---|---|---|
| | 2022 | 2023 |
| **(in thousands, except share and per share amounts)** | | |
| Net income | $ 6,236 | $ 591 |
| Less: Undistributed amounts allocated to participating securities | — | — |
| Undistributed income allocated to stockholders | $ 6,236 | $ 591 |
| | | |
| Weighted average number of shares outstanding – basic | 93,967,819 | 92,877,506 |
| Weighted average number of shares outstanding – diluted | 99,186,456 | 95,350,342 |
| Net income per share – basic | $ 0.07 | $ 0.01 |
| Net income per share – diluted | $ 0.06 | $ 0.01 |
| | | |
| Adjusted Net Income | $ 24,401 | $ 23,286 |
| Less: Undistributed amounts allocated to participating securities | — | — |
| Undistributed income allocated to stockholders | $ 24,401 | $ 23,286 |
| | | |
| Weighted average number of shares outstanding – basic | 93,967,819 | 92,877,506 |
| Weighted average number of shares outstanding – diluted | 99,186,456 | 95,350,342 |
| Adjusted earnings per share – basic | $ 0.26 | $ 0.25 |
| Adjusted earnings per share – diluted | $ 0.25 | $ 0.24 |

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

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| Net income per share – diluted | $ 0.06 | $ 0.01 |
| *Adjusted Net Income adjustments per share* | | |
| Income tax expense | 0.04 | 0.01 |
| Amortization of acquired intangible assets | 0.14 | 0.11 |
| Stock-based compensation | 0.05 | 0.08 |
| Transaction expenses(1) | 0.02 | 0.05 |
| Restructuring(2) | — | 0.03 |
| Technology Transformation(3) | 0.04 | 0.03 |
| Gain on interest rate swaps(4) | — | — |
| Other(5) | — | — |
| Income tax effect(6) | (0.11) | (0.09) |
| Adjusted earnings per share – diluted | $ 0.25 | $ 0.24 |
| Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share: | | |
| Weighted average number of shares outstanding – diluted (US GAAP) | 99,186,456 | 95,350,342 |
| 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) | 99,186,456 | 95,350,342 |

(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.

(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 gain on historical non-designated derivative interest rate swaps. See Part 1. Item 3. “Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk” for additional information on interest rate swaps.

(5) Consists of costs related to loss on foreign currency transactions.

(6) Normalized effective tax rates of 30.1% and 27.0% have been used to compute Adjusted Net Income for the three months ended March 31, 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 three months ended March 31, 2022 and 2023 were approximately $5.2 million and $4.3 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 March 31, 2023, we had cash and cash equivalents of approximately $51.0 million. We used $48.8 million (net of cash acquired) to purchase Socrates and A-Check in the first quarter 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 March 31, 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 Secured Overnight Financing Rate

("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 March 31, 2023 was 6.91%.

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 March 31, 2023, amounts outstanding under the 2022 Credit Agreement totaled $503.6 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:

| (in thousands) | Three Months Ended March 31, 2022 | 2023 |
|---|---|---|
| Net cash provided by operating activities | $ 3,445 | $ 11,282 |
| Net cash used in investing activities | (5,233) | (53,055) |
| Net cash used in financing activities | (1,771) | (10,378) |
| Effect of exchange rate changes on cash | (92) | 20 |
| Decrease in cash and cash equivalents | (3,651) | (52,131) |
| Cash and cash equivalents at beginning of the period | 47,998 | 103,095 |
| Cash and cash equivalents at end of the period | $ 44,347 | $ 50,964 |

*Operating Activities*

Net cash provided by operating activities of $3.4 million for the three months ended March 31, 2022 reflects the adjustment to net income for non-cash charges totaling $26.7 million, primarily driven by $20.2 million in depreciation and amortization, $5.1 million of stock-based compensation and $3.4 million of deferred income taxes offset by $2.5 million of changes in the fair value of derivatives. Changes in operating assets and liabilities for the three months ended March 31, 2022 reduced cash flow from operating activities by $29.4 million.

Net cash provided by operating activities of $11.3 million for the three months ended March 31, 2023 reflects the adjustment to net income for non-cash charges totaling $24.4 million primarily driven by $15.1 million of depreciation and amortization and $8.0 million of stock-based compensation. Changes in operating assets and liabilities for the three months ended March 31, 2023 reduced cash flow from operating activities by $13.7 million.

*Investing Activities*

Net cash used in investing activities for the three months ended March 31, 2022 and 2023 was $5.2 million and $53.1 million, respectively. Net cash used in investing activities for the three months ended March 31, 2022 consisted of a $3.7 million investment in capitalized software and $1.5 million in purchases of computer hardware and other property, plant and equipment. Net cash used in investing activities for the three months ended March 31, 2023 primarily consisted of $48.8 million of cash used for acquisitions, net of cash acquired, in addition to a $4.1 million investment in capitalized software.

*Financing Activities*

Net cash used in financing activities for the three months ended March 31, 2022 was $1.8 million. Net cash used in financing activities for the three months ended March 31, 2023 was $10.4 million consisting primarily of $7.7 million of share repurchases and $1.9 million of payments of long-term debt.

*Free Cash Flow*

For the three months ended March 31, 2022, we generated $(1.8) million of Free Cash Flow compared to $7.0 million for the three months ended March 31, 2023. The increase in Free Cash Flow compared to the prior year period was driven by increased collections, lower cash paid for taxes, 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.

| (in thousands) | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2023 |
|---|---|---|
| Net Cash provided by Operating Activities | $ 3,445 | $ 11,282 |
| Purchases of intangible assets and capitalized software | (3,742) | (4,120) |
| Purchases of property and equipment | (1,495) | (140) |
| Free Cash Flow | $ (1,792) | $ 7,022 |

### 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 three months ended March 31, 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 March 31, 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 (loss) as the earnings effect of the hedged transaction. During the three months ended March 31, 2022 and 2023, there were no such gains or losses.

***Credit Risk***

As of December 31, 2022 and March 31, 2023, we had accounts receivable, net of allowance for expected credit losses, of $139.6 million and $147.1 million, respectively. For the three months ended March 31, 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 March 31, 2023.

***Interest Rate Risk***

Our exposure to market risk is influenced by the changes in interest rates paid on any outstanding balance on our borrowings, under our 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 March 31, 2023 accrued interest at 6.76% and 6.91%, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| | | | | (in thousands) |
| 01/01/2023 to 01/31/2023 | 493,926 | $ 15.46 | 493,926 | $ 78,423 |
| 02/01/2023 to 02/28/2023 | — | — | — | 78,423 |
| 03/01/2023 to 03/31/2023 | — | — | — | 78,423 |
| Total | 493,926 | | 493,926 | |

(1) 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.**

None.

**Item 6. Exhibits.**

(a) Exhibits.

| Exhibit No. | Exhibit Description |
|---|---|
| 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: May 9, 2023

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

Date: May 9, 2023

**Exhibit 31.1**

**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 March 31, 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: May 9, 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 March 31, 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: May 9, 2023

**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 March 31, 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*

May 9, 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 March 31, 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*

May 9, 2023