
**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 September 30, 2021

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
(State or other jurisdiction of
incorporation or organization)

37-1784336
(I.R.S. Employer
Identification No.)

1 State Street Plaza, 24th Floor
New York, New York
(Address of principal executive offices)

10004
(Zip Code)

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

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
Non-accelerated filer

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 November 8, 2021 was 95,808,843.

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STERLING CHECK CORP. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report 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 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,” “potential,” “predict,” “projection,” “seek,” “should,” “will” or “would,” or the negative thereof or other variations thereon or comparable terminology. In particular, statements regarding our expectations about market trends, and our expectations, beliefs, plans, strategies, objectives, prospects, assumptions, or future events or performance contained in this report 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 report 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 and the impact of these changes on our clients’ hiring trends;
- the sufficiency of our cash to meet our liquidity needs;
- the possibility of cyberattacks, 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 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 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 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;
- inadequate protection of our intellectual property;

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- our ability to implement, maintain and improve effective internal controls and remediate the material weakness described under “Risk Factors” in our final prospectus, filed with the SEC on September 24, 2021 pursuant to Rule 424(b) under the Securities Act (our “IPO Prospectus”), and elsewhere in this report;
- 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 under “Risk Factors” in our IPO Prospectus.

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 report 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 report. 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 report, they may not be predictive of results or developments in future periods.

Any forward-looking statement that we make in this report 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 report.

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, our business, and our results of operations may also be announced by posts on Sterling’s accounts on the following social media channels: Instagram, LinkedIn and Twitter. The information that we post through these social media channels 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
December 31, 2020 and September 30, 2021

(in thousands, except share amounts)	December 31, 2020	September 30, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 66,633	\$ 192,397
Accounts receivable (net of allowance for doubtful accounts of \$1,861 and \$2,255 as of December 31, 2020 and September 30, 2021, respectively)	80,381	119,812
Insurance receivable	750	—
Prepaid expenses	7,273	8,658
Other current assets	7,845	6,701
Total current assets	162,882	327,568
Property and equipment, net	14,130	10,414
Goodwill	831,800	830,679
Intangible assets, net	300,544	254,101
Other noncurrent assets, net	6,762	7,032
TOTAL ASSETS	<u>\$ 1,316,118</u>	<u>\$ 1,429,794</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 14,708	\$ 27,192
Litigation settlement obligation	750	—
Accrued expenses	35,899	52,837
Current portion of long-term debt	13,147	6,461
Other current liabilities	21,488	19,791
Total current liabilities	85,992	106,281
Long-term debt, net	602,306	599,202
Deferred income taxes	29,400	15,895
Other liabilities	15,236	7,171
Total liabilities	\$ 732,934	\$ 728,549
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
STOCKHOLDERS' EQUITY:		
Preferred stock (\$0.01 par value; 100,000,000 shares authorized; no shares issued or outstanding)	—	—
Common stock (\$0.01 par value; 239,600,000 shares authorized, 88,554,962 shares issued and outstanding as of December 31, 2020; 1,000,000,000 shares authorized, 95,787,780 shares issued and outstanding as of September 30, 2021)	1	68
Additional paid-in capital	770,714	911,233
Common stock held in treasury (107,820 shares as of December 31, 2020 and September 30, 2021)	(897)	(897)
Accumulated deficit	(187,691)	(208,922)
Accumulated other comprehensive income (loss)	1,057	(237)
Total stockholders' equity	583,184	701,245
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,316,118</u>	<u>\$ 1,429,794</u>

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
Three and Nine Months Ended September 30, 2020 and 2021

(in thousands except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
REVENUES	\$ 117,602	\$ 169,557	\$ 325,550	\$ 468,255
OPERATING EXPENSES:				
Cost of revenues (exclusive of depreciation and amortization below)	55,112	82,638	153,458	225,798
Corporate technology and production systems	10,842	12,084	32,922	32,435
Selling, general and administrative	25,391	84,983	86,848	153,194
Depreciation and amortization	22,863	20,346	68,441	61,193
Impairments of long-lived assets	621	15	680	2,940
Total operating expenses	114,829	200,066	342,349	475,560
OPERATING INCOME (LOSS)	2,773	(30,509)	(16,799)	(7,305)
OTHER EXPENSE (INCOME):				
Interest expense, net	7,817	7,668	25,110	22,841
(Gain) loss on interest rate swaps	(49)	112	9,604	199
Other income	(336)	(400)	(998)	(1,034)
Total other expense, net	7,432	7,380	33,716	22,006
LOSS BEFORE INCOME TAXES	(4,659)	(37,889)	(50,515)	(29,311)
Income tax provision (benefit)	5,727	(12,633)	718	(8,080)
NET LOSS	\$ (10,386)	\$ (25,256)	\$ (51,233)	\$ (21,231)
Unrealized gain (loss) on hedged transactions, net of tax	231	(1)	231	(323)
Foreign currency translation adjustments, net of tax	1,000	(1,565)	(955)	(971)
Total other comprehensive income (loss)	1,231	(1,566)	(724)	(1,294)
COMPREHENSIVE LOSS	\$ (9,155)	\$ (26,822)	\$ (51,957)	\$ (22,525)
Net loss per share attributable to stockholders				
Basic	\$ (0.12)	\$ (0.28)	\$ (0.58)	\$ (0.24)
Diluted	\$ (0.12)	\$ (0.28)	\$ (0.58)	\$ (0.24)
Weighted average number of shares outstanding				
Basic	88,332,134	89,431,022	88,325,838	88,956,388
Diluted	88,332,134	89,431,022	88,325,838	88,956,388

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three and Nine Months Ended September 30, 2020 and 2021

(in thousands, except share amounts)	Shares Outstanding	Par Value	Additional Paid-in Capital	Common Stock Held in Treasury	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
BALANCE as of December 31, 2019	88,188,374	\$ 1	\$764,769	\$ (897)	\$ (135,398)	\$ (1,364)	\$ 627,111
Common stock issued for exercise of employee-based stock options	143,760	—	1,200	—	—	—	1,200
Stock-based compensation	—	—	545	—	—	—	545
Net loss	—	—	—	—	(15,900)	—	(15,900)
Foreign currency translation adjustment	—	—	—	—	—	(3,188)	(3,188)
BALANCE as of March 31, 2020	<u>88,332,134</u>	<u>\$ 1</u>	<u>\$766,514</u>	<u>\$ (897)</u>	<u>\$ (151,298)</u>	<u>\$ (4,552)</u>	<u>\$609,768</u>
Stock-based compensation	—	—	641	—	—	—	641
Net loss	—	—	—	—	(24,947)	—	(24,947)
Foreign currency translation adjustment	—	—	—	—	—	1,234	1,234
BALANCE as of June 30, 2020	<u>88,332,134</u>	<u>\$ 1</u>	<u>\$767,155</u>	<u>\$ (897)</u>	<u>\$ (176,245)</u>	<u>\$ (3,318)</u>	<u>\$586,696</u>
Stock-based compensation	—	—	570	—	—	—	570
Net loss	—	—	—	—	(10,386)	—	(10,386)
Unrealized gain on hedge transactions	—	—	—	—	—	231	231
Foreign currency translation adjustment	—	—	—	—	—	1,000	1,000
BALANCE as of September 30, 2020	<u>88,332,134</u>	<u>\$ 1</u>	<u>\$767,725</u>	<u>\$ (897)</u>	<u>\$ (186,631)</u>	<u>\$ (2,087)</u>	<u>\$ 578,111</u>
(in thousands, except share amounts)	Shares Outstanding	Par Value	Additional Paid-in Capital	Common Stock Held in Treasury	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
BALANCE as of December 31, 2020	88,554,962	\$ 1	\$770,714	\$ (897)	\$ (187,691)	\$ 1,057	\$583,184
Issuance of common stock	271,946	—	2,427	—	—	—	2,427
Net income	—	—	—	—	628	—	628
Unrealized loss on hedged transactions	—	—	—	—	—	(134)	(134)
Foreign currency translation adjustment	—	—	—	—	—	372	372
BALANCE as of March 31, 2021	<u>88,826,908</u>	<u>\$ 1</u>	<u>\$773,141</u>	<u>\$ (897)</u>	<u>\$ (187,063)</u>	<u>\$ 1,295</u>	<u>\$586,477</u>
Stock-based compensation	—	—	765	—	—	—	765
Net income	—	—	—	—	3,397	—	3,397
Unrealized loss on hedged transactions	—	—	—	—	—	(188)	(188)
Foreign currency translation adjustment	—	—	—	—	—	222	222
BALANCE as of June 30, 2021	<u>88,826,908</u>	<u>\$ 1</u>	<u>\$773,906</u>	<u>\$ (897)</u>	<u>\$ (183,666)</u>	<u>\$ 1,329</u>	<u>\$590,673</u>
Common stock issued for exercise of employee-based stock options	6,093	—	56	—	—	—	56
Issuance of common stock in connection with IPO, net of offering costs, underwriting discounts and commissions	4,760,000	48	94,475	—	—	—	94,523
Issuance of common stock in connection with forgiveness of promissory notes	370,182	—	8,409	—	—	—	8,409
Capital contribution from Stockholder	—	—	15,576	—	—	—	15,576
Issuance of restricted shares	1,824,597	19	(19)	—	—	—	—
Stock-based compensation	—	—	18,830	—	—	—	18,830
Net loss	—	—	—	—	(25,256)	—	(25,256)
Unrealized loss on hedged transactions	—	—	—	—	—	(1)	(1)
Foreign currency translation adjustment	—	—	—	—	—	(1,565)	(1,565)
BALANCE as of September 30, 2021	<u>95,787,780</u>	<u>\$ 68</u>	<u>\$911,233</u>	<u>\$ (897)</u>	<u>\$ (208,922)</u>	<u>\$ (237)</u>	<u>\$701,245</u>

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

STERLING CHECK CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2020 and 2021

(in thousands)	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (51,233)	\$ (21,231)
Adjustments to reconcile net loss to net cash provided by operations		
Depreciation and amortization	68,441	61,193
Deferred income taxes	(4,117)	(13,349)
Stock-based compensation	1,756	27,236
Impairments of long-lived assets	680	2,940
Provision for bad debts	623	604
Amortization of financing fees	373	362
Amortization of debt discount	1,767	1,741
Deferred rent	(76)	(1,334)
Unrealized translation gain on investment in foreign subsidiaries	(514)	(100)
Changes in fair value of derivatives	7,406	(5,024)
Excess payment on contingent consideration for acquisition	—	(1,159)
Changes in operating assets and liabilities		
Accounts receivable	552	(40,383)
Insurance receivable	—	750
Prepaid expenses	(2,802)	(1,421)
Other assets	2,380	1,464
Accounts payable	563	12,116
Litigation settlement obligation	—	(750)
Accrued expenses	(7,995)	15,609
Other liabilities	8,049	(338)
Net cash provided by operating activities	<u>25,853</u>	<u>38,926</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,835)	(2,619)
Purchases of intangible assets and capitalized software	(11,250)	(11,987)
Proceeds from disposition of property and equipment	236	7
Net cash used in investing activities	<u>(12,849)</u>	<u>(14,599)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common stock	1,200	2,483
Proceeds from issuance of common stock in IPO net of underwriting discounts and commissions	—	102,638
Payments of IPO issuance costs	—	(6,120)
Capital contribution from certain stockholders	—	15,576
Payments of long-term debt	(4,846)	(11,531)
Repayments of revolving credit facility	(83,800)	—
Borrowings on revolving credit facility	83,800	—
Payment of contingent consideration for acquisition	—	(738)
Payments on equipment capital lease obligations	(5)	(8)
Net cash (used in) provided by financing activities	<u>(3,651)</u>	<u>102,300</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(2,194)</u>	<u>(863)</u>
CASH AND CASH EQUIVALENTS		
Beginning of period	50,299	66,633
Cash and cash equivalents at end of period	<u>\$ 57,458</u>	<u>\$ 192,397</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for		
Interest, net of capitalized amounts of \$300 and \$220 for the nine months ended September 30, 2020 and 2021, respectively	\$ 20,502	\$ 21,494
Income taxes	3,702	4,663
Offering costs included in accounts payable and accrued liabilities	—	1,996

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

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1. Description of Business

Sterling Check Corp. (the “Company”), a Delaware corporation headquartered in New York City, New York, is a leading 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.

On August 23, 2021, the Company filed a Certificate of Amendment to its Certificate of Incorporation with the Secretary of State of Delaware to change the name of the Company from “Sterling Ultimate Parent Corp.” to “Sterling Check Corp.” The name change amendment was approved by the Company’s Board of Directors (“Board of Directors”) at a meeting held on August 4, 2021 and became effective on August 23, 2021.

The Company’s final prospectus related to the initial public offering (“IPO”) of its common stock, \$0.01 par value per share (“common stock”) was filed with the Securities and Exchange Commission (“SEC”) on September 24, 2021 pursuant to Rule 424(b) under the Securities Act (our “IPO Prospectus”) and the common stock began trading on the Nasdaq Global Select Market on September 23, 2021. On September 27, 2021, the Company completed its IPO of an aggregate of 16,427,750 shares of common stock at a public offering price of \$23.00 per share, pursuant to the IPO Prospectus. The Company sold 4,760,000 shares and certain existing stockholders sold an aggregate of 11,667,750 shares, including 2,142,750 shares that were sold pursuant to the full exercise of the underwriters’ option to purchase additional shares. The Company received aggregate net proceeds of \$94.5 million after deducting underwriting discounts and commissions of \$6.8 million and other offering expenses of \$8.1 million, of which \$2.0 million was unpaid as of September 30, 2021.

As of September 30, 2021, the Company is 63.8% 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, 2020 and notes thereto included in the IPO Prospectus.

On September 10, 2021, the Board of Directors authorized a stock split and the Company filed an amendment to its certificate of incorporation to effectuate a 1,198-for-1 split of its outstanding common stock. The stock split was effectuated such that (i) each then outstanding share of common stock was increased to 1,198 shares; (ii) the number of shares of common stock into which then-outstanding options to purchase common stock is exercisable was proportionately increased; and (iii) the exercise price of each then-outstanding option to purchase common stock was proportionately reduced. The accompanying unaudited condensed consolidated financial statements give retroactive effect as though the 1,198-for-1 stock split of the Company’s common stock occurred for all periods presented.

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Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgements that can affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Some of the 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 \$66.6 million and \$192.4 million as of December 31, 2020 and September 30, 2021, respectively, include money market instruments with maturities of three months or less. The Company maintained cash outside the United States (the "U.S.") as of December 31, 2020 of \$29.4 million with the largest deposits being held in India and Canada, with balances of \$10.3 million and \$7.0 million, respectively. Cash outside the U.S. was approximately \$42.8 million as of September 30, 2021, with the largest deposits being held in India and Canada, with balances of \$12.8 million and \$14.1 million, respectively.

Deferred transaction costs

The Company capitalized certain legal, professional, accounting and other third-party fees directly related to the IPO as deferred transaction costs until the IPO was completed. Upon completion of the IPO, these costs were recorded as a reduction to additional paid-in capital generated from the offering within stockholders' equity.

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 balance sheet. Gains or losses resulting from foreign currency transactions incurred in currencies other than the local functional currency are included in Other income in the statements of operations and comprehensive loss. The cumulative translation adjustment resulted in a gain of \$0.1 million and a loss of \$0.9 million as of December 31, 2020 and September 30, 2021, respectively.

Revenue Recognition

Revenue is recognized in accordance with the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC 606") when a performance obligation has been satisfied by transferring a promised good or service to a customer and the customer obtains control of the good or service. To recognize revenue, two parties must have an agreement that creates enforceable rights and obligations, the performance obligations must be identifiable and the transaction price must be determinable. The agreement must also have commercial substance and collection must be probable.

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The Company contracts with customers to provide technology-enabled background and identity verification services. 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. 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. Background and identity verification services comprised a substantial portion of the total revenues for the three and nine months ended September 30, 2020 and 2021. As such, significant changes in background and identity verification services could affect the nature, amount, timing, and uncertainty of revenue and related cash flows. Payment for background and identity verification services generally occurs once the reports have been received by the customer. The Company records third-party pass-through fees incurred as part of screening related products on a gross revenue basis, with the related expense recorded as third-party cost of revenue, as the Company has control over the transaction and is therefore considered to be acting as a principal.

The Company's contracts generally do not include any obligations for returns, refunds, or similar obligations, nor does the Company have a practice of granting significant concessions. Payment terms and conditions vary by contract and customer, although terms generally include a requirement of payment within 30 to 60 days of the invoice date. Any advanced payments received from customers are initially deferred and subsequently recognized as revenue as the related performance obligations are satisfied. There is typically no variable consideration related to the Company's contracts, nor do they include a significant financing component, non-cash consideration or consideration payable to a customer.

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.

Sales taxes collected from customers are remitted to governmental authorities and are therefore excluded from revenues in the statements of operations and comprehensive loss.

Corporate Technology and Production Systems Expense

Corporate technology and production systems expense 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 this line item:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Corporate information technology	\$ 4,696	\$ 6,122	\$ 14,902	\$ 15,611
Development of platform and product initiatives	4,150	3,906	12,170	11,242
Production support and maintenance	1,996	2,056	5,850	5,582
Total production systems	6,146	5,962	18,020	16,824
Corporate technology and production systems	\$ 10,842	\$ 12,084	\$ 32,922	\$ 32,435

Corporate information technology expenses consist of personnel costs 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.

Corporate technology and production systems expenses also include 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. As of June 30, 2021, the Company completed phase two related to the migration of its production and fulfillment systems to the cloud, and as a result, 95% of revenue was processed through platforms hosted in the cloud. The Company will continue to incur expenses related to phase two to complete the decommissioning of on-premises data centers for internal corporate technology infrastructure and migration to the cloud. This is expected to be completed by June 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 the Company expects to complete in 2022, will unify clients onto a single global platform. The future costs related to completing these initiatives will be included in corporate technology and production systems expense.

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.

Accounting Pronouncements Adopted

In August 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU No. 2017-12"), which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. ASU No. 2017-12 was effective for non-public enterprises for annual periods after December 15, 2020, with early adoption permitted. The Company adopted this updated guidance effective January 1, 2021 and it did not have a material impact on the financial statements of the Company.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Topic 350-40)" ("ASU No. 2018-15") to help evaluate the accounting for costs of implementation activities incurred in a cloud computing arrangement that is a services contract. ASU No. 2018-15 aligns the requirement for deferring implementation costs incurred in a cloud computing arrangement that is a services contract with those incurred to develop or obtain internal-use software. ASU No. 2018-15 was effective for non-public enterprises for annual periods after December 15, 2020, with early adoption permitted. The Company adopted this updated guidance effective January 1, 2021 and it did not have a material impact on the financial statements of the Company.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASC 842”), on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840, Leases. The guidance is effective for the Company for annual periods beginning after December 15, 2021 and interim periods within annual periods beginning after December 15, 2022. The Company is currently evaluating the impact of the adoption of the new standard on its financial statements but has not yet determined what the effects of adopting this updated guidance will be. The Company plans to adopt this updated guidance for the annual period ending December 31, 2022 and anticipates that it will recognize a right of use asset and lease liability on the adoption date. The Company plans to apply practical expedients provided in the standards update that allow the Company, among other things, not to reassess contracts that commenced prior to the adoption. The Company also anticipates electing a policy not to recognize right of use assets and lease liabilities related to short-term and immaterial leases.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments” (“ASU No. 2016-13”). ASU No. 2016-13 requires an entity to utilize a new impairment model known as the current expected credit loss (“CECL”) model to estimate its lifetime expected credit loss and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU No. 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans, and available-for-sale debt securities. As per the latest ASU No. 2020-02, “Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842),” the FASB deferred the timelines for certain small public and private entities. The new guidance will be adopted by the Company for the annual reporting period beginning January 1, 2023, including interim periods within that annual reporting period. The standard will apply as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact of the adoption of ASU No. 2016-13 on the Company’s financial statements and related disclosures.

In March 2020 and January 2021, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848)” (“ASU No. 2020-04”) and ASU No. 2021-01, “Reference Rate Reform (Topic 848): Scope” (“ASU No. 2021-01”), respectively. These ASUs address concerns about the risk of cessation of the London Interbank Offered Rate (“LIBOR”) and the identification of alternative reference rates. The amendments in ASU No. 2020-04 and ASU No. 2021-01 provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The amendments in ASU No. 2020-04 and ASU No. 2021-01 are elective. The Company is evaluating the impact that adoption of any of the amendments within these ASUs will have on its financial statements ahead of the expected cessation of the one week and two-month LIBOR rates in December 2021.

4. Property and Equipment, net

(in thousands)	December 31, 2020	September 30, 2021
Furniture and fixtures	\$ 3,925	\$ 3,214
Computers and equipment	34,895	36,835
Leasehold improvements	10,928	7,762
	49,748	47,811
Less: Accumulated depreciation	(35,618)	(37,397)
Total property and equipment, net	\$ 14,130	\$ 10,414

During the three months ended September 30, 2020 and 2021, depreciation expense on property and equipment was \$1.7 million and \$1.1 million, respectively. During the nine months ended September 30, 2020 and 2021, depreciation expense on property and equipment was \$5.5 million and \$3.5 million, respectively. Write down of abandoned property and equipment no longer in use was \$0.6 million for the three months ended September 30, 2020. Write down of abandoned property and equipment no longer in use was \$0.6 million and \$2.8 million for the nine months ended September 30, 2020 and 2021, respectively.

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5. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2021 were as follows:

(in thousands)	
Goodwill as of December 31, 2020	\$831,800
Foreign currency translation adjustment	(1,121)
Goodwill as of September 30, 2021	\$830,679

Intangible Assets

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

(dollars in thousands)	Estimated Useful Lives	December 31, 2020			September 30, 2021		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer lists	7 - 17 years	\$451,853	\$ (269,989)	\$181,864	\$450,979	\$ (295,584)	\$155,395
Trademarks	4 - 16 years	75,562	(26,855)	48,707	75,302	(30,408)	44,894
Technology	3 - 7 years	215,686	(155,309)	60,377	227,147	(182,177)	44,970
Domain names	3 - 15 years	10,118	(3,333)	6,785	10,118	(3,840)	6,278
Favorable leases	4 - 14 years	4,940	(2,129)	2,811	4,940	(2,376)	2,564
		<u>\$758,159</u>	<u>\$ (457,615)</u>	<u>\$300,544</u>	<u>\$768,486</u>	<u>\$ (514,385)</u>	<u>\$254,101</u>

Included within technology is \$34.9 million and \$32.2 million of internal-use software, net of accumulated amortization, as of December 31, 2020 and September 30, 2021, respectively. As of September 30, 2021, \$6.4 million of technology assets have not yet been put in service.

The Company capitalized \$11.3 million of costs to develop internal-use software included in technology during the nine months ended September 30, 2020 (consisting of internal costs of \$8.1 million and external costs of \$3.2 million) and \$12.0 million during the nine months ended September 30, 2021 (consisting of internal costs of \$9.3 million and external costs of \$2.7 million).

For each of the nine months ended September 30, 2020 and 2021, the Company recorded a write-down related to the impairment of capitalized software in the amount of \$0.1 million.

Amortization expense was \$21.2 million and \$19.2 million for the three months ended September 30, 2020 and 2021, respectively, and \$62.9 million and \$57.7 million for the nine months ended September 30, 2020 and 2021, 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 the related economic benefits are consumed. The following is a schedule of estimated future amortization expense as of September 30, 2021:

(in thousands)

Year Ending December 31,

2021	\$ 19,608
2022	58,541
2023	39,884
2024	31,176
2025	24,711
Thereafter	80,181
	<u>\$254,101</u>

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6. Accrued Expenses

Accrued expenses on the unaudited condensed consolidated balance sheets as of December 31, 2020 and September 30, 2021, consisted of the following:

(in thousands)	December 31, 2020	September 30, 2021
Accrued compensation	\$ 15,959	\$ 25,190
Accrued cost of revenues	10,834	10,341
Accrued interest	11	4,844
Accrued IPO offering expenses	—	1,424
Other accrued expenses	9,095	11,038
Total accrued expenses	<u>\$ 35,899</u>	<u>\$ 52,837</u>

7. Debt

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, 2020	September 30, 2021
Current portion of long-term debt		
First lien term loan	<u>\$ 13,147</u>	<u>\$ 6,461</u>
Long-term debt		
First lien term loan, due June 19, 2024 (4.68% and 4.50% for the nine months ended September 30, 2020 and 2021, respectively)	610,340	605,494
Unamortized discount and debt issuance costs on first lien term loan	(8,034)	(6,292)
Total long-term debt, net	<u>\$ 602,306</u>	<u>\$ 599,202</u>

First Lien Term Loan

The First Lien Credit Agreement, as amended (the "Credit Agreement") provided for aggregate principal borrowings of \$740.0 million, comprised of a \$655.0 million term loan (the "First Lien Term Loan") and an \$85.0 million revolving credit facility (the "Revolver"). On August 11, 2021, the Company entered into the Sixth Amendment to the First Lien Credit Agreement (the "Sixth Amendment"). Pursuant to the Sixth Amendment, the aggregate amount of borrowings permitted by the Revolver automatically increased from \$85.0 million to \$140.0 million upon the consummation of the IPO and thus, the aggregate principal borrowings allowed under the Credit Agreement increased to \$795.0 million.

Amounts outstanding under the First Lien Term Loan bear interest using either of the following two options which are chosen quarterly in advance at the election of the borrower: (1) an applicable rate of 2.5% plus the greater of (a) the prime rate or (b) the federal funds rate plus $\frac{1}{2}$ of 1% or (c) the one-month London Interbank Offered Rate ("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. The Company chooses the method of interest for a period of either one month, two months, three months or six months. Interest is payable on the last business day of the period selected except for the six-month period, where it is payable on the last day of the third and sixth month.

The First Lien Term Loan requires a \$1.6 million repayment of principal on the last business day of each March, June, September and December. Per the Credit Agreement, the Company must make a mandatory principal prepayment to the extent the Company has excess cash flow, as defined by the agreement, in any completed fiscal year. For the year ended December 31, 2020, the mandatory principal prepayment was \$6.7 million and was paid in April 2021. On November 1, 2021, the Company utilized proceeds from the IPO and cash on hand to repay \$100.0 million of outstanding borrowings under the First Lien Term Loan. See Note 18, "Subsequent Events" for additional information. All outstanding principal is due at maturity on June 19, 2024.

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Outstanding borrowings under the Credit Agreement are collateralized by a first-priority security interest in substantially all of the equity interests of the Company.

The estimated fair value of the Company's First Lien Term Loan was \$609.5 million and \$612.0 million as of December 31, 2020 and September 30, 2021, 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 First Lien Term Loan or similar liabilities is not readily available.

Revolving Credit Facility

Pursuant to the Sixth Amendment, the aggregate amount of borrowings permitted by the Revolver automatically increased from \$85.0 million to \$140.0 million upon the consummation of the IPO on September 23, 2021.

Amounts outstanding under the Revolver bear interest at a tiered floating interest rate based on the net leverage ratio of the borrower. The rate may be chosen monthly in advance at the election of the borrower, as follows: (1) an applicable rate of 2.5% plus the greater of (a) the prime rate (b) the federal funds rate plus $\frac{1}{2}$ of 1% (c) the one-month LIBOR plus 1% or (d) a 2% floor or (2) an applicable rate of 3.5% plus one-month LIBOR. In addition, there is a quarterly fee of 0.50% or 0.375% on the unused portion of the commitments based on the first lien net leverage ratio. Unused and therefore available borrowings under the Revolver, net Letters of Credit (as defined below), were \$84.0 million and \$139.3 million as of December 31, 2020 and September 30, 2021, respectively. The Revolver matures on the earlier of August 11, 2026 and December 31, 2023 unless, on or prior to December 31, 2023, the First Lien Term Loan has been refinanced with a final maturity date that is no earlier than February 11, 2027 or amended, modified or waived, such that the final maturity date of the First Lien Term Loan is no earlier than February 11, 2027.

Letters of Credit

For the nine months ended September 30, 2020 and 2021, \$1.0 million and \$0.7 million, respectively, of stand-by letters of credit ("Letters of Credit") were issued under the Revolver to support two office space leases. The Revolver has a sublimit for Letters of Credit equal to the lesser of \$20.0 million or the aggregate amount of the revolving credit commitments under the Revolver. As of September 30, 2020 and 2021, the Revolver provided additional capacity for Letters of Credit of \$19.0 million and \$19.3 million, respectively.

The Company's Credit Agreement contains financial covenants and covenants that, among other things, restrict the Company's ability to: incur certain additional indebtedness; transfer money between its various subsidiaries; pay dividends on, repurchase or make distributions with respect to its 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 its assets; enter into certain transactions with its affiliates; and amend certain documents. The financial covenants also require that the Company remains within a specified leverage ratio of 6.75:1.00 once it draws down on 35% or more of the Revolver. The Company was in compliance with all financial covenants under the Credit Agreement as of September 30, 2021.

Obligations under the Company's Credit Agreement are collateralized by a first lien on substantially all of the assets and outstanding capital stock of the Company subject to exceptions. The Company's Credit Agreement also contains various events of default with respect to the indebtedness, 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 in the agreements to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding thereunder, together with all accrued and unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders.

8. 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.

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- 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, 2020 and September 30, 2021 based upon the short-term nature of such assets and liabilities (Level 1). See Note 7, "Debt" for discussion of the fair value of the Company's debt.

Interest rate swaps and foreign currency forward contracts 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.

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, 2020:

(in thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets			
Foreign exchange contracts	-	\$648	-
Liabilities			
Interest rate swaps	-	\$11,524	-

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 September 30, 2021:

(in thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets			
Foreign exchange contracts	—	\$ 229	—
Liabilities			
Interest rate swaps	—	\$6,500	—

During the three and nine months ended September 30, 2020 and 2021, we did not re-measure any financial assets or liabilities at fair value on a nonrecurring basis.

9. Derivative Instruments and Hedging Activities

Cash Flow Hedges of Foreign Exchange Risk

The Company is exposed to fluctuations in various foreign currencies against its functional currency, the USD. Specifically, the Company is exposed to, and hedges, third-party expenses denominated in Indian Rupees (INR). These transactions expose the Company to exchange rate fluctuations between USD and INR and the Company uses foreign currency forward agreements to manage its exposure to fluctuations in the USD-INR exchange rate. This involves fixing the USD-INR exchange rate for delivery of a specified amount of INR on a specified date. The currency forward agreements are cash settled in USD for their fair value at or close to their settlement date.

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For derivatives designated and that qualify as cash flow hedges of foreign exchange risk for accounting purposes, the gain or loss on the derivative is recorded in Accumulated other comprehensive income. The earnings recognition of excluded components is presented in the same income statement line item as the earnings effect of the hedged transaction. All contracts have maturities of less than 12 months.

As of September 30, 2021, the Company had the following outstanding foreign currency derivatives that were used to hedge its foreign exchange risks:

<u>Foreign Currency Derivative</u>	<u>Number of Instruments</u>	<u>Notional Sold</u>	<u>Notional Purchased</u>
Currency forward agreements	3	4.2 million USD	331.0 million INR

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.

To reduce exposure to variability in expected future cash outflows on variable rate debt attributable to the changes in LIBOR, the Company has entered into interest rate swaps to economically offset a portion of this risk.

Additionally, the Company electively de-designates currency forward agreements previously designated as cash flow hedges prior to their maturity due to administrative constraints.

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

As of September 30, 2021, the Company had the following outstanding derivative that was not designated as a hedge in qualifying hedging relationships:

<u>Product</u>	<u>Number of Instruments</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Notional</u>
Interest Rate Swap	1	June 30, 2021	June 30, 2022	\$308.0 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 December 31, 2020 and September 30, 2021.

(in thousands)	<u>Asset Derivatives</u>			
	<u>As of December 31, 2020</u>		<u>As of September 30, 2021</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivatives designated as hedging instruments:				
Foreign exchange contracts	Other current assets	\$ 648	Other current assets	\$ 229
Total foreign exchange contracts		\$ 648		\$ 229
(in thousands)	<u>Liability Derivatives</u>			
	<u>As of December 31, 2020</u>		<u>As of September 30, 2021</u>	
	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other current liabilities	\$ 7,302	Other current liabilities	\$6,500
Interest rate swaps	Other liabilities	4,222	Other liabilities	—
Total interest rate swaps		\$11,524		\$6,500

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The tables below present the effect of cash flow hedge accounting on Accumulated Other Comprehensive Income for the three and nine months ended September 30, 2020 and 2021.

(in thousands)	Three Months Ended September 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Three Months Ended September 30,	
	2020	2021		2020	2021
	Amount of Gain or (Loss) Recognized in OCI on Derivative (Included Component)			Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Included Component)	
Derivatives in Hedging Relationships					
Foreign exchange contracts	\$ 423	\$ 41	Cost of revenues Selling general and administrative	\$ 12	\$ 35
Total	\$ 423	\$ 41		\$ 26	\$ 59

(in thousands)	Nine Months Ended September 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Nine Months Ended September 30,	
	2020	2021		2020	2021
	Amount of Gain or (Loss) Recognized in OCI on Derivative (Included Component)			Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Included Component)	
Derivatives in Hedging Relationships					
Foreign exchange contracts	\$ 423	\$ (143)	Cost of revenues Selling general and administrative	\$ 12	\$ 139
Total	\$ 423	\$ (143)		\$ 26	\$ 240

(in thousands)	Three Months Ended September 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Three Months Ended September 30,	
	2020	2021		2020	2021
	Amount of Gain or (Loss) Recognized in OCI on Derivative (Excluded Component)			Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Excluded Component)	
Derivatives in Hedging Relationships					
Foreign exchange contracts	\$ 11	\$ 69	Cost of revenues Selling general and administrative	\$ 75	\$ 30
Total	\$ 11	\$ 69		\$ 177	\$ 52

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(in thousands)	Nine Months Ended September 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Nine Months Ended September 30,	
	2020	2021		2020	2021
Derivatives in Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Excluded Component)			Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Excluded Component)	
			Cost of revenues	\$ 75	\$ 120
Foreign exchange contracts	\$ 11	\$ 319	Selling general and administrative	102	139
Total	\$ 11	\$ 319		\$ 177	\$ 259

The tables below present the effect of the Company's financial derivative instruments on the unaudited condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2020 and 2021.

(in thousands)	Three Months Ended September 30,			
	2020		2021	
	Selling General, and Administrative	Cost of Revenues	Selling General, and Administrative	Cost of Revenues
Total amounts of income and expense line items in which the effects of fair value or cash flow hedges are recorded	\$ 25,391	\$55,112	\$ 84,983	\$82,638
Gain or (loss) on cash flow hedging relationships				
Foreign exchange contracts:				
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	14	12	24	35
Amount excluded from effectiveness testing recognized in earnings	93	83	22	30

(in thousands)	Nine Months Ended September 30,			
	2020		2021	
	Selling General, and Administrative	Cost of Revenues	Selling General, and Administrative	Cost of Revenues
Total amounts of income and expense line items in which the effects of fair value or cash flow hedges are recorded	\$ 86,848	\$153,458	\$ 153,194	\$225,798
Gain or (loss) on cash flow hedging relationships				
Foreign exchange contracts:				
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	14	12	101	139
Amount excluded from effectiveness testing recognized in earnings	93	83	139	120

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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 loss for the three and nine months ended September 30, 2020 and 2021.

(in thousands)	Location of (Gain) or Loss Recognized in Income on Derivative	Three Months Ended September 30,	
		2020	2021
		Amount of (Gain) or Loss Recognized in Income on Derivative	
Derivatives Not Designated as Hedging Instruments			
Interest rate swaps	(Gain) loss on interest rate swaps	\$ (49)	\$ 112
Foreign exchange contracts	Selling general and administrative	(9)	—
Foreign exchange contracts	Cost of revenues	(8)	1
Total		\$ (66)	\$ 113

(in thousands)	Location of (Gain) or Loss Recognized in Income on Derivative	Nine Months Ended September 30,	
		2020	2021
		Amount of (Gain) or Loss Recognized in Income on Derivative	
Derivatives Not Designated as Hedging Instruments			
Interest rate swaps	(Gain) loss on interest rate swaps	\$ 9,604	\$ 199
Foreign exchange contracts	Selling general and administrative	(9)	(20)
Foreign exchange contracts	Cost of revenues	(8)	(28)
Total		\$ 9,587	\$ 151

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

The Company recorded a tax provision of \$5.7 million and a tax benefit of \$12.6 million for the three months ended September 30, 2020 and 2021, respectively, which resulted in an effective tax rate of (122.9)% and 33.3%, respectively. The Company recorded a tax provision of \$0.7 million and a tax benefit of \$8.1 million for the nine months ended September 30, 2020 and 2021, respectively, which resulted in an effective tax rate of (1.4)% and 27.6%, respectively. For the three and nine months ended September 30, 2020 and 2021, the effective rate differs from the statutory rate mainly due to a jurisdictional mix of earnings and permanent items.

11. Commitments and Contingencies

NCC Acquisition

In conjunction with the 2018 acquisition of National Crime Check Pty Ltd. (“NCC”), the purchase agreement contained an earn-out provision whereby if NCC exceeded defined revenue and earnings before interest, taxes, depreciation and amortization (“EBITDA”) targets for the fiscal years 2019 through 2021, the Company would pay the former shareholder of NCC an aggregate amount not to exceed approximately \$9.1 million over three installments after the completion of each respective period. For fiscal year 2021, \$1.0 million was earned and was paid to the former shareholder in September 2021. No further earn-out amounts are payable under the purchase agreement.

Executive compensation payment

Pursuant to an agreement between a stockholder, founder and former chief executive officer, together with trusts for the benefit of his children, (the “Trusts”), and another stockholder and former executive of the Company, proceeds from the sale of certain shares in the IPO by the Trusts were paid to such former executive in full settlement of obligations between them in accordance with a prior agreement entered into in 2015 in connection with the acquisition of the Company by Goldman Sachs and CDPQ. This resulted in a one-time \$15.6 million deemed non-cash compensation expense to the Company, which was recognized within Selling, general and administrative in the unaudited condensed consolidated statements of operations and comprehensive loss for the three months ended September 30, 2021. The withholding and payroll taxes paid by the Company that were associated with this payment between the stockholders were funded entirely by the Trusts and there was no cash impact to the Company from this arrangement. The cash paid out to the former executive was recorded within cash flows from operating activities with the equal amount received from the stockholder recorded within cash flows from financing, within the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2021.

12. Equity

On September 10, 2021, the Company’s Board of Directors authorized a stock split and the Company filed an amendment to the Amended and Restated Certificate of Incorporation, to effectuate a 1,198-for-1 split of its outstanding common stock. The stock split was effectuated such that (i) each outstanding share of common stock was increased to 1,198 shares; (ii) the number of shares of common stock into which then-outstanding options to purchase common stock is exercisable was proportionately increased; and (iii) the exercise price of each then-outstanding option to purchase common stock was proportionately reduced. No fractional share amounts resulted from the split. The accompanying unaudited condensed consolidated financial statements give retroactive effect as though the 1,198-for-1 stock split of the Company’s common stock occurred for all periods presented. Under the 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; and
- (ii) 100,000,000 shares of undesignated preferred stock, par value \$0.01 per share (“preferred stock”).

The Board of Directors is authorized, to the fullest extent permitted by law, by resolution or resolutions, to provide, out of the unissued shares of preferred stock, for one or more series of preferred stock and, with respect to each such series, to fix, without further stockholder approval, 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, which number the Board of Directors may, except where otherwise provided in the designation of such series, increase (but not above the total number of authorized shares of preferred stock) or decrease (but not below the number of shares of such series then outstanding). The powers, preferences and relative, participating, optional and other special rights of, and the qualifications, limitations or restrictions thereof, of each series of preferred stock, if any, may differ from those of any and all other series at any time outstanding.

Each holder of record of common stock, as such, shall have one vote for each share of common stock that is outstanding in his, her or its name on the books of the Company on all matters on which holders of common stock are entitled to vote generally; provided, however, to the fullest extent permitted by law, holders of Common Stock, as such, shall have no voting power with respect to, and shall not be entitled to vote on, any amendment to the Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of preferred stock) that relates solely to the terms of one or more outstanding series of preferred stock if the holders of such affected series of preferred stock are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to applicable law or the Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of preferred stock). To the extent permitted by law, holders of common stock shall have no voting power and shall not be entitled to vote on the initial adoption of any certificate of designations that establishes or authorizes the issuance of any series of preferred stock. An election of directors by the Company’s stockholders shall be determined by a plurality of the votes cast by the stockholders present in person or represented by proxy at the meeting and entitled to vote on the election. There will be no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock will be able to elect all of the directors. 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).

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Except as otherwise required by applicable law or in the Company's Amended and Restated Certificate of Incorporation, the holders of common stock shall vote together as a single class (or, if the holders of one or more series of preferred stock are entitled to vote together with the holders of common stock, together as single class with the holders of such other series of preferred stock) on all matters submitted to a vote of stockholders generally.

Except as otherwise required by applicable law, holders of any series of preferred stock shall be entitled to only such voting rights, if any, as shall expressly be granted thereto by the Amended and Restated Certificate of Incorporation (including any certificate of designations relating to such series of preferred stock).

Subject to applicable law and the rights, if any, of the holders of any outstanding series of preferred stock or any class or series of stock having a preference over or the right to participate with the common stock with respect to the payment of dividends, dividends may be declared and paid ratably on the common stock out of the assets of the Company that are legally available for this purpose at such times and in such amounts as the Board of Directors in its discretion shall determine.

Upon the dissolution, liquidation or winding up of the Company, after payment or provision for payment of the debts and other liabilities of the Company and subject to the rights, if any, of the holders of any outstanding series of preferred stock or any class or series of stock having a preference over or the right to participate with the common stock with respect to the distribution of assets of the Company upon such dissolution, liquidation or winding up of the Company, the holders of common stock shall be entitled to receive the remaining assets of the Company available for distribution to its stockholders ratably in proportion to the number of shares held by them.

The number of authorized shares of common stock or preferred stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of capital stock of the Company entitled to vote thereon irrespective of the provisions of Section 242(b)(2) of the Delaware General Corporation Law (or any successor provision thereto), and no vote of the holders of common stock or the preferred stock voting separately as a class shall be required therefor, unless a vote of any such holder is required pursuant to the Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of preferred stock).

13. Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Stock-based compensation expense				
Cost of revenues	\$ —	\$ 937	\$ —	\$ 958
Corporate technology and production systems	—	1,449	—	1,487
Selling, general and administrative	570	23,196	1,756	24,791
Total stock-based compensation expense	\$ 570	\$ 25,582	\$ 1,756	\$ 27,236

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Prior to the IPO, all share-based awards were issued to employees under the Company's 2015 Long-Term Equity Incentive Plan (the "2015 Plan"). Upon the adoption of the Sterling Check Corp. 2021 Omnibus Incentive Plan (the "2021 Equity Plan") on August 4, 2021 and as of September 22, 2021, all share-based awards are now issued under the 2021 Equity Plan.

2015 Long-Term Equity Incentive Plan

The Company's 2015 Plan made available for grant 7,068,200 shares of common stock in the form of non-qualified stock options, stock appreciation rights, shares of restricted stock, restricted stock units, performance shares and performance units (collectively, service-based awards) to non-employee directors, officers, employees, advisors and consultants selected by the Company's Compensation Committee of the Board of Directors for participation in the 2015 Plan. The 2015 Plan, as amended, also made available 3,215,432 performance-based stock options ("PSOs") to senior executives and directors of the Company, which would only vest upon a change in control or public offering. The 2015 Plan provided for accelerated vesting of outstanding service-based vesting stock options ("SVOs") in the event of a change in control and provided for accelerated vesting of PSOs in the event of a change in control or an initial public offering and included nondiscretionary anti-dilution provisions in the event of an equity restructuring.

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.

Stock Options

As of September 30, 2021, there were 6,450,978 SVOs outstanding and 3,096,830 PSOs outstanding. Under the 2015 Plan, SVOs and PSOs were granted with an exercise price equal to an implied share price of a share of common stock on the date of grant and had a contractual term of ten years. SVOs became exercisable over a five-year period with 60% vesting after three years and the remaining balance becoming equally vested with respect to 20% on each of the fourth and fifth year anniversaries from the date of grant. PSOs became exercisable upon a change in control or an initial public offering. All options granted were subject to continued employment on the vesting date. Upon completion of the IPO, all outstanding SVOs and PSOs under the 2015 Plan were vested and became exercisable.

The weighted average grant date fair values of SVOs granted during the nine months ended September 30, 2020 and 2021 were \$2.21 and \$2.32, respectively. The weighted average grant date fair values of PSOs granted during the nine months ended September 30, 2020 was \$2.21. There were no PSOs granted in the nine months ended September 30, 2021.

The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model. The Company uses an income approach, including a multiple of historical EBITDA adjusted for nonrecurring transactions, for valuing its equity. This approach was selected as a reasonably appropriate method to determine the implied share price of the Company's common stock, which represented a privately-held business interest prior to the IPO. Assumptions used in determining compensation cost for SVOs granted included the following: (i) expected holding period determined using the mid-point of the contractual term; (ii) the estimate of expected volatility based upon an analysis of the historical volatility of guideline public companies; (iii) the likelihood of additional dividends; and (iv) the risk-free interest rate determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected holding period of the award being valued. The Company uses actual data to record forfeitures.

In November 2020, the Company modified the exercise price of 4,109,140 previously awarded SVOs and 1,483,124 previously awarded PSOs, which impacted 51 employees, modifying the exercise price to \$9.68 which represents the share price valuation on the date of modification. The additional cost related to the modification of the exercise price of the SVOs in 2020 was to be recognized on a straight-line basis over the vesting period of the modified awards. The modification did not have a material impact on the Company's financial statements. All unrecognized stock-based compensation expense related to this modification was accelerated on the date of the IPO as all outstanding SVOs and PSOs vested in connection with the IPO.

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The following tables represent the weighted-average assumptions used to determine compensation costs and grant-date fair values for SVOs and PSOs granted during the nine months ended September 30, 2020 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Expected volatility	20.83%	25.90%	20.38%	25.90%
Risk-free interest rate	1.06%	0.60%	1.14%	0.60%
Dividend rate	0.00%	0.00%	0.00%	0.00%
Expected term, in years	5.00	5.00	5.00	5.00

The table below provides a summary of SVO and PSO activity under the 2015 Plan for the periods presented (in thousands, except shares and per share amounts):

	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
Balances as of December 31, 2019	5,374,486	\$ 9.97	7.83	\$ 4,700	3,036,930	\$ 10.38	9.02	\$ 1,351
Granted	723,615	10.73			143,760	—		
Forfeited / Cancelled	(303,650)	9.99			(59,900)	—		
Exercised	(143,760)	8.35		356	—	—		
Balances as of September 30, 2020	5,650,691	\$ 10.10	7.55	\$ 845	3,120,790	\$ 10.39	8.30	\$ —
Balances as of December 31, 2020	6,289,248	\$ 9.60	7.58	\$ 843	3,120,790	\$ 10.05	8.05	\$ —
Granted	316,272	9.68			—	—		
Forfeited / Cancelled	(148,552)	9.63			(23,960)	9.68		
Exercised	(5,990)	9.39		141	—	—		
Balances as of September 30, 2021	6,450,978	\$ 9.58	6.97	\$ 105,668	3,096,830	\$ 10.05	7.31	\$ 31,122

The following table summarizes exercisable SVOs (in thousands, except shares and per share amounts):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Exercisable as of September 30, 2020	1,007,113	\$ 8.89	5.08	\$ 811
Exercisable as of September 30, 2021	6,450,978	9.58	6.97	105,668

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The following table summarizes exercisable PSOs (in thousands, except shares and per share amounts):

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Aggregate Intrinsic Value</u>
Exercisable as of September 30, 2020	—	\$ —	—	\$ —
Exercisable as of September 30, 2021	3,096,830	10.05	7.31	31,122

The total intrinsic value of SVOs exercised during the nine months ended September 30, 2020 and 2021 was \$0.4 million and \$0.1 million, respectively.

As of September 30, 2021, there was no unrecognized compensation cost related to SVOs and PSOs as all unrecognized compensation expense totaling \$14.9 million was recognized upon the accelerated vesting of options upon completion of the IPO.

Promissory Notes

In December 2020, the Company issued 370,182 shares of common stock to employees at \$9.68 per share. Consideration was made in the form of promissory notes between the employee and the Company. The promissory notes accrued interest at the mid-term applicable federal rate for November 2020 (0.39% per annum) and were partially secured by the underlying shares of common stock. The promissory notes were partial-recourse, but treated as nonrecourse for accounting purposes and, as such, (i) each of these purchases of common stock with a promissory note was accounted for as if it were a stock option grant and (ii) no receivable for amounts due under the promissory notes was recorded on the Company's unaudited condensed consolidated balance sheets. As the shares were considered fully vested, unexercised stock options, the full amount of stock compensation expense was recognized on the grant date in the amount of \$0.8 million in 2020. As the employees have the right to require the Company to purchase all of the shares at fair market value under certain events, these instruments were classified as a liability and recorded in Other liabilities on the unaudited condensed consolidated balance sheets as of December 31, 2020. The fair value of the fully vested stock options was marked to market each reporting period.

The promissory notes were forgivable upon (i) a change in control or (ii) the first public filing of a registration statement with the SEC in connection with an initial public offering. On August 4, 2021, the Company approved the forgiveness and cancellation of the outstanding indebtedness of each promissory note holder prior to the IPO. Loan Forgiveness Agreements were executed and concurrently, the Company agreed to accelerate payment of a portion of each holder's target bonus opportunity for calendar year 2021 to assist the holder in satisfying the withholding tax obligations with respect to the forgiveness of the promissory notes upon consummation of the IPO. On August 16, 2021, pursuant to the terms of the promissory notes, the principal amount on each loan, together with all accrued and unpaid interest, were forgiven. On August 17, 2021, the forgiveness of the promissory notes by the Company was treated as an option modification, resulting in the recognition of stock compensation expense of \$7.7 million which reflected the incremental fair value of the award on the date of forgiveness. As of September 30, 2021, the issuance of common stock pursuant to the forgiveness of the promissory notes is classified as Stockholders' Equity on the unaudited condensed consolidated balance sheets.

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 our 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 (or "ISOs") and nonqualified stock options (or "NQSOs"); stock appreciation rights (or "SARs"); restricted stock; restricted stock units (or "RSUs"); performance awards; cash-based awards and other share-based awards. Subject to any adjustment as provided in the 2021 Equity Plan, 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 September 30, 2021, 3,936,751 shares were available for issuance under the 2021 Equity Plan.

On September 22, 2021, the Company made one-time grants to all employees under the 2021 Equity Plan (the "IPO Bonus Grants"). Certain members of its senior management team received IPO Bonus Grants consisting of both a nonqualified stock option grant (the "IPO Bonus Options") and a restricted stock grant (the "IPO Bonus Stock Awards"). Non-employee directors received a NQSO grant and all other employees were granted a restricted stock grant or a restricted stock unit (the "IPO Bonus Stock Unit Awards").

Stock Options

In connection with the IPO, the Company granted to executives 3,627,441 shares of common stock to be issuable upon the exercise of options at an exercise price equal to \$23.00 per share. These IPO Bonus Options (other than grants to non-employee directors) 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 the executive's continued employment with the Company through the applicable vesting date. Each of the IPO Bonus Options granted to non-employee directors will vest in three substantially equal annual installments on the first three anniversaries of the grant date, subject to the non-employee director's continued service with the Company through the applicable vesting date. Options issued under the 2021 Equity Plan generally expire ten years after the grant date.

The fair value for IPO Bonus Options granted under the 2021 Equity Plan was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected volatility	44.53%
Risk-free interest rate	1.04%
Dividend rate	0.00%
Expected term, in years	6.38

The weighted average grant date fair value of the IPO Bonus Options granted during the three and nine months ended September 30, 2021 was \$10.24.

Restricted Stock

In connection with the IPO, the Company granted to employees 1,824,597 restricted shares with a grant date fair value of \$23.00 per share. These IPO Bonus Stock Awards will 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 the employee's 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.

Restricted Stock Units

In connection with the IPO, the Company granted to employees 44,211 RSUs with a grant date fair value of \$23.00 per share. These IPO Bonus Stock Unit Awards will 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 the employee's continued employment with the Company through the applicable vesting date. Upon vesting, employees will receive shares of common stock in settlement of the units.

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As of September 30, 2021, the Company had approximately \$79.7 million of unrecognized pre-tax non-cash share-based compensation expense, comprised of approximately \$36.9 million related to NQSOs, \$41.7 million related to restricted stock, and approximately \$1.0 million related to RSUs, all of which the Company expects to recognize over a weighted average period of 4.0 years.

Employee Stock Purchase Plan

In connection with the IPO, on August 4, 2021, the Board of Directors adopted, and on August 13, 2021 the stockholders approved, the 2021 Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to voluntarily make after-tax contributions of up to 15% of such employee's cash compensation for the purchase of the Company's stock. It is expected that consecutive offering periods of six months in duration will be established during which such contributions will be accumulated and applied to purchase shares at the end of the offering period. It is expected that the purchase price will not be less than 85% of the lesser of the closing price of the shares on the first day of the offering period or the last day of the offering period. There were no stock employee purchase offerings during the three and nine months ended September 30, 2021 and, accordingly, no eligible employees were enrolled in the ESPP during the three and nine months ended September 30, 2021.

The ESPP authorizes the issuance of a total of 1,886,000 shares, which number shall be automatically increased on the first day of each calendar year following the calendar year in which the effective date of the ESPP falls in an amount equal to the lesser of (a) 1% of the total number of shares outstanding on the last day of the immediately preceding calendar year and (b) a lower number of shares as determined by the Board of Directors. Notwithstanding the foregoing, the maximum number of shares that may be issued or transferred under the ESPP shall not exceed an aggregate of 11,319,000 shares.

14. Net Loss per Share

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

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Numerator:				
Net loss attributable to stockholders	\$ (10,386)	\$ (25,256)	\$ (51,233)	\$ (21,231)
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed losses allocated to stockholders	(10,386)	(25,256)	(51,233)	(21,231)
Denominator:				
Weighted average number of shares outstanding, basic	88,332,134	89,431,022	88,325,838	88,956,388
Weighted average additional shares assuming conversion of potential common shares	—	—	—	—
Weighted average common shares outstanding - diluted	88,332,134	89,431,022	88,325,838	88,956,388
Net loss per share attributable to stockholders, basic	\$ (0.12)	\$ (0.28)	\$ (0.58)	\$ (0.24)
Net loss per share attributable to stockholders, diluted	\$ (0.12)	\$ (0.28)	\$ (0.58)	\$ (0.24)

Prior to the forgiveness of the promissory notes in August 2021, the Company's participating securities included shares of common stock issued in exchange for promissory notes that were being treated as fully vested outstanding stock options and were excluded from the denominator of basic earnings per share. These awards contained the same rights to distributions declared on the Company's common stock but did not have a contractual obligation to share in losses, and as a result, in the periods where the Company was in a net loss position, net losses were not allocated to these participating securities. As of September 30, 2021, the forgiven promissory notes are reflected as an issuance of common stock and are included in the denominator of basic earnings per share.

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The following potentially dilutive outstanding securities were excluded from the computation of diluted net income (loss) 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 and Nine Months Ended September 30,	
	2020	2021
Stock options	8,771,481	13,175,249
Restricted Stock Awards	—	1,824,597
Restricted Stock Units	—	44,211

15. Defined Contribution Plans

The Company has a matching 401(k) plan covering substantially all its U.S. based employees. The Company matched 50% of the first 6% of each employee's contribution for the three and nine months ended September 30, 2020 and 2021. Employees are eligible to enroll after six months of employment and are 100% vested upon enrollment. Employer contributions totaled \$0.4 million for each of the three months ended September 30, 2020 and 2021, respectively, and \$1.6 million and \$1.4 million for the nine months ended September 30, 2020 and 2021, respectively. In addition, the Company maintains an overseas defined contribution plan and paid \$0.6 million and \$0.4 million to fund defined contribution plans related to overseas service centers for the three months ended September 30, 2020 and 2021, respectively, and \$1.3 million and \$0.8 million for the nine months ended September 30, 2020 and 2021, respectively.

16. Related Party Transactions

Pursuant to the Termination Agreement, dated September 22, 2021 (the "Termination Agreement"), with respect to the Fourth Amended and Restated Management Service Agreement, the Company agreed to pay all outstanding amounts owed to Goldman Sachs and a stockholder (the "Stockholder") under the Fourth Amended and Restated Management Service Agreement dated December 3, 2019 (the "MSA") upon the closing of the IPO. During September 2021, payments in the amount of \$3.2 million and \$4.5 million were made to Goldman Sachs and the Stockholder, respectively, to settle amounts outstanding per the agreements through conclusion of the MSA on June 18, 2025. As of December 31, 2020, there was a balance of \$0.3 million in Prepaid expenses on the unaudited condensed consolidated balance sheets related to the management fee to Goldman Sachs and the Stockholder. No such balance existed as of September 30, 2021 as the payments were made upon the completion of the IPO.

In December 2018, the Company entered into an annual cash compensation arrangement with the Stockholder, whereby the Company agreed to pay \$950,000 per year from January 1, 2018 through March 31, 2019 to compensate the Stockholder for additional management services provided to the Company, payable on the occurrence of a public offering or change of control. Upon the completion of the IPO and in accordance with the cash compensation arrangement, during September 2021, the Company paid the Stockholder \$1.2 million for additional management services provided during the period January 1, 2018 to March 31, 2019.

The Company had sales to Goldman Sachs and affiliates in the amount of \$0.6 million and \$1.3 million for the three months ended September 30, 2020 and 2021, respectively, and \$0.7 million and \$4.8 million for the nine months ended September 30, 2020 and 2021, respectively. Outstanding accounts receivable from Goldman Sachs as of December 31, 2020 and September 30, 2021 were \$1.4 million and \$0.4 million, respectively.

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The Company had sales to an affiliate of the Stockholder in the amount of \$0.1 million for both the three months ended September 30, 2020 and 2021 and \$0.1 million and \$0.3 million for the nine months ended September 30, 2020 and 2021, respectively. Outstanding accounts receivable from an affiliate of the Stockholder as of December 31, 2020 and September 30, 2021 were less than \$0.1 million for both periods.

17. 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, 2020, the Company recorded an Insurance receivable and offsetting Legal settlement obligation on the unaudited condensed consolidated balance sheets in the amount of \$0.8 million related to an outstanding claim whereby the Company’s insurers agreed to pay \$0.8 million of the settlement costs. The settlement was paid in January 2021, with the \$0.8 million paid directly by the Company’s insurers.

Expenses associated with a past event for which a liability has been recorded are accrued when it is probable that they will be incurred and the amounts are estimable. As of December 31, 2020 and September 30, 2021, the Company maintained an accrual for legal matters of approximately \$0.5 million and \$0.1 million, respectively.

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 three and nine months ended September 30, 2020 and 2021:

(in thousands)	<u>Three Months Ended September 30,</u>	
	<u>2020</u>	<u>2021</u>
Screening services	\$ 116,313	\$ 168,372
Other services	1,289	1,185
Total revenue	<u>\$ 117,602</u>	<u>\$ 169,557</u>

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(in thousands)	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2021</u>
Screening services	\$ 320,596	\$ 463,763
Other services	4,954	4,492
Total revenue	\$ 325,550	\$ 468,255

The following tables set forth total revenue by geographic area based on the billing address of its customers for the three and nine months ended September 30, 2020 and 2021:

(in thousands)	<u>Three Months Ended September 30,</u>	
	<u>2020</u>	<u>2021</u>
United States	\$ 98,606	\$ 139,564
All other countries	18,996	29,993
Total revenue	\$ 117,602	\$ 169,557

(in thousands)	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2021</u>
United States	\$ 273,407	\$ 379,161
All other countries	52,143	89,094
Total revenue	\$ 325,550	\$ 468,255

Other than the U.S., no single country accounted for more than 10% of the Company's total revenues during the three and nine months ended September 30, 2020 and 2021. Substantially all of the Company's long-lived assets were located in the U.S. as of December 31, 2020 and September 30, 2021.

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, 2020 and September 30, 2021, \$3.3 million and \$2.9 million, respectively, of deferred commissions are included in Other current assets on the unaudited condensed consolidated balance sheets and approximately \$2.1 million and \$2.5 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, 2020 and September 30, 2021.

Concentrations

For the three and nine months ended September 30, 2020 and 2021, 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, 2020 and September 30, 2021.

19. Subsequent Events

On November 1, 2021, the Company utilized net proceeds from the IPO of \$94.5 million and cash on hand to repay \$100.0 million of outstanding borrowings under the First Lien Term Loan. This prepayment reduced the balance outstanding to \$512.0 million as of November 1, 2021.

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 is provided as a supplement to and should be read in conjunction with our unaudited condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2021. 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 the IPO Prospectus and “Cautionary Note Regarding Forward-Looking Statements” included elsewhere in this report.

BASIS OF PRESENTATION

As used in this report, 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 report 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 report 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.

On September 10, 2021, our board of directors authorized a stock split and we filed an amendment to our certificate of incorporation to effectuate a 1,198-for-1 split of our outstanding common stock. The stock split was effectuated such that (i) each then outstanding share of common stock was increased to 1,198; (ii) the number of shares of common stock into which then-outstanding options to purchase common stock is exercisable was proportionately increased; and (iii) the exercise price of each then-outstanding option to purchase common stock was proportionately reduced. The accompanying discussion gives retroactive effect as though the 1,198-for-1 stock split of our common stock occurred for all periods presented.

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 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 interfaces are supported by our powerful artificial intelligence (“AI”)-driven fulfillment platform, which leverages more than 3,300 automation integrations, including Application Programming Interfaces and Robotic Process Automation bots. This enables 90% of United States (“U.S.”) criminal searches to be automated and allows us to complete 70% of U.S. criminal searches within the first hour and 90% within the first day. As of September 30, 2021, 95% of our revenue is processed through platforms hosted in the cloud, which allows us to consistently maintain 99.9% platform availability while being prepared to scale into the future.

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 more complex global workforces. 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 industry-specific teams (“Verticals”) and geographic markets (“Regions”). Experienced client success, sales, product and operations teams dedicated to individual Verticals collaborate with our clients to address their unique challenges and compliance requirements while providing industry best practice guidance. 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; all of which benefit small- and mid-sized businesses, global multinational enterprises and everyone in between. Additionally, this delivery model supports our principle of “Compliance by Design”, enabling clients to maintain compliance globally. Our clients face a dynamic and rapidly evolving global labor market with increasing complexity and regulatory requirements. As a result, we believe our solutions are mission-critical to their core human resources, risk management and compliance functions. During the twelve months ended September 30, 2021, we completed over 75 million searches for over 40,000 clients, including over 50% of the Fortune 100 and over 45% of the Fortune 500. 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.

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Throughout our 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 fulfilment technology (CourtDirect), arrest record and incarceration alert products, post-hire monitoring capabilities, AI-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 and introduction of enhanced global language support capabilities, a cloud-based operating platform and a comprehensive identity verification solution. 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.

Recent Developments

Initial Public Offering

On September 27, 2021, we completed our initial public offering ("IPO") in which we and certain selling stockholders sold an aggregate of 16,427,750 shares of our common stock, \$0.01 par value per share, consisting of 4,760,000 newly issued shares that we sold, 9,525,000 secondary shares that the selling stockholders sold and 2,142,750 shares that the selling stockholders sold pursuant to the full exercise of the underwriters' option to purchase additional shares at an offering price of \$23.00 per share, resulting in net proceeds to us of \$94.5 million, after deducting the underwriting discount of \$6.8 million and offering expenses of \$8.1 million, of which \$2.0 million was unpaid as of September 30, 2021.

Impact of the COVID-19 Pandemic

Since the onset of the COVID-19 pandemic, we have been focused on keeping our employees safe and maintaining our clients' uninterrupted access to our services. We have implemented a series of measures to protect the health and safety of our employees. The global impact of the outbreak has continued to evolve rapidly. Many countries reacted by instituting quarantines and restrictions on travel and limiting operations of non-essential businesses. Such actions created disruption in global supply chains, increased rates of unemployment and adversely impacted many industries. While some governmentally and institutionally mandated restrictions and limitations have been relaxed as local populations have been vaccinated or the outbreak has locally subsided, the outbreak has continued to spread globally and the COVID-19 virus has mutated into new strains. The COVID-19 pandemic could have a continued adverse impact on economic and market conditions, and the full extent of the impact and duration of the COVID-19 pandemic will depend on future developments, including, among other factors, spread of the outbreak and the success of vaccination programs, along with related travel advisories, quarantines and restrictions, the recovery times of disrupted supply chains and industries, the impact of labor market interruptions, the impact of government interventions, and uncertainty with respect to the duration of the global economic slowdown.

Our financial performance in 2020 was impacted by the general economic downturn experienced as a result of the COVID-19 pandemic. In response to the COVID-19 pandemic, many of our clients froze headcount, furloughed and terminated employees, deferred hiring and partially or completely shut down their business operations and as a result, we experienced reduced demand for our products and services, particularly in industries impacted severely by the COVID-19 pandemic such as brick-and-mortar retail, entertainment, and hospitality. However, we saw increased demand for our products and services in industries such as healthcare and gig, both in the U.S. and internationally, which we believe is attributable to changing consumer behavior. Our lack of industry concentration with a highly diversified client base provided a natural hedge against industry-specific effects of the COVID-19 pandemic. Additionally, due to our increased investment in automation, we were able to fulfill searches in at least 98% of U.S. jurisdictions throughout the COVID-19 pandemic, while certain competitors struggled to operate. Beginning in the third quarter of 2020, as shelter-in-place policies were relaxed, businesses began to reopen and general economic conditions began to improve, we experienced an increase in the demand for our products and services. This increase in demand continued through the end of 2020 with the business moving into year-over-year revenue growth for November and December. In June 2020, we expanded our services to include COVID-19 testing and in September 2021, we expanded our services to include vaccination tracking. We are also pursuing new opportunities in antigen testing for our clients. Our comprehensive suite of COVID-19 products has resulted in an increase in demand for our services. In 2021, we have executed on our growth playbook, supported by the broader macroeconomic recovery from the COVID-19 pandemic and increased operating leverage resulting from the cost optimization measures we implemented during the pandemic.

As the COVID-19 pandemic continues, it may also have the effect of heightening many of the risks described under "Risk Factors" in our IPO Prospectus, including, but not limited to, those relating to changes in economic, political, social and market conditions; systems failures, interruptions, delays in services, cybersecurity incidents, unforeseen or catastrophic events and any resulting interruptions; our international operations; and our dependence on our senior management team and other qualified personnel.

Emerging Growth Company

The Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") 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.

Recent Accounting Standards Updates

Refer to Note 3, “Recent Accounting Standards Updates” of the condensed consolidated financial statements included elsewhere in this report for information about recent accounting pronouncements.

Components of our Results of Operations

The following discussion summarizes the key components of our consolidated statements of operations. We have one operating and reporting segment.

Revenues

We generate revenue by providing background and identity verification 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 U.S. 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 upon 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), 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 growth, 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. Base growth is defined as growth in revenues in the current period, from clients that have been billing with us for longer than twelve calendar months divided by total revenues from the prior period, expressed as a percentage. 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 revenue impact, whether growth or decline, attributable to existing clients, inclusive of cross-sell and up-sell of products, 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 15,000 U.S. Department of Transportation-compliant collection sites.

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- 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 2020, 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 and closed or reduced the size of eight 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. 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, associated stock-based compensation expense and cost of facilities. 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. Additional vendor costs are third-party costs for robotics process automation related to fulfillment related to hosting our fulfillment platforms in the cloud. Cost of services also includes salaries and benefits 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. 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 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.

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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 our on-premises data centers and migrating our production systems and corporate information technological infrastructure to a managed service provider in the cloud. As of June 30, 2021, we completed phase two related to the migration of our production and fulfillment systems to the cloud, and as a result, 95% of our revenue is processed through platforms hosted in the cloud. The remaining expense to complete phase two is the decommissioning of our on-premises data centers for our internal corporate technology infrastructure and migration to the cloud. This final component will be completed by June 30, 2022. Phase three of Project Ignite is 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 we expect to complete in 2022, will unify our clients onto a single global platform. The future costs related to completing these initiatives will be included in our corporate technology and production systems expense.

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.

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 client 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 and the amortization discount on the First Lien Term Loan (as defined under “Liquidity and Capital Resources—Credit Facility.”)

(Gain) Loss on Interest Rate Swaps

(Gain) loss on interest rate swaps consists of realized and unrealized gains and losses on our interest rate swaps, which we enter into to reduce our exposure to variability in expected future cash flows on the First Lien Term Loan, which bears interest at a variable rate. Unrealized gains and losses result from changes in the fair value of the swaps and realized gains and losses reflect the amounts payable or receivable between the fixed rate on the swap and LIBOR. Our interest rate swaps expire in June 2022 and do not qualify for hedge accounting treatment.

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Income Tax Provision (Benefit)

Income tax provision (benefit) consists of domestic and foreign corporate income taxes related to earnings from our sale of services, with statutory tax rates that differ by jurisdiction. 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 loss before income taxes and adjusting for discrete tax items recorded in the period, if any.

Results of Operations

Three Months Ended September 30, 2020 compared to the Three Months Ended September 30, 2021

The following table sets forth certain historical consolidated financial performance for the three months ended September 30, 2020 compared to the three months ended September 30, 2021.

	Three Months Ended September 30,		Increase/ (Decrease)	
	2020	2021	\$	%
	(dollars in thousands, except per share amounts)			
Revenues	\$117,602	\$169,557	\$ 51,955	44.2%
Cost of revenues (exclusive of depreciation and amortization below)	55,112	82,638	27,526	49.9%
Corporate technology and production systems	10,842	12,084	1,241	11.5%
Selling, general and administrative	25,391	84,983	59,592	234.7%
Depreciation and amortization	22,863	20,346	(2,517)	(11.0)%
Impairments of long-lived assets	621	15	(606)	(97.6)%
Total operating expenses	114,829	200,066	85,237	74.2%
Operating income (loss)	2,773	(30,509)	(33,282)	(1200.2)%
Interest expense, net	7,817	7,668	(148)	(1.9)%
(Gain) loss on interest rate swaps	(49)	112	161	(327.5)%
Other income	(336)	(400)	(64)	19.0%
Total other expense, net	7,432	7,380	(52)	(0.7)%
Loss before income taxes	(4,659)	(37,889)	(33,230)	713.2%
Income tax provision (benefit)	5,727	(12,633)	(18,360)	(320.6)%
Net loss	\$ (10,386)	\$ (25,256)	\$ (14,870)	143.2%
Net loss margin	(8.8)%	(14.9)%		(6.1)%
Net loss per share	\$ (0.12)	\$ (0.28)	\$ (0.16)	140.2%

Revenues

Revenues increased by 44.2%, or \$52.0 million, from \$117.6 million for the three months ended September 30, 2020 to \$169.6 million for the three months ended September 30, 2021. Of the growth, 43.2% was organic constant currency revenue growth and 1.0% was due to the impact of fluctuations in foreign exchange currency rates. Year over year revenue growth was driven primarily by \$13.5 million of new customer revenue and \$38.5 million of base growth, net of attrition. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

In our U.S. business, we saw double-digit revenue growth in all our industry verticals, with particularly exceptional results in our healthcare and financial and business services verticals, as we executed our growth playbook and the U.S. economy continued its recovery from the impact of the COVID-19 pandemic. Our international business also grew, as our international gig business continued its growth trajectory, primarily driven by our large market share of the United Kingdom food delivery industry, as well as robust growth in the Asia Pacific (“APAC”) and Canada.

Cost of Revenues

Cost of revenues increased by 49.9%, or \$27.5 million, from \$55.1 million for the three months ended September 30, 2020 to \$82.6 million for the three months ended September 30, 2021. The increase in costs was primarily due to servicing increased volume. The remaining increase was due to stock-based compensation expense resulting from the accelerated vesting of outstanding options upon completion of the IPO. Cost of revenues as a percentage of revenue was 46.9% for the three months ended September 30, 2020 and 48.7% for the three months ended September 30, 2021.

Corporate Technology and Production Systems Expense

Corporate technology and production systems expense increased by 11.5%, or \$1.2 million, from \$10.8 million for the three months ended September 30, 2020 to \$12.1 million for the three months ended September 30, 2021, primarily due to \$1.5 million of stock-based compensation expense associated with the accelerated vesting of options upon completion of the IPO.

Included in corporate technology and production systems expense are costs related to maintaining our corporate information technology infrastructure and non-capitalizable costs to develop and maintain our production systems. Costs related to maintaining our corporate information technology infrastructure increased by \$1.4 million from \$4.7 million for the three months ended September 30, 2020 to \$6.1 million for the three months ended September 30, 2021, primarily driven by stock-based compensation expense resulting from the accelerated vesting of options upon completion of the IPO. Costs to develop platform and product initiatives decreased by \$0.2 million from \$4.1 million for the three months ended September 30, 2020 to \$3.9 million for the three months ended September 30, 2021. Costs related to maintaining our production systems remained relatively flat at \$2.0 million for the three months ended September 30, 2020 to \$2.1 million for the three months ended September 30, 2021.

These expenses also include non-capitalizable costs related to Project Ignite. We incurred \$0.8 million related to phase one, \$1.1 million related to phase two and \$1.3 million related to phase three in the three months ended September 30, 2020, and nothing related to phase one, \$1.4 million related to phase two and \$1.7 million related to phase three in the three months ended September 30, 2021. For more information about Project Ignite, including information related to the anticipated completion and treatment of noncapitalizable expenses in future periods, please see “—Components of our Results of Operations—Operating Expenses—Corporate Technology and Production Systems.”

Selling, General and Administrative

Selling, general and administrative expenses increased by 234.7%, or \$59.6 million, from \$25.4 million for the three months ended September 30, 2020 to \$85.0 million for the three months ended September 30, 2021. The year-over-year increase was primarily driven by costs related to the IPO of \$30.5 million and an increase in stock-based compensation expense of \$22.6 million due to the accelerated vesting of outstanding options and the forgiveness of promissory notes exchanged for common stock in connection with the IPO. For the three months ended September 30, 2021, IPO related costs of \$30.5 million included \$16.8 million of contractual compensation payments to former executives (of which, \$15.6 million was funded by certain stockholders), \$7.5 million associated with the final settlement of fees in connection with the Fourth Amended and Restated Management Services Agreement, and \$6.2 million of professional fees and other related expenses. The remaining increase was primarily due to normalized bonus related expenses driven by an increase in the annual bonus pool accrual over the prior year’s pool which was reduced due to the impact of the COVID-19 pandemic.

Depreciation and Amortization

Depreciation and amortization expense decreased by 11.0%, or \$2.5 million, from \$22.9 million for the three months ended September 30, 2020 to \$20.3 million for the three months ended September 30, 2021, primarily due to \$2.0 million of lower intangible asset amortization, as new intangible assets were added at a lower rate compared to those which became fully depreciated in the interim period. Fixed asset depreciation decreased by approximately \$0.5 million, primarily due to reduced fixed asset additions to offset fully depreciated assets.

Impairments of Long-Lived Assets

Impairments of long-lived assets decreased by \$0.6 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2021, primarily due to the write-off of fixed assets in exited offices and capitalized software costs during the three months ended September 30, 2020.

Interest Expense, Net

Interest expense decreased by 1.9%, or \$0.1 million, from \$7.8 million for the three months ended September 30, 2020 to \$7.7 million for the three months ended September 30, 2021 due to the reduction in the interest rate on our First Lien Term Loan resulting from a reduction in LIBOR as well as a lower principal balance due to a mandatory principal prepayment during the second quarter of 2021. Amortization of the debt discount and deferred issuance costs was \$0.6 million for each of the three months ended September 30, 2020 and 2021.

(Gain) Loss on Interest Rate Swaps

(Gain) loss on interest rate swaps decreased by \$0.2 million from a gain of less than \$0.1 million for the three months ended September 30, 2020 to a loss of \$0.1 million for the three months ended September 30, 2021 due to a realized loss of \$2.2 million offset by a mark to market (“MTM”) gain of \$2.1 million.

Income Tax Provision (Benefit)

Income tax provision (benefit) decreased by 320.6%, or \$18.4 million, from a provision of \$5.7 million for the three months ended September 30, 2020 to a benefit of \$12.6 million for the three months ended September 30, 2021, primarily due to permanent differences and the increase in the net loss for the period resulting from the additional expenses incurred with the IPO. Loss before income taxes increased from a loss of \$4.7 million for the three months ended September 30, 2020 to a loss of \$37.9 million for the three months ended September 30, 2021.

Net Loss, Net Loss per Share and Net Loss Margin

Net loss increased from a loss of \$10.4 million, or a loss per share of \$0.12, for the three months ended September 30, 2020 to a net loss of \$25.3 million, or a loss per share of \$0.28, for the three months ended September 30, 2021. Net loss margin increased from (8.8)% for the three months ended September 30, 2020 to (14.9)% for the three months ended September 30, 2021. The increase in both net loss and net loss margin resulted primarily from incremental expenses in connection with our IPO, partially offset by increased revenue.

[Table of Contents](#)**Nine Months Ended September 30, 2020 compared to the Nine Months Ended September 30, 2021**

The following table sets forth certain historical consolidated financial performance for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2021.

	Nine Months Ended September 30,		Increase/ (Decrease)	
	2020	2021	\$	%
	(dollars in thousands, except per share amounts)			
Revenues	\$325,550	\$468,255	\$142,705	43.8%
Cost of revenues (exclusive of depreciation and amortization below)	153,458	225,798	72,340	47.1%
Corporate technology and production systems	32,922	32,435	(488)	(1.5)%
Selling, general and administrative	86,848	153,194	66,346	76.4%
Depreciation and amortization	68,441	61,193	(7,247)	(10.6)%
Impairments of long-lived assets	680	2,940	2,260	332.4%
Total operating expenses	342,349	475,560	133,211	38.9%
Operating income (loss)	(16,799)	(7,305)	9,494	(56.5)%
Interest expense, net	25,110	22,841	(2,269)	(9.0)%
(Gain) loss on interest rate swaps	9,604	199	(9,405)	(97.9)%
Other income	(998)	(1,034)	(36)	3.6%
Total other expense, net	33,716	22,006	(11,710)	(34.7)%
Loss before income taxes	(50,515)	(29,311)	21,204	(42.0)%
Income tax provision (benefit)	718	(8,080)	(8,798)	(1225.6)%
Net loss	\$ (51,233)	\$ (21,231)	\$ 30,002	(58.6)%
Net loss margin	(15.7)%	(4.5)%		11.2%
Net loss per share	\$ (0.58)	\$ (0.24)	\$ 0.34	(58.9)%

Revenues

Revenues increased by 43.8%, or \$142.7 million, from \$325.6 million for the nine months ended September 30, 2020 to \$468.3 million for the nine months ended September 30, 2021. Of the growth, 41.6% was organic constant currency revenue growth and 2.2% was due to the impact of fluctuations in foreign exchange currency rates. Year over year was driven by \$43.3 million of new customer revenue and \$99.4 million of base growth, net of attrition. Our gross retention rate for the nine months ended September 30, 2020 was 95% compared to 96% for the nine months ended September 30, 2021. Pricing was relatively stable across the periods and not meaningful to the change in revenues.

In our U.S. business, we saw double-digit revenue growth in all our industry verticals, with particularly exceptional results in our healthcare and financial and business services verticals, as we executed our growth playbook and the U.S. economy continued its recovery from the impact of the COVID-19 pandemic. Our international business also grew, as our international gig business continued its growth trajectory, primarily driven by our large market share of the United Kingdom food delivery industry, as well as robust growth in APAC and Canada.

Cost of Revenues

Cost of revenues increased by 47.1%, or \$72.3 million, from \$153.5 million for the nine months ended September 30, 2020 to \$225.8 million for the nine months ended September 30, 2021. The increase in costs was primarily due to servicing increased volume. The remaining increase was due to stock-based compensation expense resulting from the accelerated vesting of outstanding options upon completion of the IPO. Cost of revenues as a percentage of revenue was 47.1% for the nine months ended September 30, 2020 and 48.2% for the nine months ended September 30, 2021.

Corporate Technology and Production Systems Expense

Corporate technology and production systems expense decreased by 1.5%, or \$0.5 million, from \$32.9 million for the nine months ended September 30, 2020 to \$32.4 million for the nine months ended September 30, 2021, primarily due to lower headcount compared to the same period of the prior year partially offset by higher bonus expense due to normalized bonus related expenses driven by an increase in the annual bonus pool accrual over the prior year's pool which was reduced due to the impact of the COVID-19 pandemic and stock-based compensation expense associated with the accelerated vesting of options upon completion of the IPO.

Costs related to maintaining our corporate information technology infrastructure increased by \$0.7 million from \$14.9 million for the nine months ended September 30, 2020 to \$15.6 million for the nine months ended September 30, 2021. Costs to develop platform and product initiatives decreased by \$0.9 million from \$12.2 million for the nine months ended September 30, 2020 to \$11.3 million for the nine months ended September 30, 2021. Costs related to maintaining our production systems decreased by \$0.3 million from \$5.9 million for the nine months ended September 30, 2020 to \$5.6 million for the nine months ended September 30, 2021.

These expenses also include non-capitalizable costs related to Project Ignite. We incurred \$2.3 million related to phase one, \$3.0 million related to phase two and \$3.6 million related to phase three in the nine months ended September 30, 2020, and \$0.9 million related to phase one, \$4.6 million related to phase two and \$4.5 million related to phase three in the nine months ended September 30, 2021.

Selling, General and Administrative

Selling, general and administrative expenses increased by 76.4%, or \$66.3 million, from \$86.8 million for the nine months ended September 30, 2020 to \$153.2 million for the nine months ended September 30, 2021. The year-over-year increase was primarily driven by costs related to the IPO of \$35.9 million and an increase in stock-based compensation expense of \$23.0 million due to the accelerated vesting of outstanding options and the forgiveness of promissory notes exchanged for common stock in connection with the IPO. For the nine months ended September 30, 2021, IPO related expenses of \$35.9 million included \$16.8 million of contractual compensation payments to former executives (of which, \$15.6 million was funded by certain stockholders), \$7.5 million associated with the final settlement of fees in connection with the Fourth Amended and Restated Management Services Agreement, and \$11.6 million of professional fees and other related expenses. The remaining increase was primarily due to normalized bonus related expenses driven by an increase in the annual bonus pool accrual over the prior year's pool which was reduced due to the impact of the COVID-19 pandemic partially offset by savings related to reduced rent due to our virtual-first strategy and other operating savings.

Depreciation and Amortization

Depreciation and amortization expense decreased by 10.6%, or \$7.2 million, from \$68.4 million for the nine months ended September 30, 2020 to \$61.2 million for the nine months ended September 30, 2021, primarily due to \$5.2 million lower intangible asset amortization, as new intangible assets were added at a lower rate compared to those which became fully depreciated in the interim period. Fixed asset depreciation decreased by approximately \$2.0 million, primarily as a result of fixed asset impairments associated with exited office locations.

Impairments of Long-Lived Assets

Impairments of long-lived assets increased by \$2.3 million from \$0.7 million for the nine months ended September 30, 2020 to \$2.9 million for the nine months ended September 30, 2021, primarily due to the write-off of fixed assets in our exited office in Bellevue, Washington.

Interest Expense, Net

Interest expense decreased by 9.0%, or \$2.3 million, from \$25.1 million for the nine months ended September 30, 2020 to \$22.8 million for the nine months ended September 30, 2021 due to the reduction in the interest rate on our First Lien Term Loan resulting from a reduction in LIBOR as well as a lower principal balance due to a mandatory principal payment during the second quarter of 2021. Amortization of the loan discount was \$1.8 million and \$1.7 million for the nine months ended September 30, 2020 and 2021, respectively.

Loss on Interest Rate Swaps

Loss on interest rate swaps decreased by \$9.4 million from \$9.6 million for the nine months ended September 30, 2020 to \$0.2 million for the nine months ended September 30, 2021. The reduction in LIBOR during the nine months ended June 30, 2020 resulted in a MTM loss recorded in that period. As LIBOR was relatively stable for the nine months ended September 30, 2021, the MTM loss and resulting expense was significantly lower than the prior year period.

Income Tax Provision (Benefit)

Income tax provision decreased from an expense of \$0.7 million for the nine months ended September 30, 2020 to a benefit of \$8.1 million for the nine months ended September 30, 2021. Loss before income taxes decreased from a loss of \$50.5 million for the nine months ended September 30, 2020 to a loss of \$29.3 million for the nine months ended September 30, 2021, driven primarily by increased revenue partially offset by expenses related to the IPO, including additional stock-based compensation expense. The increase in income tax benefit notwithstanding the decrease in Loss before income taxes is due to the jurisdictional mix of earnings with losses in the U.S. and income in the foreign jurisdictions.

Net Loss, Net Loss per Share and Net Loss Margin

Net loss decreased from a loss of \$51.2 million, or a loss per share of \$0.58, for the nine months ended September 30, 2020 to a loss of \$21.2 million, or a loss per share of \$0.24, for the nine months ended September 30, 2021. Net loss margin improved from (15.7)% for the nine months ended September 30, 2020 to (4.5)% for the nine months ended September 30, 2021. The decrease in both net loss and net loss margin resulted from improved operating leverage, as revenues increased by 43.8% while operating expenses grew by only 38.9% for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2021, notwithstanding IPO related expenses in 2021.

Non-GAAP Financial Measures

This report contains “non-GAAP financial measures,” which are financial measures that are not calculated and presented in accordance with US GAAP.

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

Organic constant currency revenue growth is calculated by adjusting for any merger and acquisition (“M&A”) activity that contributed revenue in the current period, which was not present in the prior period, and converting the current period revenue at foreign currency exchange rates consistent with the prior period. There was no impact of M&A activity on our revenue in the three and nine months ended September 30, 2021 or in the three and nine months ended September 30, 2020. We present organic constant currency revenue growth 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 does not reflect M&A activity or the impact of foreign currency exchange rate fluctuations.

Adjusted EBITDA is defined as net loss adjusted for provision for income taxes, interest expense, depreciation and amortization, stock-based compensation, costs related to 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 to evaluate the factors and trends affecting our business to assess our financial performance and in preparing and approving our annual budget and believe it is 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. Our management uses Adjusted EBITDA to supplement US GAAP results to evaluate the factors and trends affecting the business to assess our financial performance and in preparing and approving our annual budget and believe it is helpful in highlighting trends in our core operating performance. 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 adjusted for amortization of acquired intangible assets, stock-based compensation, costs related to M&A, 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.

Adjusted 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. For the nine months ended September 30, 2021, we have adjusted Adjusted Free Cash Flow for one-time, non-operating cash charges related to the IPO. We present Adjusted Free Cash Flow because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding certain material non-recurring, non-operating cash items that we do not expect to continue at the same level in the future. Adjusted 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.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA increased by 68.7%, or \$20.9 million, from \$30.4 million for the three months ended September 30, 2020 to \$51.3 million for the three months ended September 30, 2021. Adjusted EBITDA Margin increased by 440 basis points year-over-year from 25.9% for the three months ended September 30, 2020 to 30.3% for the three months ended September 30, 2021. This improvement was due to increased revenue and improved operating leverage.

Adjusted EBITDA increased by 87.9%, or \$63.2 million, from \$71.9 million for the nine months ended September 30, 2020 to \$135.1 million for the nine months ended September 30, 2021. Adjusted EBITDA Margin increased by 680 basis points from 22.1% for the nine months ended September 30, 2020 to 28.9% in the corresponding period in 2021. This improvement was due to increased revenue and improved operating leverage.

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The following table reconciles revenue growth, the most directly comparable GAAP measure, to organic constant currency revenue growth for the three and nine months ended September 30, 2020 and 2021.

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Reported revenue growth	44.2%	43.8%
Impact from M&A activity(1)	0.0%	0.0%
Impact from foreign currency exchange(2)	1.0%	2.2%
Organic constant currency revenue growth	43.2%	41.6%

- (1) Impact to revenue growth in the current period from acquisitions and dispositions that have occurred over the past twelve months.
(2) Impact to revenue growth in the current period from fluctuations in foreign currency exchange rates.

The following table reconciles net income (loss), the most directly comparable GAAP measure, to Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(dollars in thousands)			
Net loss	\$(10,386)	\$(25,256)	\$(51,233)	\$(21,231)
Income tax provision (benefit)	5,727	(12,633)	718	(8,080)
Interest expense, net	7,817	7,668	25,110	22,841
Depreciation and amortization	22,863	20,346	68,441	61,193
Stock-based compensation	570	25,582	1,756	27,236
Transaction expenses(1)	539	31,513	1,624	38,771
Restructuring(2)	1,060	634	7,070	4,243
Technology Transformation(3)	2,581	3,137	8,048	9,138
Settlements impacting comparability(4)	120	—	260	—
(Gain) loss on interest rate swaps(5)	(49)	112	9,604	199
Other(6)	(439)	196	535	826
Adjusted EBITDA	\$ 30,403	\$ 51,300	\$ 71,933	\$ 135,136
Adjusted EBITDA Margin	25.9%	30.3%	22.1%	28.9%

- (1) Consists of transaction expenses related to mergers and acquisitions, associated earn-outs, investor management fees in connection with the Fourth Amended and Restated Management Services Agreement and costs related to preparation of the IPO. For the three months ended September 30, 2020, the costs consisted primarily of \$0.5 million of investor management fees. For the three months ended September 30, 2021, costs consisted primarily of IPO related expenses of \$30.5 million, including \$16.8 million of contractual compensation payments to former executives (of which, \$15.6 million was funded by certain stockholders), \$7.5 million in final settlement of investor management fees, and \$6.2 million of professional fees and other related expenses. The period also included \$0.6 million of earn-out and performance-based incentive payments associated with an acquisition in 2018 and \$0.3 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement, associated with the terms prior to the final settlement. For the nine months ended September 30, 2020, the costs consisted primarily of \$1.5 million of investor management fees. For the nine months ended September 30, 2021, the costs consisted primarily of IPO related expenses of \$35.9 million, including \$16.8 million of contractual compensation payments to former executives (of which, \$15.6 million was funded by certain stockholders), \$7.5 million of investor management fees, including the final settlement of fees in connection with the Fourth Amended and Restated Management Services Agreement, and \$11.6 million of professional fees and related expenses. The period also included \$1.4 million of earn-out and performance-based incentive payments associated with an acquisition in 2018 and \$1.4 million of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement, associated with the terms prior to the final settlement.
- (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. During 2019 and 2020, we executed an extensive restructuring program, significantly strengthening our management team and creating a client-facing industry-specific Vertical organization. This program was completed by the end of 2020 and the final costs related to this program were incurred through the first quarter of 2021. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. We expect this real estate consolidation effort to be completed by the end of 2021. For the three months ended September 30, 2020, the costs primarily comprised of \$0.5 million of restructuring-related executive recruiting and severance charges, and \$0.6 million related to our real estate consolidation program. For the three months ended September 30, 2021, the costs comprised \$0.6 million related to our real estate consolidation program. For the nine months ended September 30, 2020, these costs include approximately \$5.8 million of restructuring-related executive recruiting and severance charges, including the elimination of the vice-chairman position, and approximately \$1.3 million of expenses related to our real estate consolidation program. For the nine months ended September 30, 2021, the costs primarily comprised \$3.7 million related to the real estate consolidation program, due largely to the write-off on disposal of fixed assets for our exited facility in Bellevue, Washington.

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- (3) Includes costs related to technology modernization 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. For the three months ended September 30, 2020, investment related to Project Ignite was \$2.4 million, and additional investment made to modernize internal functional systems was \$0.2 million. For the three months ended September 30, 2021, investment related to Project Ignite was \$3.1 million. For the nine months ended September 30, 2020, investment related to Project Ignite was \$6.6 million, and additional investment made to modernize internal functional systems was \$1.4 million. For the nine months ended September 30, 2021, investment related to Project Ignite was \$9.1 million.
- (4) Consists of non-recurring settlements impacting comparability. For the three months ended September 30, 2020, the cost of \$0.1 million was primarily related to the 2019 settlement with the Consumer Financial Protection Bureau (“CFPB”). For the nine months ended September 30, 2020, the cost of \$0.3 million primarily related to the 2019 settlement with the CFPB.
- (5) Consists of (gain) loss on 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.
- (6) Consists of costs related to a local government mandate in India, (gain) loss on foreign currency transactions, impairment of capitalized software and other costs outside of the ordinary course of business.

The following table summarizes these costs for the three and nine months ended September 30, 2020 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands)			
Other				
Government mandate	\$ —	\$ —	\$ 1,291	\$ —
(Gain) Loss on foreign currency transactions	(439)	196	(120)	1,316
Impairment of capitalized software	—	—	73	30
Duplicate fulfillment charges	—	—	(709)	(521)
Total	\$ (439)	\$ 196	\$ 535	\$ 825

The following table presents the calculation of Net Loss Margin and Adjusted EBITDA Margin for the three and nine months ended September 30, 2020 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(dollars in thousands)			
Net loss	\$ (10,386)	\$ (25,256)	\$ (51,233)	\$ (21,231)
Adjusted EBITDA	30,403	51,300	71,933	135,136
Revenues	117,602	169,557	325,550	468,255
Net loss margin	(8.8)%	(14.9)%	(15.7)%	(4.5)%
Adjusted EBITDA margin	25.9%	30.3%	22.1%	28.9%

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted Net Income increased by 187%, or \$20.6 million, from \$11.0 million for the three months ended September 30, 2020 to \$31.6 million for the three months ended September 30, 2021. The increase was primarily driven by an increase in revenues and improved operating leverage.

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Adjusted Net Income increased by 298%, or \$52.1 million, from \$17.5 million for the nine months ended September 30, 2020 to \$69.6 million for the nine months ended September 30, 2021. The increase was primarily driven by an increase in revenues and improved operating leverage.

Adjusted Earnings Per Share—basic increased by 184%, or \$0.23 per share from \$0.12 per share for the three months ended September 30, 2020 to \$0.35 per share for the three months ended September 30, 2021. Adjusted Earnings Per Share—diluted increased by 168%, or \$0.21 per share from \$0.12 per share for the three months ended September 30, 2020 to \$0.33 per share for the three months ended September 30, 2021. The increase in Earnings Per Share—basic and Earnings Per Share—diluted was primarily due to the increase in Adjusted Net Income.

Adjusted Earnings Per Share—basic increased by 295%, or \$0.58 per share, from \$0.20 per share for the nine months ended September 30, 2020 to \$0.78 per share for the nine months ended September 30, 2021, and Adjusted Earnings Per Share—diluted increased by 270%, or \$0.54 per share, from \$0.20 per share for the nine months ended September 30, 2020 to \$0.74 per share for the nine months ended September 30, 2021, primarily due to the increase in adjusted net income.

The following tables reconcile operating income (loss), or net income (loss), the most directly comparable GAAP measures, to Adjusted Net Income and Adjusted Earnings Per Share for the three and nine months ended September 30, 2020 and 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands, except per share amounts)			
Net (loss) income	\$ (10,386)	\$ (25,256)	\$ (51,233)	\$ (21,231)
Income tax (benefit) expense	5,727	(12,633)	718	(8,080)
(Loss) income before income taxes	(4,659)	(37,889)	(50,515)	(29,311)
Amortization of acquired intangible assets	15,119	12,962	45,289	39,232
Stock-based compensation	570	25,582	1,756	27,236
Transaction expenses(1)	539	31,513	1,624	38,771
Restructuring(2)	1,060	634	7,070	4,194
Technology Transformation(3)	2,581	3,137	8,048	9,138
Settlements impacting comparability(4)	120	—	260	—
(Gain) loss on interest rate swaps(5)	(49)	112	9,604	199
Other(6)	(439)	196	535	826
Adjusted Net Income before income tax effect	14,842	36,248	23,671	90,333
Income tax effect(7)	3,859	4,672	6,154	20,686
Adjusted Net Income	10,983	31,575	17,517	69,646
Net Loss per share—diluted	(0.12)	(0.28)	(0.58)	(0.24)
Adjusted Earnings Per Share—basic	0.12	0.35	0.20	0.78
Adjusted Earnings Per Share—diluted	0.12	0.33	0.20	0.74

- (1) Consists of transaction expenses related to mergers and acquisitions, associated earn-outs, investor management fees, and costs related to preparation of the IPO.
- (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. During 2019 and 2020, we executed an extensive restructuring program, significantly strengthening our management team and creating a client-facing industry-specific Vertical organization. This program was completed by the end of 2020 and the final costs related to this program were incurred through the first quarter of 2021. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. We expect this real estate consolidation effort to be completed by the end of 2021.
- (3) Includes costs related to technology modernization 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.

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- (4) Consists of non-recurring settlements impacting comparability.
- (5) Consists of (gain) loss on interest rate swaps. See “—Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk” for additional information on interest rate swaps.
- (6) Consists of costs related to a local government mandate in India, (gain) loss on foreign currency transactions, impairment of capitalized software and other costs outside of the ordinary course of business.

The following table summarizes these costs for the three and nine months ended September 30, 2021.

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>
	(in thousands)			
Other				
Government mandate	\$ —	\$ —	\$ 1,291	\$ —
(Gain) Loss on foreign currency transactions	(439)	196	(120)	1,316
Impairment of capitalized software	—	—	73	30
Duplicate fulfillment charges	—	—	(709)	(521)
Total	<u>\$ (439)</u>	<u>\$ 196</u>	<u>\$ 535</u>	<u>\$ 825</u>

- (7) Effective tax rates of 26%, 13%, and 23% have been used to compute Adjusted Net Income for the 2020 periods, the three months ended September 30, 2021 and the nine months ended September 30, 2021, respectively. As of December 31, 2020, we had net operating loss carryforwards of approximately \$120.6 million for federal, state, and foreign income tax purposes 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 GAAP, and from the normalized rate shown above.

The following table reconciles net loss per share, the most directly comparable GAAP measure, to Adjusted Earnings Per Share for the three months ended September 30, 2020 and 2021 and for the nine months ended September 30, 2020 and 2021.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
	(in thousands, except share and per share amounts)			
Net income (loss)	\$ (10,386)	\$ (25,256)	\$ (51,233)	\$ (21,231)
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed (losses) earnings allocated to stockholders	\$ (10,386)	\$ (25,256)	\$ (51,233)	\$ (21,231)
Weighted average number of shares outstanding – basic	88,332,134	89,431,022	88,325,838	88,956,388
Weighted average number of shares outstanding – diluted	88,332,134	89,431,022	88,325,838	88,956,388
Net income (loss) per share – basic	\$ (0.12)	\$ (0.28)	\$ (0.58)	\$ (0.24)
Net income (loss) per share – diluted	(0.12)	(0.28)	(0.58)	(0.24)
Adjusted Net Income	\$ 10,983	\$ 31,575	\$ 17,517	\$ 69,646
Less: Undistributed amounts allocated to participating securities	—	—	—	—
Undistributed (losses) earnings allocated to stockholders	\$ 10,983	\$ 31,575	\$ 17,517	\$ 69,646
Weighted average number of shares outstanding – basic	88,332,134	89,431,022	88,325,838	88,956,388
Weighted average number of shares outstanding – diluted	88,410,918	95,008,310	88,377,154	93,532,785
Adjusted earnings per share – basic	\$ 0.12	\$ 0.35	\$ 0.20	\$ 0.78
Adjusted earnings per share – diluted	0.12	0.33	0.20	0.74

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Net income (loss) per share – diluted	\$ (0.12)	\$ (0.28)	\$ (0.58)	\$ (0.24)
<i>Adjusted Net Income adjustments per share</i>				
Income tax (benefit) expense	0.06	(0.12)	0.01	(0.08)
Amortization of acquired intangible assets	0.17	0.14	0.51	0.42
Stock-based compensation	0.01	0.27	0.02	0.29
Transaction expenses(1)	0.01	0.33	0.02	0.41
Restructuring(2)	0.01	0.01	0.08	0.05
Technology Transformation(3)	0.03	0.03	0.09	0.10
Settlements impacting comparability(4)	—	—	—	—
Loss/Gain on interest Swap(5)	—	—	0.11	—
Other(6)	—	—	0.01	0.01
Income tax effect(7)	(0.04)	(0.05)	(0.07)	(0.22)
Adjusted earnings per share – diluted	\$ 0.12	\$ 0.33	\$ 0.20	\$ 0.74
Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:				
Weighted average number of shares outstanding – diluted (GAAP)	88,332,134	89,431,022	88,325,838	88,956,388
Options not included in weighted average number of shares outstanding – diluted (GAAP) (using treasury stock method)	78,784	5,577,288	51,316	4,576,397
Weighted average number of shares outstanding – diluted (non-GAAP) (using treasury stock method)	88,410,918	95,008,310	88,377,154	93,532,785

- (1) Consists of transaction expenses related to mergers and acquisitions, associated earn-outs, investor management fees, and costs related to preparation of the IPO.
- (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. During 2019 and 2020, we executed an extensive restructuring program, significantly strengthening our management team and creating a client-facing industry-specific Vertical organization. This program was completed by the end of 2020 and the final costs related to this program were incurred through the first quarter of 2021. Beginning in 2020, we began executing a virtual-first strategy, closing offices and reducing office space globally. We expect this real estate consolidation effort to be completed by the end of 2021.
- (3) Includes costs related to technology modernization 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 non-recurring settlements impacting comparability.
- (5) Consists of (gain) loss on interest rate swaps. See “—Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk” for additional information on interest rate swaps.
- (6) Consists of costs related to a local government mandate in India, (gain) loss on foreign currency transactions, impairment of capitalized software and other costs outside of the ordinary course of business.

The following table summarizes these costs for the three and nine months ended September 30, 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Other	(in thousands)			

Government mandate	\$ —	\$ —	\$ 1,291	\$ —
(Gain) Loss on foreign currency transactions	(439)	196	(120)	1,316
Impairment of capitalized software	—	—	73	30
Duplicate fulfillment charges	—	—	(709)	(521)
Total	\$ (439)	\$ 196	\$ 535	\$ 825

- (7) Effective tax rates of 26%, 13%, and 23% have been used to compute Adjusted Net Income for the 2020 periods, the three months ended September 30, 2021 and the nine months ended September 30, 2021, respectively. As of December 31, 2020, we had net operating loss carryforwards of approximately \$120.6 million for federal, state, and foreign income tax purposes 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 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.

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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 for the nine months ended September 30, 2020 and 2021 were approximately \$13.1 million and \$14.6 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 September 30, 2021, we had cash and cash equivalents of approximately \$192.4 million. On November 1, 2021, the Company utilized the net proceeds from the IPO and cash on hand to repay \$100.0 million of outstanding borrowings under the First Lien Term Loan. As of December 31, 2020, we had cash and cash equivalents of \$66.6 million. This amount includes \$6.7 million accrued at year-end 2020 for our 2020 excess cash flow payment paid to lenders under the Credit Agreement (as defined below) in April 2021. 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 September 30, 2021, 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.

Credit Facility

In June 2015, our subsidiary Sterling Midco Holdings, Inc. (predecessor to Sterling Infosystems, Inc.) entered into a first lien credit agreement as borrower (as most recently amended by the Sixth Amendment thereto dated August 11, 2021, the “Credit Agreement”) with KeyBank National Association, as administrative agent (the “Administrative Agent”), certain guarantors party thereto and various lenders, including Goldman Sachs Lending Partners LLC, as lenders. The Credit Agreement provides for aggregate principal borrowings of \$795.0 million (subject to the increase described below), comprising a \$655.0 million original principal amount of term loan (the “First Lien Term Loan”) which matures in June 2024 and a \$140.0 million revolving credit facility (the “Revolver”), which matures the earlier of (a) August 11, 2026 or (b) December 31, 2023 unless, on or prior to December 31, 2023, the First Lien Term Loan has been (i) refinanced with the proceeds of indebtedness with a final maturity date that is no earlier than February 11, 2027 or (ii) amended, modified or waived, such that the final maturity date of the First Lien Term Loan is no earlier than February 11, 2027.

Amounts outstanding under the First Lien Term Loan bear interest under either of the following two rates, elected in advance quarterly by the borrower for periods of either one month, two months, three months or six months: (1) an applicable rate of 2.5% plus a base rate (equal to the greater of (a) the prime rate (b) the federal funds rate plus $\frac{1}{2}$ of 1% or (c) the one-month LIBOR plus 1%, subject to a 2% floor); or (2) an applicable rate of 3.5% plus one-month LIBOR which is subject to a 1% floor. Interest on LIBOR borrowings is payable on the last business day of the interest period selected except in the case of a six-month election, in which case it is payable on the last day of the third and sixth month. The interest rate in effect for the First Lien Term Loan as of September 30, 2021 was 4.5%. The First Lien Term Loan requires \$1.6 million repayment of principal on the last business day of each March, June, September and December. Under the Credit Agreement, we must also make a mandatory prepayment of principal in the amount of 50% of the excess cash, as defined in the Credit Agreement, generated in any given year, if our Net Leverage Ratio (as defined in the Credit Agreement) is greater than or equal to 2.95:1.00. In 2020, the mandatory prepayment was \$6.7 million and was paid in April 2021. On November 1, 2021, the Company utilized the net proceeds from the IPO and cash on hand to repay \$100.0 million of outstanding borrowings under the First Lien Term Loan. All remaining outstanding principal is due at maturity in June 2024. We have been in compliance with all covenants under the Credit Agreement since origination.

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Pursuant to the Sixth Amendment to the Credit Agreement, the \$85.0 million Revolver automatically increased an additional \$55.0 million to \$140.0 million upon the consummation of the IPO on September 23, 2021.

Amounts outstanding under the Revolver bear interest at a tiered floating interest rate based on the net leverage ratio of the borrower. The rate may be chosen periodically in advance of each interest period at the election of the borrower, as follows: (1) an applicable rate of 2.5% plus the greater of (a) the prime rate (b) the federal funds rate plus $\frac{1}{2}$ of 1% (c) the one-month LIBOR plus 1% or (d) a 2% floor or (2) an applicable rate of 3.5% plus one-month LIBOR. In addition, there is a quarterly fee of 0.50% or 0.375% on the unused portion of the commitments based on the first lien net leverage ratio. Unused and therefore available borrowings under the Revolver, net of letters of credit, were \$84.0 million and \$139.3 million as of December 31, 2020 and September 30, 2021, respectively. The Revolver matures on the earlier of August 11, 2026 or December 31, 2023 unless, on or prior to December 31, 2023, the First Lien Term Loan has been refinanced with a final maturity date that is no earlier than February 11, 2027 or amended, modified or waived, such that the final maturity date of the First Lien Term Loan is no earlier than February 11, 2027. We can use available funding capacity under the Revolver to satisfy letters of credit related to leased office space and other obligations, subject to a sublimit equal to the lesser of \$20.0 million or aggregate amounts available for borrowing under the Revolver. The issuance of letters of credit reduce the available capacity under the Revolver. We had outstanding letters of credit totaling \$1.0 million as of December 31, 2020 and \$0.7 million as of September 30, 2021 and additional availability for letters of credit of \$19.0 million and \$19.3 million, respectively.

The Credit Agreement contains covenants that, among other things restrict our ability to: incur certain additional indebtedness; transfer money between our various subsidiaries; pay dividends on, repurchase or make distributions with respect to our 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 our affiliates; and amend certain documents. The Credit Agreement also contains financial covenants that require us to maintain a total specified leverage ratio of less than 6.75:1.00 for so long as we have borrowed at least 35% or more of the total availability under the Revolver. Compliance with the financial covenants may be waived by lenders holding a majority of the Revolver. We were in compliance with all financial covenants under the Credit Agreement as of September 30, 2021.

Obligations under the Credit Agreement are collateralized by a first lien on substantially all the assets and outstanding capital stock of the Company subject to exceptions. The 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 in the agreements to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding under the Credit Agreement, together with all accrued and unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders.

Cash Flows

The following table presents a summary of our consolidated cash flows from operating, investing and financing activities for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2021.

	Nine Months Ended September 30,	
	2020	2021
	(in thousands)	
Net cash provided by operating activities	\$ 25,853	\$ 38,926
Net cash used in investing activities	(12,849)	(14,599)
Net cash (used in) provided by financing activities	(3,651)	102,300
Increase in cash and cash equivalents	9,353	126,627
Effect of exchange rate changes on cash	(2,194)	(863)
Cash and cash equivalents at beginning of the period	50,299	66,633
Cash and cash equivalents at end of the period	<u>\$ 57,458</u>	<u>\$192,397</u>

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Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2020 and 2021 was \$25.9 million and \$38.9 million, respectively. The increase year-over-year was driven primarily by the reduction in net loss resulting from increased revenue.

Net cash provided by operating activities for the nine months ended September 30, 2020 reflects the adjustment to net loss for non-cash charges totaling \$76.3 million, primarily driven by \$68.4 million in depreciation and amortization, a \$7.4 million change in fair value of derivatives, \$1.8 million of stock-based compensation, \$1.8 million of debt discount amortization and \$1.1 million of other charges, partially offset by \$4.1 million in deferred income taxes. Changes in operating assets and liabilities provided an additional \$0.7 million of operating cash flow primarily due to an \$8.0 million increase in other liabilities and a \$2.8 million decrease in prepaid expenses, partially offset by an \$8.0 million decrease in accrued expenses and a \$2.4 million decrease in other assets.

Net cash provided by operating activities for the nine months ended September 30, 2021 reflects the adjustment to net income for non-cash charges totaling \$73.1 million primarily driven by \$61.2 million of depreciation and amortization, \$27.2 million of stock-based compensation, driven by the accelerated vesting of options due to the IPO, \$2.9 million of impairments of long-lived assets, \$1.7 million of amortization of debt discount and \$0.9 million of other charges, partially offset by \$13.3 million of deferred income taxes, a \$5.0 million change in the fair value of derivatives, a \$1.3 million credit to deferred rent and \$1.2 million excess payment on contingent consideration related an acquisition made in 2018. Changes in operating assets and liabilities for the nine months ended September 30, 2021 decreased cash flow from operating activities by \$13.1 million. An increase in accounts receivable of \$40.4 million, due to increased revenue, and an increase in prepaid expenses of \$1.4 million were largely offset by a \$12.1 increase in accounts payable and a \$15.6 million increase in accrued expenses.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2020 and 2021 was \$12.8 million and \$14.6 million, respectively. Net cash used in investing activities for the nine months ended September 30, 2020 consisted of a \$11.3 million investment in capitalized software and \$1.8 million in purchases of computer hardware and other property, plant and equipment, partially offset by \$0.2 million in proceeds from disposal of property, plant and equipment. Net cash used in investing activities for the nine months ended September 30, 2021 consisted of a \$12.0 million investment in capitalized software and \$2.6 million in purchases of computer hardware and other property, plant and equipment.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2020 was \$3.7 million. Net cash provided by financing activities for the nine months ended September 30, 2021 was \$102.3 million. The increase year-over-year is primarily due to proceeds from the issuance of common stock in connection with the IPO in September 2021. Net cash used in financing activities for the nine months ended September 30, 2020 was comprised of \$4.8 million in principal payments on our long-term debt offset by \$1.2 million of proceeds received from the issuance of common stock.

Net cash provided by financing activities for the nine months ended September 30, 2021 was comprised of \$102.6 million of proceeds from the issuance of common stock in our IPO, net of underwriting discounts and commissions, \$2.5 million of proceeds from the issuance of common stock and a \$15.6 million received from certain stockholders related to a one-time payment to a former executive as a result of the IPO. The one-time payment is reflected in cash flows from operating activities. Net cash provided by financing activities for the nine months ended September 30, 2021 was partially offset by \$6.1 million of IPO issuance costs, \$11.5 million in principal payments on our long-term debt, including the \$6.7 million mandatory payment on excess cash as required by our Credit Agreement and \$0.7 million in payment of earn-out contingent consideration related to an acquisition in 2018.

Adjusted Free Cash Flow

For the nine months ended September 30, 2021, the Company generated \$58.3 million of Adjusted Free Cash Flow, adjusted for one-time, cash, non-operating expenses related to the IPO, compared to \$12.8 million in the previous period.

The following table reconciles net cash flow provided by operating activities, the most directly comparable GAAP measure, to Adjusted Free Cash Flow for the nine months ended September 30, 2020 and 2021.

(in thousands)	Nine Months Ended September 30,	
	2020	2021
Net Cash provided by Operating Activities	\$ 25,853	\$ 38,926
Total IPO adjustments (1)	—	34,003
Purchases of intangible assets and capitalized software	(11,250)	(11,987)
Purchases of property and equipment	(1,835)	(2,619)
Adjusted Free Cash Flow	\$ 12,768	\$ 58,323

- (1) Includes one-time, cash, non-operating charges related to the IPO. Costs included are \$16.8 million of contractual compensation payments to former executives, of which, \$15.6 million was funded by certain stockholders, \$9.3 million final settlement of investor management fees in connection with the Fourth Amended and Restated Management Services Agreement, and \$7.9 million related primarily to professional fees and other expenses.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in accordance with US GAAP requires us to use estimates and make judgments and assumptions about future events that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosures. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our IPO Prospectus for a description of our critical accounting estimates and Note 2 to our 2020 consolidated financial statements in our IPO Prospectus for our significant accounting policies. There were no changes to our critical accounting estimates in the nine months ended September 30, 2021. See Note 3 to

our unaudited condensed consolidated financial statements in this Quarterly Report for a discussion of new accounting guidance adopted during the first nine months of 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency and Derivative Risk

We have entered into foreign currency options and forward contracts to mitigate the foreign exchange risk on expected future cash outlays to fund our fulfillment centers. We hedge our Indian rupee (“INR”) denominated expenses through foreign exchange contracts. These contracts were designated as cash flow hedges and qualified for hedge accounting under GAAP. 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 loss as the earnings effect of the hedged transaction. During the nine months ended September 30, 2020, there was a gain of \$0.3 million related to the excluded components of the hedged transaction, which was reclassified into cost of revenues and selling, general and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive loss. During the nine months ended September 30, 2021, there was a gain of \$0.2 million related to the excluded components of the hedged transaction, which was reclassified into cost of revenues and selling, general and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive loss.

Recognized realized net gains from remeasurement of foreign currency forward contracts were immaterial for the nine months ended September 30, 2020 and 2021.

As of December 31, 2020, we had USD-INR foreign currency forward contracts with a notional value totaling approximately \$16.8 million. The fair value of these contracts was \$0.6 million and is included in Other current assets on the unaudited condensed consolidated balance sheets. As of September 30, 2021, we had USD-INR foreign currency forward contracts with a notional value totaling approximately \$4.2 million. The fair value of these contracts was \$0.2 million and is included in Other current assets on the unaudited condensed consolidated balance sheets.

Credit Risk

As of December 31, 2020 and September 30, 2021, we had accounts receivable, net of allowance for doubtful accounts, of \$80.4 million and \$119.8 million, respectively. For the nine months ended September 30, 2020 and 2021, no single client accounted for more than 10% of our revenue. No single client had an accounts receivable balance greater than 10% of total accounts receivable as of December 31, 2020 or September 30, 2021.

Interest Rate Risk

Our exposure to market risk is influenced by the changes in interest rates paid on any outstanding balance on our borrowings, mainly under our Credit Agreement. Our First Lien Term Loan accrues 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 $\frac{1}{2}$ 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. Our borrowings as of September 30, 2021 accrue interest at 4.5%, based on an applicable rate of 3.5% plus LIBOR rate floor of 1% as per (2) above.

We hedge against changes in the interest rates through two interest rate swaps which hedge the future cash flows on approximately 50% of the outstanding principal balance of the aggregate amounts due under the First Lien Term Loan. The terms of the swaps allow us to effectively set LIBOR to 2.9235% through June 30, 2022.

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, there can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

Off-Balance Sheet Arrangements

As of September 30, 2021, we did not have any off-balance sheet arrangements.

Item 4. Controls and Procedures

Material Weakness in Internal Control over Financial Reporting

As disclosed in our IPO Prospectus, during the course of preparing for the IPO, we identified a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

We lacked a sufficient number of tax professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose tax accounting matters timely and accurately. This material weakness contributed to us not being able to design and maintain appropriate accounting policies, procedures and controls over income and other taxes, including controls over the completeness and accuracy of deferred income taxes, sales tax liabilities, and the global income tax provision, and maintain appropriate segregation of duties within the tax process.

This material weakness resulted in immaterial adjustments to deferred income taxes, accrued expenses, income tax benefit, selling, general and administrative expense and goodwill as of December 31, 2020 and 2019 and for the years then ended. Additionally, this material weakness could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected.

Remediation of Material Weakness

We are designing and implementing measures designed to improve our internal control over financial reporting and to remediate this material weakness. In September 2021, we hired a Chief Tax Officer with over 25 years of progressive tax leadership experience working for and with several of the largest public global Fortune 500 companies. We plan to continue to search for additional tax personnel with the appropriate knowledge, training and experience to appropriately analyze, record and disclose tax accounting matters timely and accurately, and to design and maintain appropriate accounting policies, procedures and controls over income and other taxes, commensurate with our financial reporting requirements. Additionally, we are currently supplementing our resources through the use of a third-party tax advisor and intend to continue utilizing the third-party tax advisor until we have hired sufficient tax personnel. We are committed to maintaining a strong internal control environment, and we expect to continue our efforts to ensure the material weakness described above is remediated. However, the material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Evaluation of 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 September 30, 2021. 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.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective because of the material weakness in our internal control over financial reporting described above.

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However, after giving full consideration to the material weakness, and the additional analyses and other procedures that we performed to ensure that our consolidated financial statements included in this Quarterly Report were prepared in accordance with U.S. generally accepted accounting principles, our management has concluded that our consolidated financial statements included in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

Changes in Internal Control Over Financial Reporting

Except as described above, 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 September 30, 2021 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.

Item 1A. Risk Factors.

There have been no material changes with respect to the risk factors as previously disclosed in our IPO Prospectus.

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

Use of Proceeds

On September 27, 2021, we completed the IPO of our common stock, \$0.01 par value per share, at an offering price of \$23.00 per share. We and certain selling stockholders sold an aggregate of 16,427,750 shares of our common stock at an aggregate offering price of approximately \$377.8 million, including 4,760,000 shares that we sold at an aggregate offering price of approximately \$109.5 million and 11,667,750 shares that the selling stockholders sold at an aggregate offering price of approximately \$268.4 million. The offering closed on September 27, 2021, resulting in net proceeds to us of approximately \$94.5 million after deducting the underwriting discount of approximately \$6.8 million and offering expenses payable by us of approximately \$8.1 million. Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC acted as lead book-running managers for the offering. Robert W. Baird & Co. Incorporated, William Blair & Company, L.L.C., KeyBanc Capital Markets Inc., Nomura Securities International, Inc. and Stifel, Nicolaus & Company, Incorporated acted as book-running managers for the offering. ING Financial Markets LLC and R. Seelaus & Co., LLC acted as co-managers for the offering. All shares sold were registered pursuant to the Company's Registration Statement on Form S-1 (File No. 333-259113), which was declared effective by the Securities Exchange Commission on September 22, 2021. All shares registered pursuant to such Registration Statement were sold in such IPO.

On November 1, 2021, we used the net proceeds to us from the IPO, together with cash on hand, to repay \$100.0 million outstanding under our First Lien Term Loan. Certain of the underwriters of the IPO and/or their respective affiliates are lenders of the First Lien Term Loan and, as a result, received a portion of the net proceeds from the IPO that were allocated to the repayment of such borrowings, on a pro rata basis across all applicable lenders thereunder. The lenders under our First Lien Term Loan include Goldman Sachs Lending Partners LLC, an affiliate of Goldman Sachs. There has been no material change in the use of proceeds as described in the IPO Prospectus.

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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
3.1	Amended and Restated Certificate of Incorporation of Sterling Check Corp. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 27, 2021).
3.2	Amended and Restated Bylaws of Sterling Check Corp. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on September 27, 2021).
10.1*	Amended and Restated Stockholders' Agreement, dated September 22, 2021, among Sterling Check Corp., the Founder Stockholders, the GS Stockholders and the other Stockholders party thereto.
10.2	Sixth Amendment to the First Lien Credit Agreement, by and among Sterling Infosystems, Inc., as the borrower, Sterling Intermediate Corp., as the parent, the guarantors party thereto, KeyBank National Association, as administrative agent, and the lender parties thereto, dated August 11, 2021 (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
10.3+	Sterling Check Corp. Non-Employee Director Compensation Policy (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 27, 2021).
10.4+	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.11 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed in September 13, 2021).
10.5+	Sterling Ultimate Parent Corp. 2021 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on September 13, 2021).
10.6+	Sterling Ultimate Parent Corp. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on September 13, 2021).
10.7+	Restricted Stock Grant Notice and Restricted Stock Agreement—US Senior Executive IPO Form, under the 2021 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
10.8+	Nonqualified Stock Option Grant Notice and Nonqualified Stock Option Agreement - US Senior Executive IPO Form, under the 2021 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
10.9+	Nonqualified Stock Option Grant Notice and Nonqualified Stock Option Agreement - Director IPO Form, under the 2021 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
10.10+	Form of Loan Forgiveness Agreement (incorporated by reference to Exhibit 10.23 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed in September 13, 2021).
10.11+	Amended and Restated Employment Agreement dated as of August 5, 2021, by and among Joshua Peirez, Sterling Ultimate Parent Corp., and Sterling Infosystems, Inc. (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
10.12+	Amendment to Severance Agreement dated as of August 19, 2021, by and between Peter Walker and Sterling Infosystems, Inc. (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
10.13+	Severance Agreement dated as of August 19, 2021, by and between Lou Paglia and Sterling Infosystems, Inc. (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1 filed on August 27, 2021).
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.

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
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.

+ Indicates a management contract or compensatory plan or arrangement.

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: November 10, 2021

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

Date: November 10, 2021

**AMENDED AND RESTATED
STOCKHOLDERS' AGREEMENT
AMONG
STERLING CHECK CORP.,
THE FOUNDER STOCKHOLDERS,
THE GS STOCKHOLDERS
AND
THE OTHER STOCKHOLDERS PARTY HERETO
DATED: SEPTEMBER 22, 2021**

AMENDED AND RESTATED

STOCKHOLDERS' AGREEMENT

THIS AMENDED AND RESTATED STOCKHOLDERS' AGREEMENT is entered into as of September 22, 2021, by and among Sterling Check Corp. (formerly known as Sterling Ultimate Parent Corp.), a Delaware corporation, William Greenblatt, an individual ("Founder"), the other stockholders of the Company identified on the signature pages hereto as "Founder Stockholders" (collectively with Founder, the "Founder Stockholders"), Broad Street Principal Investments, L.L.C., a Delaware limited liability company ("GS"), Checkers Control Partnership, L.P., a Delaware limited partnership ("GS Single Asset Fund") and collectively with GS and the other stockholders of the Company identified on the signature pages hereto as "GS Stockholders", the "GS Stockholders"), and the other stockholders of the Company identified on the signature pages hereto. Founder, together with the Founder Stockholders, the GS Stockholders and the other stockholders of the Company identified on the signature pages hereto are referred to herein collectively as the "Stockholders" and individually as a "Stockholder."

WHEREAS, the Company and the Stockholders as of the date hereof are parties that certain Stockholders' Agreement, dated as of June 19, 2015 (as amended, restated, supplemented or otherwise modified from time to time in accordance with its terms, the "Original Stockholders' Agreement");

WHEREAS, the Company has determined that it is in the best interests of the Company and its stockholders to effect a Qualified IPO and, in anticipation thereof, the Company, the Founder Stockholders and the GS Stockholders desire to amend and restate the terms of the Original Stockholders' Agreement as set forth herein, effective upon the pricing date of the initial Public Offering; and

WHEREAS, pursuant to Section 8.4 of the Original Stockholders' Agreement, the Company, the Founder Stockholders and the GS Stockholders are authorized to amend and restate the Original Stockholders' Agreement as set forth herein.

NOW, THEREFORE, for and in consideration of the foregoing and of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. DEFINITIONS

For all purposes of this Agreement, capitalized terms specified in Exhibit A shall have the meanings set forth in Exhibit A.

2. IPO; REGISTRATION RIGHTS

2.1 Initial Public Offering.

GS Single Asset Fund shall have the right to cause the Company to effect a Qualified IPO. In connection with a Qualified IPO and any subsequent Underwritten Offering, the Stockholders shall have the registration rights set forth in Section 2.2.

2.2 Registration Rights.

(a) In the event that the Company proposes to register any Registrable Securities under the Securities Act in connection with a public offering (for its own account or for the account of any other Stockholder) on any form other than Form S-4 or Form S-8 (or any successor forms), including in a Demand Registration, the Company shall give each of the Stockholders written notice thereof as soon as practicable but in no event less than 30 days prior to the anticipated filing of such registration statement, which notice shall set forth the date that the Company intends to file such registration statement, a good faith estimate of the offering price, and such Stockholder's rights under this Section 2.2, and shall offer such Stockholder the opportunity to include in such registration statement the number of Registrable Securities as each Stockholder may request, subject to any cutbacks provided in this Section 2.2. Upon the request of any Stockholder made within 30 days (or 15 days if the Company states in written notice or gives telephonic notice to each Stockholder, with written confirmation to follow promptly thereafter, that (i) such registration will be on Form S-3 and (ii) such shorter period of time is required because of a planned filing date) after such notice is given (which request shall specify the number of Registrable Securities requested to be registered by such Stockholder), the Company shall use its reasonable best efforts to include in such registration all Registrable Securities requested in writing to be included therein, subject to the limitations set forth in this Section 2.2; provided, that (x) if such registration involves a Public Offering, all such Stockholders requesting their Registrable Securities to be included in the Company's registration must sell their Registrable Securities to the underwriters selected pursuant to the terms of this Agreement on the same terms and conditions as apply to the Company or any other seller and (y) if at any time after giving notice of its intention to register any Registrable Securities pursuant to this Section 2.2(a) and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company shall give notice to all such Stockholders and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration. No registration under this Section 2.2 shall relieve the Company of its obligations to effect a Demand Registration to the extent required by Section 2.3. Any Stockholder who has requested to be included in such registration pursuant to this Section 2.2 shall have the right to withdraw such Stockholder's request for inclusion of Registrable Securities in such registration statement at any time prior to the effective date of such registration statement by giving written notice to the Company of its request to withdraw.

(b) If, in connection with a proposed registration by the Company, the managing underwriter for such offering advises the Company that in its good faith opinion the inclusion of any Registrable Securities requested to be included therein exceeds the number of securities that can be sold in such offering without adversely affecting the marketability thereof such that the Registrable Securities will be sold below an acceptable price to the Company (or, in the case of a Demand Registration, the Demanding Stockholder), then (i) in the case of a registration other than a Demand Registration, any Registrable Securities to be sold by the Company for its own account shall have priority over any Registrable Securities to be sold by the Stockholders, and Registrable Securities shall be included in such registration pro rata among the Stockholders based on the number of Registrable Securities owned by each Stockholder exercising similar registration rights, (ii) in the case of a Demand Registration for which Founder is the Demanding Stockholder, any Registrable Securities to be sold by the Founder Stockholders and the Scheduled Stockholders shall have priority over any Registrable Securities to be sold by the GS Stockholders and any other Stockholders, and Registrable Securities shall be included in such registration pro rata among the Founder Stockholders and the Scheduled Stockholders based on the number of Registrable Securities owned by each such Stockholder exercising registration rights, and thereafter among the GS Stockholders based on the number of Registrable Securities owned by each GS Stockholder exercising registration rights, and thereafter among any other Stockholders based on the number of Registrable Securities owned by each other Stockholder exercising registration rights, and (iii) in the case of a Demand Registration for which GS is the Demanding Stockholder, any Registrable Securities to be sold by the GS Stockholders and the Scheduled Stockholders shall have priority over any Registrable Securities to be sold by the Founder Stockholders and any other Stockholders, and Registrable Securities shall be included in such registration pro rata among the GS Stockholders and the Scheduled Stockholders based on the number of Registrable Securities owned by each such Stockholder exercising registration rights, and thereafter among the Founder Stockholders based on the number of Registrable Securities owned by each Founder Stockholder exercising registration rights, and thereafter among any other Stockholders based on the number of Registrable Securities owned by each other Stockholder exercising registration rights. Furthermore, if the managing underwriter for such offering determines that the inclusion of management Equity Securities would adversely affect the marketability of such offering, the rights of such management Stockholder to include its Registrable Securities shall be deferred until such time as their inclusion would not adversely affect an offering.

(c) The Company shall bear the costs of each registration in which the Stockholders participate pursuant to this Section 2.2 or Section 2.3, including the Registration Expenses. As a condition to the inclusion of Registrable Securities in any registration, the Stockholders and the Company shall execute an underwriting agreement or similar agreement in customary form reasonably acceptable to the Company and the underwriter(s), if any, for such offering. In connection with its registration obligations under this Section 2, the Company shall take all customary and appropriate actions to facilitate the resale of the Registrable Securities, including, without limitation, maintaining the effectiveness of each registration statement hereunder for a minimum period of 180 days or such shorter period as may be required to effect the distribution contemplated thereby, by obtaining qualifications or exemptions under applicable blue sky laws, and by causing the Registrable Securities (if eligible) to be listed on a national securities exchange.

2.3 Demand Registrations.

(a) At any time after the expiration of the period during which the lead managing underwriter of the Qualified IPO shall have prohibited the Company from effecting any other public sale or distribution of securities (but in no event more than 180 days after the effective date of the registration statement), Founder and GS (each, a "Demanding Stockholder") may each make a written request to register, and the Company shall effect the registration under the Securities Act of, any or all of the Registrable Securities held by such Demanding Stockholder, the other Founder Stockholders (if Founder is the Demanding Stockholder) or GS Stockholders (if GS is the Demanding Stockholder), and their Permitted Transferees (such registration, a "Demand Registration"); provided, that the Company shall not be obligated to effect a Demand Registration unless the aggregate gross proceeds expected to be received from the sale of Registrable Securities requested to be included in such Demand Registration equals or exceeds \$20 million; provided, further, that the Company shall not be obligated to effect (i) more than two Demand Registrations at the request of Founder and (ii) more than five Demand Registrations at the request of GS.

(b) No Demand Registration shall be deemed to have occurred for purposes of this Section 2.3 if the registration statement relating thereto (i) does not become effective, or (ii) is not maintained for at least 180 days after the effective date thereof or such shorter period during which all Registrable Securities included in such registration statement have actually been sold (provided, that such period shall be extended for a period of time equal to the period the holder of Registrable Securities refrains from selling any securities included in such registration statement at the request of the Company or any underwriter pursuant to the provisions of this Agreement).

(c) If any of the Registrable Securities registered pursuant to a Demand Registration are to be sold in a firm commitment underwritten offering, and the managing underwriter or underwriters advise the holders of such Registrable Securities in writing that in its view the total number or dollar amount of Registrable Securities proposed to be sold in such offering is such as to adversely affect the success of such offering such that the shares will be sold below an acceptable price to the Demanding Stockholder (including securities proposed to be included by other holders of securities entitled to include securities in such registration statement pursuant to Section 2.2), then there shall be included in such firm commitment underwritten offering the number or dollar amount of Registrable Securities that in the opinion of such managing underwriter can be sold without adversely affecting such offering, and such number of Registrable Securities shall be allocated in accordance with Section 2.2(b).

(d) To the extent the Company is eligible to file a registration statement on Form S-3 or is a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) (a "WKSI") at the time any Demand Registration request is submitted to the Company, such Demanding Stockholder shall have the right to further request pursuant to such Demand Registration that the Company file a shelf registration statement (a "Shelf Registration Statement") on Form S-3, and the Company shall file a Shelf Registration Statement that covers those Registrable Securities that are requested to be registered pursuant to Section 2.3(a). The Company shall use its reasonable best efforts (i) to remain eligible to file a registration statement on Form S-3 and, as applicable, (ii) to remain a WKSI (and not become an ineligible issuer (as defined in Rule 405 under the Securities Act)) during the period during which such Shelf Registration Statement is required to remain effective. If the Company does not pay the filing fee covering the Registrable Securities at the time the Shelf Registration Statement is filed, the Company agrees to pay such fee at such time or times as the Registrable Securities are to be sold. If the Shelf Registration Statement has been outstanding for at least three years, at the end of the third year the Company shall re-file a new Shelf Registration Statement covering the Registrable Securities. If at any time when the Company is required to re-evaluate its WKSI status the Company determines that it is not a WKSI, the Company shall use its reasonable best efforts to maintain an effective registration statement during the period during which such registration statement is required to be kept effective, including filing post-effective amendments to the existing shelf registration statement or filing a new shelf registration statement on Form S-3 and, if such form is not available, Form S-1. Similarly, at any time when the Company maintains a non-automatic shelf registration statement on Form S-3, if the Company determines it is no longer eligible to use Form S-3, the Company shall use its reasonable best efforts to maintain an effective registration statement during the period during which such registration statement is required to be kept effective, including filing a new registration statement on Form S-1. If the Company files any Shelf Registration Statement for the benefit of the holders of any of its securities other than the Stockholders, the Company agrees that it shall include in such registration statement such disclosures as may be required by Rule 430B under the Securities Act (referring to the unnamed selling security holders in a generic manner by identifying the initial offering of the securities to the Stockholders) in order to ensure that the Stockholders may be added to such Shelf Registration Statement at a later time through the filing of a prospectus supplement rather than a post-effective amendment.

(e) In no event shall the Company be required to effect more than one Demand Registration hereunder within any three-month period, other than pursuant to Section 2.3(d).

(f) Upon receipt of a valid request to effect a Demand Registration, the Company shall as expeditiously as possible prepare and file with the SEC a registration statement on any form for which the Company then qualifies, and shall use its commercially reasonable efforts to cause such registration statement to become effective as soon as possible thereafter.

(g) Upon notice to the Demanding Stockholder, the Company may postpone effecting a registration pursuant to this Section 2.3 on one occasion during any period of twelve consecutive months for a reasonable time specified in the notice, but not exceeding 90 days, if based on the reasonable judgment of the Board of Directors, (i) the filing or effectiveness of the registration statement would materially adversely affect or materially interfere with a bona fide material financing of the Company or any of its subsidiaries or any material transaction under consideration by the Company or (ii) such postponement or withdrawal is necessary in order to avoid premature disclosure of a matter the Board of Directors has determined would not be in the best interest of the Company to be disclosed at such time because its disclosure would materially adversely affect the Company; provided that if the Company exercises its right to withdraw the filing or the effectiveness of a registration statement for a Demand Registration then the Demanding Stockholder may withdraw its request for such demand (and such request will not count as one of the Demanding Stockholder's Demand Registrations).

(h) Notwithstanding anything to the contrary in this Agreement, if any Demanding Stockholder wishes to engage in an underwritten block trade or similar transaction with a two-day (or shorter) marketing period (collectively, an "Underwritten Block Trade") off of a Shelf Registration Statement (either through filing an automatic Shelf Registration Statement or through a take-down from an already existing Shelf Registration Statement), then such Demanding Stockholder shall provide reasonable advance notice (and no less than 24 hours' notice) to the Company and the other Demanding Stockholder of the Underwritten Block Trade prior to the day such offering is to commence, and the other Demanding Stockholder must notify the first Demanding Stockholder on the day such offering is to commence as to its election whether or not to participate pro rata (or less), and the Company shall as expeditiously as possible, but subject to Sections 2.3(d) and 2.3(e), use its commercially reasonable efforts to facilitate such Underwritten Block Trade (which may close as early as three Business Days after the date it commences); provided that the Demanding Stockholder requesting such Underwritten Block Trade, and, if it has elected to participate, the other Demanding Stockholder, shall each use its commercially reasonable efforts to work with the Company and the underwriters in order to facilitate preparation of the registration statement, prospectus and other offering documentation related to the Underwritten Block Trade and provide all closing and other customary documentation. In the event a Demanding Stockholder requests such an Underwritten Block Trade, notwithstanding anything to the contrary in this Agreement, any holder of Registrable Securities other than a Demanding Stockholder shall have no right to notice of or to participate in such Underwritten Block Trade. Notwithstanding anything to the contrary herein, an Underwritten Block Trade shall not count as a Demand Registration and shall not require any minimum anticipated offering price.

2.4 Registration Procedures. Whenever Stockholders request that any Registrable Securities be registered pursuant to Section 2.2 or 2.3, subject to the provisions of such Sections, the Company shall use its reasonable best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof as quickly as practicable and in connection with any such request:

(a) The Company shall as expeditiously as possible (and in any event within 45 days after the receipt by the Company of a Demand Registration request) prepare and file with the SEC a registration statement on any form for which the Company then qualifies or that counsel for the Company shall deem appropriate and which form shall be available for the sale of the Registrable Securities to be registered thereunder in accordance with the intended method of distribution thereof; and use its reasonable best efforts to cause such filed registration statement to become and remain effective for a period of not less than 180 days, or in the case of a shelf registration statement, three years (or such shorter period in which all of the Registrable Securities of the Stockholders electing to register Registrable Securities included in such registration statement shall have actually been sold thereunder).

(b) Prior to filing a registration statement or prospectus or any amendment or supplement thereto (other than any report filed pursuant to the Exchange Act that is incorporated by reference therein), the Company shall, if requested, furnish to each participating Stockholder and each underwriter, if any, of the Registrable Securities covered by such registration statement copies of such registration statement as proposed to be filed and thereafter the Company shall furnish to such Stockholder and underwriter, if any, copies of each amendment and supplement thereto (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424, Rule 430A, Rule 430B or Rule 430C under the Securities Act and such other documents as such Stockholder or underwriter may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Stockholder. Each Stockholder shall have the right to request that the Company modify any information contained in such registration statement, amendment and supplement thereto pertaining to such Stockholder and the Company shall use its reasonable best efforts to comply with such request; provided, that the Company shall not have any obligation to modify any information if the Company reasonably believes that so doing would cause the prospectus to contain an untrue statement of a material fact, omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or omit a statement required by applicable law.

(c) After the filing of the registration statement, the Company shall (i) cause the related prospectus to be supplemented by any required prospectus supplement and, as so supplemented, to be filed pursuant to Rule 424 under the Securities Act, (ii) comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such registration statement during the applicable period in accordance with the intended methods of disposition by the Stockholders requesting registration thereof set forth in such registration statement or supplement to such prospectus and (iii) promptly notify each Stockholder holding Registrable Securities covered by such registration statement of any stop order or any suspension of effectiveness of such registration statement issued or threatened by the SEC or any state securities commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered.

(d) The Company shall use its reasonable best efforts to (i) register or qualify the Registrable Securities covered by such registration statement under such other securities or "blue sky" laws of such jurisdictions in the United States as any Stockholder holding such Registrable Securities reasonably (in light of such Stockholder's intended plan of distribution) requests and (ii) cause such Registrable Securities to be registered with or approved by such other governmental authorities as may be necessary by virtue of the business and operations of the Company and its subsidiaries and do any and all other acts and things that may be reasonably necessary or advisable to enable such Stockholder to consummate the disposition of the Registrable Securities owned by such Stockholder; provided, that the Company shall not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 2.4(d), (B) subject itself to taxation in any such jurisdiction or (C) consent to general service of process in any such jurisdiction.

(e) The Company shall immediately notify each Stockholder holding Registrable Securities covered by such registration statement, at any time when any prospectus relating thereto is required to be delivered under the Securities Act, of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and promptly prepare and make available to each such Stockholder and file with the SEC any such supplement or amendment.

(f) Except in connection with a Demand Registration, in which case the Stockholder exercising its rights pursuant to Section 2.3 shall select, the Majority Registering Stockholders in such registration statement shall have the right to select the underwriter or underwriters; provided, that any such underwriter is reasonably acceptable to the Majority Registering Stockholders and the Company. In connection with any Public Offering, the Company shall enter into customary agreements (including an underwriting agreement in customary form) and take all such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities in any such Public Offering, including the engagement of a "qualified independent underwriter" in connection with the qualification of the underwriting arrangements with the Financial Industry Regulatory Authority, Inc. ("FINRA").

(g) The Company shall make available for inspection by any Stockholder and any underwriter participating in any disposition pursuant to a registration statement being filed by the Company pursuant to this Article 2 and any attorney, accountant or other professional retained by any such Stockholder or underwriter (collectively, the “Inspectors”), all financial and other records, pertinent corporate documents and properties of the Company (collectively, the “Records”) as shall be reasonably necessary or desirable to enable them to exercise their due diligence responsibility and cause the Company’s and its subsidiaries’ officers, directors and employees to supply all information reasonably requested by any Inspectors in connection with such registration statement, including such opportunities to discuss the business of the Company and its subsidiaries with their respective directors, officers and employees and the independent public accountants who have certified the Company and its subsidiaries’ financial statements. Records that the Company determines, in good faith, to be confidential and that it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in such registration statement or (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or is requested by any regulatory or self-regulatory authority or examiner. Each Stockholder agrees that information obtained by it as a result of such inspections shall be deemed confidential and shall not be used by it or its Affiliates as the basis for any market transactions in the Equity Securities unless and until such information is made generally available to the public. Each Stockholder further agrees that, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, it shall give notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential.

(h) The Company shall use its reasonable best efforts to furnish to each Stockholder offering any Registrable Securities in a Public Offering and to each such underwriter, if any, a signed counterpart, addressed to such Stockholder or underwriter, of (i) an opinion or opinions of counsel to the Company and (ii) a comfort letter or comfort letters from the Company’s independent public accountants, each at customary time and in customary form and covering such matters of the kind customarily covered by such opinions or comfort letters, as the case may be, and such matters as may be reasonably requested by holders of the Majority Registering Stockholders and the underwriter(s).

(i) The Company shall otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC and make available to its security holders, as soon as reasonably practicable, an earnings statement that satisfies the provisions of Rule 158 under the Securities Act.

(j) The Company may require each such Stockholder promptly to furnish in writing to the Company such information regarding the distribution of the Registrable Securities as the Company may from time to time reasonably request and such other information as may be legally required in connection with such registration.

(k) Each Stockholder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 2.4(c)(iii) or Section 2.4(e), such Stockholder shall forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until, in the case of Section 2.4(c)(iii), its receipt of notice from the Company that such stop order or suspension of effectiveness is no longer in effect, and in the case of Section 2.4(e), such Stockholder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 2.4(e) and, if so directed by the Company, such Stockholder shall deliver to the Company (at the Company's expense) all copies, other than any permanent file copies then in such Stockholder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice. If the Company shall give such notice, the Company shall extend the period during which such registration statement shall be maintained effective (including the period referred to in Section 2.4(a)) by the number of days during the period from and including the date of the giving of notice pursuant to Section 2.4(c)(iii) or Section 2.4(e), as applicable, to the date when the Company shall, in the case of Section 2.4(c)(iii), give notice that such stop order or suspension of effectiveness is no longer in effect, and in the case of Section 2.4(e), make available to such Stockholder a prospectus supplemented or amended to conform with the requirements of Section 2.4(e) and, if the Company shall not so extend such period and such registration statement is the result of exercise of a Demand Registration, the Demanding Stockholder's request pursuant to which such registration statement was filed shall not be counted for purposes of the requests for Demand Registration to which such Demanding Stockholder is entitled pursuant to Section 2.3.

(l) The Company shall use its reasonable best efforts to list all Registrable Securities covered by such registration statement on any securities exchange or quotation system on which the shares of Common Stock are then listed or traded, or, if the shares are not then listed, to use its reasonable best efforts to (1) cause all such Registrable Securities to be listed on a national securities exchange or (2) secure designation of all such Registrable Securities as a National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") "national market system security" within the meaning of Rule 11Aa2-1 of the SEC or (3) failing that, to secure NASDAQ authorization for such shares and, without limiting the generality of the foregoing, to arrange for at least two market makers to register as such with respect to such shares with FINRA.

(m) The Company shall have appropriate officers of the Company (i) prepare a registration statement, a prospectus and any amendments or supplements thereto (including participating in meetings, drafting sessions and due diligence sessions) and make presentations at any "road shows" and before analysts and rating agencies, as the case may be, (ii) take other actions to obtain ratings for any Registrable Securities and (iii) otherwise use their reasonable best efforts to cooperate as reasonably requested by the underwriters in the offering, marketing or selling of the Registrable Securities.

(n) The Company shall not effect or permit to occur any combination or subdivision of Equity Securities which would adversely affect the ability of the Stockholders to include any Registrable Securities in any registration contemplated herein or the marketability of such Registrable Securities in any such registration.

(o) The Company shall promptly deliver to counsel to the Stockholders participating in any registration and each underwriter, if any, participating in the offering of the Registrable Securities, copies of all correspondence between the SEC and the Company, its counsel or auditors and all memoranda relating to discussions with the SEC or its staff with respect to such registration statement.

(p) The Company shall cooperate with each Stockholder participating in any registration and each underwriter, and their respective counsel, in connection with any filings required to be made with FINRA and any securities exchange on which such Registrable Securities are traded or will be traded.

(q) The Company shall provide and cause to be maintained a transfer agent and registrar for all Registrable Securities covered by such registration statement from and after a date not later than the effective date of such registration statement.

(r) The Company shall provide a CUSIP number for all Registrable Securities, no later than the effective date of the registration statement, and provide the applicable transfer agents with printed certificates for the Registrable Securities if the Registrable Securities are then issuable in certificated form.

(s) The Company shall take all action to ensure that any free writing prospectus utilized in connection with any registration covered by Article 2 complies in all material respects with the Securities Act, is filed in accordance with the Securities Act to the extent required thereby, is retained in accordance with the Securities Act to the extent required thereby and, when taken together with the related prospectus, prospectus supplement and related documents, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein in light of the circumstances under which they were made not misleading.

(t) The Company shall cooperate with the managing underwriter(s) and the Stockholders participating in a registration to facilitate the timely preparation and delivery of certificates not bearing any restrictive legends representing the Registrable Securities to be sold, and cause such Registrable Securities to be issued in such denominations and registered in such names in accordance with the underwriting agreement prior to any sale of Registrable Securities to the underwriters or, if not an underwritten offering, in accordance with the instructions of the Stockholders participating in such registration at least five Business Days prior to any sale of Registrable Securities and instruct any transfer agent or registrar of Registrable Securities to release any stop transfer orders in respect thereof.

(u) If any registration statement or comparable statement under “blue sky” laws refers to any Stockholder by name or otherwise as the holder of any securities of the Company, then such Stockholder shall have the right to require (i) the insertion therein of language, in form and substance satisfactory to such Stockholder and the Company, to the effect that the holding by such Stockholder of such securities is not to be construed as a recommendation by such Stockholder of the investment quality of the Company’s securities covered thereby and that such holding does not imply that such Stockholder will assist in meeting any future financial requirements of the Company, or (ii) in the event that such reference to such Stockholder by name or otherwise is not in the judgment of the Company, as advised by counsel, required by the Securities Act or any similar federal statute or any state “blue sky” or securities law then in force, the deletion of the reference to such Stockholder.

(v) If any of the Stockholders or any of its Affiliates (each a “Selling Entity”) could reasonably be deemed to be an “underwriter” as defined in Section 2(a)(11) of the Securities Act in connection with any registration of the Company’s securities held by any Selling Entity pursuant to this Agreement, and any amendment or supplement thereof (any such registration statement or amendment or supplement a “Selling Entity Underwriter Registration Statement”), then the Company (A) agrees that (1) the indemnification and contribution provisions contained in Sections 2.5, 2.7 and 2.8 shall apply to, and (2) the representations and warranties of the Company in the underwriting agreement shall be made for, the benefit of each Selling Entity in its role as an underwriter or deemed underwriter in addition to its capacity as a holder of Registrable Securities and (B) will cooperate with such Selling Entity in allowing such Selling Entity to conduct customary “underwriter’s due diligence” with respect to the Company and satisfy its obligations in respect thereof. In addition, at the request of such Selling Entity, the Company will furnish to such Selling Entity, on the date of the effectiveness of any Selling Entity Underwriter Registration Statement and thereafter from time to time on such dates as such Selling Entity may reasonably request, (x) a letter, dated such date, from the Company’s independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to such Selling Entity, and (y) an opinion, dated as of such date, of counsel representing the Company for purposes of such Selling Entity Underwriter Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, including a standard “10b-5” opinion for such offering, addressed to such Selling Entity. The Company will also permit legal counsel to such Selling Entity to review and comment upon any such Selling Entity Underwriter Registration Statement at least five Business Days prior to its filing with the SEC and all amendments and supplements to any such Selling Entity Underwriter Registration Statement within a reasonable number of days prior to their filing with the SEC and not file any Selling Entity Underwriter Registration Statement or amendment or supplement thereto in a form to which such Selling Entity’s legal counsel reasonably objects.

2.5 Indemnification by the Company. The Company agrees to indemnify and hold harmless each Stockholder holding Registrable Securities included in a registration statement, such Stockholder’s Affiliates and such Stockholder’s and such Stockholder’s Affiliates’ respective officers, directors, employees, partners and agents and each Person, if any, who “controls” any of the Persons listed above within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable expenses of investigation and reasonable attorneys’ fees and expenses) (“Damages”) caused by or relating to any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus or free-writing prospectus (as defined in Rule 405 under the Securities Act), or caused by or relating to any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such Damages are caused by or related to any such untrue statement or omission or alleged untrue statement or omission so made based upon information furnished in writing to the Company by such Stockholder or on such Stockholder’s behalf expressly for use therein; provided, that, with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus, or in any prospectus, as the case may be, the indemnity agreement contained in this paragraph shall not apply to the extent that any Damages result from the fact that a current copy of the prospectus (or such amended or supplemented prospectus, as the case may be) was not sent or given to the Person asserting any such Damages at or prior to the written confirmation of the sale of the Registrable Securities concerned to such Person if it is determined that the Company has provided such prospectus to such Stockholder and it was the responsibility of such Stockholder to provide such Person with a current copy of the prospectus (or such amended or supplemented prospectus, as the case may be) and such current copy of the prospectus (or such amended or supplemented prospectus, as the case may be) would have cured the defect giving rise to such Damages. The Company also agrees to indemnify any underwriters of the Registrable Securities, their officers and directors and each Person who “controls” such underwriters within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act on substantially the same basis as that of the indemnification of the Stockholders provided in this Section 2.5.

2.6 Indemnification by Participating Stockholders. Each Stockholder holding Registrable Securities included in any registration statement agrees, in its capacity as a stockholder, severally but not jointly, to indemnify and hold harmless the Company, its officers, directors and agents and each Person, if any, who “controls” the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Stockholder, but only with respect to information furnished in writing by such registering Stockholder or on such Stockholder’s behalf expressly for use in any registration statement or prospectus relating to the Registrable Securities, or any amendment or supplement thereto, or any preliminary prospectus or free writing prospectus. Each such Stockholder also agrees, in its capacity as a stockholder, to indemnify and hold harmless underwriters of the Registrable Securities, their officers and directors and each Person who “controls” such underwriters within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act on substantially the same basis as that of the indemnification of the Company provided in this Section 2.6. As a condition to including Registrable Securities in any registration statement filed in accordance with this Article 2, the Company may require that it shall have received an undertaking reasonably satisfactory to it from any underwriter to indemnify and hold it harmless to the extent customarily provided by underwriters with respect to similar securities. Each Stockholder holding Registrable Securities included in any registration statement also agrees, in its capacity as a stockholder, to indemnify and hold harmless all prospective sellers and other Stockholders holding Registrable Securities in such registration statement, their respective Affiliates, officers, directors, employees, partners and agents and each Person, if any, who “controls” any of the Persons listed above within, the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as provided above with respect to indemnification of the Company and underwriters. No Stockholder shall be liable under this Section 2.6 for any Damages in excess of the net proceeds realized by such Stockholder in the sale of Registrable Securities of such Stockholder to which such Damages relate.

2.7 Conduct of Indemnification Proceedings. If any proceeding (including any governmental investigation) shall be instituted involving any Person in respect of which indemnity may be sought pursuant to this Article 2, such Person (an "Indemnified Party") shall promptly notify the Person against whom such indemnity may be sought (the "Indemnifying Party") in writing and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party and shall assume the payment of all fees and expenses; provided, that the failure of any Indemnified Party so to notify the Indemnifying Party shall not relieve the Indemnifying Party of its obligations hereunder except to the extent that the Indemnifying Party is materially prejudiced by such failure to notify; provided, further, that the Indemnified Party shall have the right to assume the defense of any proceeding and the Indemnifying Party shall be liable for any fees and expenses therefor if (a) the Indemnifying Party fails to provide the Indemnified Party with evidence acceptable to the Indemnified Party that the Indemnifying Party will have the adequate financial resources to defend against the proceeding and fulfill its indemnification obligations hereunder, (b) the Indemnifying Party fails to defend diligently the proceeding within 10 days after receiving notice of such failure from such Indemnified Party, (c) the Indemnifying Party fails to notify the Indemnified Party in writing, within 15 days after the Indemnified Party has given notice of the proceeding, that the Indemnifying Party will indemnify the Indemnified Party from and against all Damages the Indemnified Party may suffer caused by or relating to such claim, (d) such Indemnified Party reasonably shall have concluded (upon advice of its counsel) that there may be one or more legal defenses available to such Indemnified Party or other Indemnified Parties which are not available to the Indemnifying Party or (e) such Indemnified Party reasonably shall have concluded (upon advice of its counsel) that, with respect to such claims, the Indemnified Party and the Indemnifying Party may have different, conflicting, or adverse legal positions or interests. In any proceeding as to which the Indemnifying Party shall have the right to assume, and shall have assumed, the defense thereof any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) in the reasonable judgment of such Indemnified Party representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that, in connection with any proceeding or related proceedings in the same jurisdiction, the Indemnifying Party shall not be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnified Parties and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Indemnified Parties, such firm shall be designated in writing by the Indemnified Parties. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent, or if there be a final judgment for the plaintiff, the Indemnifying Party shall indemnify and hold harmless such Indemnified Parties from and against any Damages (to the extent stated above) by reason of such settlement or judgment; provided, that, in the case where the Indemnifying Party shall have failed to take any of the actions listed in clauses (a), (b) or (c) above in this Section 2.7, the Indemnified Party shall have the right to compromise or settle such proceeding on behalf of and for the account, expense, and risk of the Indemnifying Party and the Indemnifying Party shall remain responsible for any Damages the Indemnified Party may suffer caused by or relating to such proceeding to the fullest extent provided herein. Without the prior written consent of the Indemnified Party, no Indemnifying Party shall effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional and irrevocable release of such Indemnified Party from all liability arising out of such proceeding and does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any Indemnified Party.

2.8 Contribution. If the indemnification provided for in this Article 2 is unavailable to the Indemnified Parties in respect of any Damages, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Damages (i) as between the Company and the Stockholders holding Registrable Securities covered by a registration statement, on the one hand, and the underwriters, on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and such Stockholders, on the one hand, and the underwriters, on the other, from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits but also the relative fault of the Company and such Stockholders, on the one hand, and of such underwriters, on the other, in connection with the statements or omissions that resulted in such Damages, as well as any other relevant equitable considerations and (ii) as between the Company, on the one hand, and each such Stockholder, on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each such Stockholder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the Company and such Stockholders, on the one hand, and such underwriters, on the other, shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and such Stockholders bear to the total underwriting discounts and commissions received by such underwriters, in each case as set forth in the table on the cover page of the prospectus. The relative fault of the Company and such Stockholders, on the one hand, and of such underwriters, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and such Stockholders or by such underwriters. The relative fault of the Company, on the one hand, and of each such Stockholder, on the other, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Stockholders agree that it would not be just and equitable if contribution pursuant to this Section 2.8 were determined by pro rata allocation (even if the underwriters were treated as one entity, for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the Damages referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 2.8, no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds, the amount of any Damages that such underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission and no Stockholder shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities of such Stockholder were offered to the public exceeds the amount of any Damages that such Stockholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. Each Stockholder's obligation to contribute pursuant to this Section 2.8 is several in the proportion that the proceeds of the offering received by such Stockholder bears to the total proceeds of the offering received by all such Stockholders and not joint.

2.9 Cooperation by the Company. If any Stockholder shall transfer any Registrable Securities pursuant to Rule 144 or 144A or Regulation S under the Securities Act, the Company shall use its reasonable best efforts to cooperate with such Stockholder. After the Qualified IPO, the Company covenants that, at its own expense, it will file the reports required to be filed by it under the Securities Act and the Exchange Act, and it will take such further action as any Stockholder may reasonably request, all to the extent required from time to time to enable such Stockholder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 or 144A or Regulation S under the Securities Act or (ii) any similar rule or regulation hereafter adopted by the SEC. Upon the request of a Stockholder, the Company, at its own expense, will promptly deliver to such Stockholder (i) a written statement as to whether it has complied with such requirements (and such Stockholder shall be entitled to rely upon the accuracy of such written statement), (ii) a copy of the most recent annual or quarterly report of the Company and (iii) such other reports and documents as such Stockholder may reasonably request in order to avail itself of any rule or regulation of the SEC allowing it to sell any Registrable Securities without registration.

2.10 Underwritten Offering. No Stockholder may participate in any Public Offering hereunder unless such Stockholder (i) agrees to sell such Stockholder's Registrable Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements and the provisions of this Agreement in respect of registration rights.

2.11 No Inconsistent Agreements; Limitations on Subsequent Registration Rights.

(a) The Company shall not, on or after the date of this Agreement, enter into any agreement with respect to its securities which is inconsistent with the rights granted to the Stockholders in this Article 2 or otherwise conflicts with the provisions of this Article 2, other than any customary lock-up agreement with the underwriters in connection with any offering effected hereunder. The Company warrants that the rights granted to the Stockholders hereunder do not in any way conflict with and are not inconsistent with any other agreements to which the Company is a party or by which it is bound.

(b) Except with the prior written consent of GS and Founder, the Company shall not enter into an agreement that grants a holder or prospective holder of any securities of the Company demand or piggyback registration rights that by their terms are more favorable to the registration rights granted to the Stockholders in this Agreement. Notwithstanding the foregoing, if after the date of this Agreement the Company enters into any other agreement with respect to the registration of any of its Equity Securities, and the terms contained therein are more favorable to, or less restrictive on, the other party thereto than the terms and conditions contained in this Agreement (insofar as they are applicable) with respect to the Stockholders, then the terms of this Agreement shall immediately be deemed to have been amended without further action by the Company or the Stockholders so that the Stockholders shall be entitled to the benefit of any such more favorable or less restrictive terms or conditions.

(c) Except with the prior written consent of Stockholders holding a majority of the outstanding Registrable Securities, the Company shall not enter into an agreement that grants a holder or prospective holder of any securities of the Company demand or piggyback registration rights that are by their terms equivalent to the registration rights granted to the Stockholders in this Agreement.

2.12 Opt-Out Requests. Each Stockholder shall have the right, at any time and from time to time after the initial Public Offering of the Common Stock of the Company (including after receiving information regarding any potential Public Offering), to elect to not receive any notice that the Company or any other Stockholders otherwise are required to deliver pursuant to this Agreement by delivering to the Company a written statement signed by such Stockholder that it does not want to receive any notices hereunder (an “Opt-Out Request”); in which case and notwithstanding anything to the contrary in this Agreement, during the effective time of the Opt-Out Request, (A) the Company and other Stockholders shall not be required to, and shall not, deliver any notice or other information required to be provided to Stockholders hereunder to the extent that the Company or such other Stockholders reasonably expect would result in a Stockholder acquiring material non-public information within the meaning of Regulation FD promulgated under the Exchange Act, and (B) such Stockholder shall not be obligated to execute the lock-up agreement referred to in Section 3 below. An Opt-Out Request may state a date on which it expires or, if no such date is specified, shall remain in effect indefinitely. A Stockholder who previously has given the Company an Opt-Out Request may revoke such request at any time, and there shall be no limit on the ability of a Stockholder to issue and revoke subsequent Opt-Out Requests; provided that each Stockholder shall use commercially reasonable efforts to minimize the administrative burden on the Company arising in connection with any such Opt-Out Requests.

2.13 Termination of Registration Rights. The rights of any Stockholder under this Article 2 (other than the provisions of Sections 2.5 through 2.8 applicable to such Stockholder with respect to any prior offering of Registrable Securities) shall terminate when such Stockholder ceases to own any Registrable Securities.

3. MARKET STAND-OFF AGREEMENT

3.1 In the event of an Underwritten Offering, the Company and, except as otherwise provided in Section 2.12, each Stockholder will execute an agreement with the underwriter(s) in form and substance as is customarily executed in similar transactions (including, without limitation, customary indemnification provisions and the provisions of this Section 3). If requested by an underwriter of Equity Securities, the Company and, except as otherwise provided in Section 2.12, each Stockholder shall not sell or otherwise transfer or dispose of any Equity Securities held by the Company or such Stockholder (other than those included in the registration), as applicable, commencing on the date that the Company holds an initial organization meeting with respect to such Underwritten Offering and ending (i) in the case of the initial Public Offering of the Common Stock (or other Equity Securities) of the Company, on the expiration of the 180-day period following the effective date of a registration statement of the Company filed under the Securities Act (or such lesser period as the managing underwriter may require), and (ii) in the case of any subsequent Public Offering of the Common Stock (or other Equity Securities) of the Company, on the expiration of the 90-day period following the effective date of a registration statement of the Company filed under the Securities Act (or such other period as the managing underwriter may require). The Company may impose stop-transfer instructions with respect to the Equity Securities subject to the foregoing restriction until the end of the applicable 180-day or 90-day period described above, or such lesser time as the underwriter(s) shall agree.

3.2 The obligations described in this Section 3 shall not apply to a registration relating solely to employee benefit plans on Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future.

4. MISCELLANEOUS

4.1 Specific Performance.

With respect to Sections 2 and 3, in addition to any other remedies that the Stockholders may have at law or in equity, the Company and the Stockholders hereby acknowledge that the harm that might result to the Stockholders from breaches by the Company or the Stockholders of their respective obligations cannot be adequately compensated by damages. Accordingly, the Company and each Stockholder agrees that each other Stockholder shall have the right to have all obligations and undertakings set forth in Sections 2 and 3 specifically performed by the Company or the other Stockholders, as the case may be, and that any other Stockholder shall have the right to obtain an order or decree of such specific performances in any of the courts of the United States of America or of any state or other political subdivision thereof.

4.2 Assignment.

Neither the Company nor any Stockholder shall assign this Agreement, in whole or in part, whether by operation of law or otherwise, unless (a) such Person shall have obtained the prior written consent of the Company or (b) such assignment is in connection with a transfer of Equity Securities to a Permitted Transferee. For avoidance of doubt, GS Single Asset Fund shall be entitled to assign this Agreement, in whole or in part, to GS or any of its Affiliates (other than the Company and its subsidiaries) at any time; provided, however, that no assignment shall limit GS Single Asset Fund's obligations hereunder and GS shall remain liable for any obligations of GS Single Asset Fund hereunder. Any purported assignment of this Agreement contrary to the terms hereof shall be null and void and of no force and effect.

4.3 Entire Agreement Amendment.

(a) This Agreement, including the Exhibit hereto, constitutes the entire agreement among the parties hereto with respect to the matters provided for herein, and it supersedes all prior oral or written agreements, commitments, or understandings with respect to the matters provided for herein. This Agreement may not be amended without the written consent of the Company, GS and the Stockholders comprising at least 51% of the Equity Securities.

(b) The Agreement shall not be amended (including by means of a waiver) in any manner that, by its express terms, has a disproportionate adverse effect on the rights, obligations, powers or interest of any Stockholder relative to other Stockholders in their capacities as such, without the consent of the Stockholder so disproportionately affected. No amendment that would impose new and additional transfer restrictions or limit the registration rights of a Stockholder shall be made without the consent of such Stockholder.

4.4 Waiver.

No delay or failure on the part of any party hereto in exercising any right, power or privilege under this Agreement or under any other instrument given in connection with or pursuant to this Agreement shall impair any such right, power or privilege or be construed as a waiver of any default or any acquiescence therein. No single or partial exercise of any such right, power or privilege shall preclude the further exercise of such right, power or privilege, or the exercise of any other right, power or privilege. No waiver shall be valid against any party hereto unless made in writing and signed by the party against whom enforcement of such waiver is sought and then only to the extent expressly specified therein. No waiver shall be provided to any Stockholder of any provision herein which could not be made by means of an amendment.

4.5 No Third Party Beneficiaries.

It is the explicit intention of the parties hereto that, except with respect to an indemnification claim in accordance with the terms of this Agreement, no Person other than the parties hereto is or shall be entitled to bring any action to enforce any provision of this Agreement against any of the parties hereto, and the covenants, undertakings and agreements set forth in this Agreement shall be solely for the benefit of, and shall be enforceable only by, the parties hereto or their respective successors, heirs, executors, administrators, legal representatives and permitted assigns. Notwithstanding the foregoing, (i) each Selling Entity is an intended third party beneficiary of Section 2.4(v) and shall be entitled to enforce such provision directly and (ii) each of the Affiliates of GS (other than the Company and its subsidiaries), including Goldman, Sachs & Co. ("Goldman Sachs"), is an intended third party beneficiary of the provisions of Sections 4.12 and 4.13 and shall be entitled to enforce such provisions directly.

4.6 Binding Effect.

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors, heirs, executors, administrators, legal representatives and permitted assigns.

4.7 Governing Law.

This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of Delaware (excluding the choice of law rules thereof that would apply the laws of another jurisdiction).

4.8 Notices.

All notices, demands, requests, or other communications which may be or are required to be given, served, or sent by any party to any other party pursuant to this Agreement shall be in writing and shall be hand-delivered or mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by reputable overnight courier, or sent by electronic transmission (provided a copy is also sent in another manner permitted by this Section 4.8), addressed as follows:

Notices to any of the GS Stockholders:

c/o Broad Street Principal Investments, L.L.C.
200 West Street
New York, New York 10282
Attention: Chris Crampton and Will Chen
E-mail: chris.crampton@gs.com and will.chen@gs.com

with a copy (which shall not constitute notice) to:

Fried, Frank, Harris, Shriver & Jacobson LLP
One New York Plaza
New York, New York 10004
Attention: Christopher Ewan and Andrea Gede-Lange
E-mail: christopher.ewan@friedfrank.com and
andrea.gede-lange@friedfrank.com

Notices to the Company:

Sterling Check Corp.
1 State Street Plaza, 24th Floor
New York, New York 10004
Attention: General Counsel
E-mail: steve.barnett@sterlingcheck.com

with a copy (which shall not constitute notice) to:

c/o Broad Street Principal Investments, L.L.C.
200 West Street
New York, New York 10282

Attention: Chris Crampton and Will Chen
Facsimile: (212) 357-5505
E-mail: chris.crampton@gs.com and will.chen@gs.com

and with a copy (which shall not constitute notice) to:

Fried, Frank, Harris, Shriver & Jacobson LLP
One New York Plaza
New York, New York 10004
Attention: Christopher Ewan and Andrea Gede-Lange
E-mail: christopher.ewan@friedfrank.com and
andrea.gede-lange@Friedfrank.com

Notices to any of the Founder Stockholders:

c/o William Greenblatt
Montague Street Capital
381 Park Avenue South, Suite 1001
New York, New York 10016
E-mail: bill.greenblatt@montaguestreetcapital.com

with a copy (which shall not constitute notice) to:

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, New York 10166
Attention: Sean P. Griffiths
E-mail: sgriffiths@gibsondunn.com

Notices to each other Stockholder, to the address set forth on such Stockholder's signature page to this Agreement.

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent. Each notice, demand, request, or communication which shall be hand-delivered, mailed, transmitted by courier or sent by facsimile or electronic transmission in the manner described above, shall be deemed sufficiently given, served, sent, received or delivered for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, or the answer back being deemed conclusive, but not exclusive, evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

4.9 Expenses.

Each Stockholder shall bear its own costs and expenses incurred in connection with the negotiation of this Agreement and other arrangements entered into in connection herewith, including any employment or contribution agreements.

4.10 Confidentiality.

Each Stockholder will, and will cause its representatives and agents to, keep confidential, and not use, except in connection with any employment relationship with the Company or any of its subsidiaries, all information which, prior to, on or after the date hereof, has been furnished to such Stockholder by or on behalf of the Company, any subsidiary of the Company or any representative or agent of any of the foregoing. The provisions of this Section 4.10 shall not apply to the disclosure or use of any information, documents or materials (a)(i) which are or become generally available to the public other than as a result of disclosure by such Stockholder or representative or agent of such Stockholder in violation of this Section 4.10, or (ii) which were in such Stockholder's possession prior to it being furnished to it by or on behalf of the Company or any of its subsidiaries; (b) required by applicable law to be disclosed by such Stockholder or its representatives or agents (but in such case the applicable Stockholder shall provide the Company with written notice of such Stockholder's intention to disclose such information as promptly as reasonably practicable, unless prohibited by law, so that the Company may seek to challenge such disclosure in a court of law); or (c) necessary to establish such Stockholder's rights under this Agreement.

4.11 Execution in Counterparts.

To facilitate execution, this Agreement may be executed in as many counterparts as may be required and it shall not be necessary that the signatures of, or on behalf of, each party, or that the signatures of all persons required to bind any party, appear on each counterpart, but it shall be sufficient that the signature of, or on behalf of, each party, or that the signatures of the persons required to bind any party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than number of counterparts containing the respective signatures of, or on behalf of, all of the parties hereto. Facsimile and .pdf signatures shall constitute original signatures for all purposes of this Agreement.

4.12 No Publicity.

The Company shall not, and shall ensure that its subsidiaries and its and their respective officers, directors, managers, employees and other representatives do not, without the prior written consent of GS and its Affiliates, in each instance, (i) use in advertising, publicity or otherwise the name of GS or any of its Affiliates, including Goldman Sachs, or the name of any officer, director, partner, member, manager or employee of GS, Goldman Sachs or any of their Affiliates, nor any trade name, trademark, trade device, logo, service mark or symbol or any abbreviation, contraction or simulation thereof owned or used by GS or any of its Affiliates, including Goldman Sachs, or (ii) represent, directly or indirectly, that any product or any service provided by the Company or any of its subsidiaries has been approved, endorsed, recommended or provided by, or in association with, GS or any of its Affiliates, including Goldman Sachs.

4.13 Company Logo.

The Company grants GS and each of its Affiliates, including Goldman Sachs, permission to use the name and logo of the Company and each of its subsidiaries in its or their marketing materials. GS or its Affiliate, as applicable, shall include a trademark attribution notice giving notice of ownership of such trademarks by the Company or its subsidiary in the marketing materials in which such name and logo appear.

[The remainder of this page is intentionally blank]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement, or have caused this Agreement to be duly executed on their behalf, as of the day and year first hereinabove set forth,

COMPANY:

STERLING CHECK CORP.

By: /s/ Steven Barnett

Name: Steven Barnett

Title: EVP, Chief Legal & Risk Officer

[Signature Page to Amended and Restated Stockholders' Agreement]

FOUNDER STOCKHOLDERS:

/s/ William Greenblatt

WILLIAM GREENBLATT

THE BRANDON T. GREENBLATT 2015 TRUST

By: /s/ Ross Cummings

Name: Ross Cummings

Title: Trustee

THE MAGGIE S. GREENBLATT 2015 TRUST

By: /s/ Ross Cummings

Name: Ross Cummings

Title: Trustee

THE STEVEN J. GREENBLATT 2015 TRUST

By: /s/ Ross Cummings

Name: Ross Cummings

Title: Trustee

[Signature Page to Amended and Restated Stockholders' Agreement]

GS STOCKHOLDERS:

BROAD STREET PRINCIPAL
INVESTMENTS, L.L.C.

By: /s/ William C. Chen

Name: William C. Chen

Title: Vice President

CHECKERS CONTROL PARTNERSHIP, L.P.

By: Broad Street Control Advisors, L.L.C.,
its General Partner

By: /s/ William C. Chen

Name: William C. Chen

Title: Vice President

BROAD STREET CONTROL ADVISORS, L.L.C.

By: /s/ William C. Chen

Name: William C. Chen

Title: Vice President

[Signature Page to Amended and Restated Stockholders' Agreement]

EXHIBIT A

TO THE
AMENDED AND RESTATED
STOCKHOLDERS' AGREEMENT
DATED AS OF SEPTEMBER 22, 2021

DEFINITIONS

“Affiliate” of any particular Person means any other Person controlling, controlled by or under common control with such particular Person, where “control” means the possession, directly or indirectly, of the power to direct the management and policies of a Person, whether through the ownership of voting securities, contract or otherwise; provided, that no securityholder of the Company shall be deemed to be an Affiliate of any other securityholder of the Company or any of its subsidiaries solely by reason of an investment in the Company.

“Agreement” shall mean this Amended and Restated Stockholders’ Agreement, as the same may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof.

“Board of Directors” shall mean the board of directors of the Company.

“Business Day” means any day other than a Saturday, Sunday, or a day on which all banking institutions of New York are authorized or obligated by law or executive order to close.

“Common Stock” means all shares of common stock, par value \$0.01 per share, of the Company and any and all securities of any kind whatsoever which may be issued after the date hereof in respect of, or in exchange for, such shares of common stock of the Company pursuant to a stock dividend, stock split or combination of shares or in connection with a reclassification, recapitalization, merger, share exchange or conversion, consolidation or other reorganization.

“Company” shall mean Sterling Check Corp. (formerly known as Sterling Ultimate Parent Corp.), a Delaware corporation, or any successor thereto.

“Equity Securities” shall mean any shares of Common Stock and any warrants, or other rights to subscribe for or to purchase, or any options for the purchase of Common Stock, any stock or security convertible into or exchangeable for Common Stock or any other stock, security or interest in the Company whether or not convertible into or exchangeable for Common Stock, and any shares of Common Stock issued upon exercise, conversion or exchange of any such convertible security.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and any successor statute thereto and the rules and regulations promulgated by the SEC thereunder.

“Majority Registering Stockholders” shall mean the Stockholders holding a majority of the Equity Securities requested to be included in any registration or offering of Registrable Securities initiated pursuant to Section 2.2 or 2.3.

“Permitted Transferees” shall mean, as of any date of determination, (i) for any Stockholders that are individuals, (x) such Stockholders’ spouse or children (whether natural or adopted) or a trust, the beneficiaries of which are the Stockholder and/or any members of such Stockholder’s immediate family or (y) in the case of the Stockholder’s death, by will or by the laws of intestate succession to any members of the Stockholder’s immediate family or to any other Person reasonably acceptable to the Board of Directors; (ii) for any Stockholders that are entities and not individuals, any Affiliate of such Stockholder; or (iii) for GS and GS Single Asset Fund, related fund entities, partners, passive co-investors (for whom GS or its Affiliate has the right to vote and control the disposition of such co-investor’s Equity Securities) and other Affiliates of GS; provided that all Permitted Transferees shall hold any Equity Securities subject to the terms of this Agreement and, as a condition precedent to such transfers, shall be required to execute and deliver a counterpart signature page to this Agreement.

“Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or a governmental body or authority.

“Public Offering” means (i) a firm commitment underwritten public offering of shares of Common Stock, or (ii) an Underwritten Block Trade, pursuant to an effective registration statement under the Securities Act, other than pursuant to a registration statement on Form S-4 or Form S-8 or any similar or successor form.

“Qualified IPO” means a firm commitment underwritten initial Public Offering of the Company’s Common Stock or other Equity Securities under the Securities Act for cash with gross proceeds to the Company exceeding \$50 million.

“Registrable Securities” means, at any time, any Equity Securities until (i) a registration statement covering such Equity Securities has been declared effective by the SEC and such Equity Securities have been disposed of pursuant to such effective registration statement or (ii) such Equity Securities are sold under circumstances in which all of the applicable conditions of Rule 144 (or any similar provisions then in force) under the Securities Act are met or (iii) such Equity Securities cease to be outstanding.

“Registration Expenses” means any and all expenses incident to the performance of or compliance with any registration or marketing of securities, including all (i) registration and filing fees and all other fees and expenses payable in connection with the listing of securities on any securities exchange or automated interdealer quotation system, (ii) fees and expenses of compliance with any securities or “blue sky” laws (including reasonable fees and disbursements of counsel in connection with “blue sky” qualifications of the securities registered), (iii) expenses in connection with the preparation, printing, mailing and delivery of any registration statements, prospectuses and other documents in connection therewith and any amendments or supplements thereto, (iv) security engraving and printing expenses, (v) internal expenses of the Company (including all salaries and expenses of its officers and employees performing legal or accounting duties), (vi) reasonable fees and disbursements of counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses relating to any comfort letters or costs associated with the delivery by independent certified public accountants of any comfort letters requested in accordance with the terms of this Agreement), (vii) reasonable fees and expenses of any special experts retained by the Company in connection with such registration, (viii) reasonable fees and expenses of the Stockholders, including one legal counsel for all of the Stockholders participating in an offering (who shall be selected by the Demanding Stockholder exercising its demand registration rights pursuant to the terms herein (or, if it is not a Demand Registration, by the Majority Registering Stockholders), (ix) fees and expenses in connection with any review by the FINRA of the underwriting arrangements or other terms of the offering and all fees and expenses of any “qualified independent underwriter,” including the fees and expenses of any counsel thereto, (x) fees and disbursements of underwriters customarily paid by issuers or sellers of securities, but excluding any underwriting fees, discounts and commissions attributable to the sale of Registrable Securities, (xi) costs of printing and producing any agreements among underwriters, underwriting agreements, any “blue sky” or legal investment memoranda and any selling agreements and other documents in connection with the offering, sale or delivery of the Registrable Securities, (xii) transfer agents’ and registrars’ fees and expenses and the fees and expenses of any other agent or trustee appointed in connection with such offering, (xiii) expenses relating to any analyst or investor presentations or any “road shows” undertaken in connection with the registration, marketing or selling of the Registrable Securities, (xiv) fees and expenses payable in connection with any ratings of the Registrable Securities, including expenses relating to any presentations to rating agencies, (xv) out-of-pocket costs and expenses incurred by the Company or its appropriate officers in connection with their compliance of the procedures set forth herein, and (xvi) Securities Act liability insurance or similar insurance if the Company so desires or the underwriters to require in accordance with then-customary underwriting practices.

“Scheduled Stockholders” shall mean the Stockholders identified on Schedule 1 hereto.

“SEC” shall mean the Securities and Exchange Commission or any successor agency having jurisdiction under the Securities Act.

“Securities Act” shall mean the Securities Act of 1933, as amended, and any successor statute thereto and the rules and regulations promulgated by the SEC thereunder.

“Underwritten Offering” means a registration of Equity Securities for offer and sale to the public under a registration statement in which Equity Securities are sold to an underwriter or underwriters on a firm commitment basis for reoffering to the public.

SCHEDULE 1

**TO THE
AMENDED AND RESTATED
STOCKHOLDERS' AGREEMENT
DATED AS OF SEPTEMBER 22, 2021**

SCHEDULED STOCKHOLDERS

1. Michael Goldman
2. Alison and John Hawkins
3. Andrew Hertzmark
4. Dorothy A. Jatzen
5. Mark Jennings
6. Louis M. Marino
7. Michael J. Grebe
8. Joy Henry
9. Amar Karvir
10. Gurdon Blackwell
11. Harris Bornstein
12. Donald Carr
13. Vincenza Caruso-Valente
14. Archana Desai
15. David Dickson
16. Eric Ewald
17. Matthew Gay
18. Clare Hart
19. Arie Kanofsky
20. Melissa Kelley
21. Thomas Eddy Klein
22. Ronald Larson
23. Roland Lessard
24. Julia S. Mair
25. Daniel O'Brien
26. Andrew Porter
27. Robert P. Powers
28. Joseph Rotondo
29. Alla Schay
30. Richard Seldon
31. Richard Udell
32. Vikas Vig
33. Damian Villegas
34. Lance Zacker
35. Oval Partners, LLC
36. L. Frederick Sutherland
37. McWain Partners, LLC
38. Prashant Luthra
39. Dillana Lim
40. Todd Owens
41. Rasta Baby Ptd Limited, as trustee for the Rasta Baby Family Trust
42. Adam Graham
43. Hao Dong
44. Muzhen Li
45. Elizabeth Fitzell

**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 September 30, 2021 (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.

Date: November 10, 2021

By: _____ /s/ Joshua Peirez
Joshua Peirez
Chief Executive Officer

**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 September 30, 2021 (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.

Date: November 10, 2021

By: _____ /s/ Peter Walker
Peter Walker
Executive Vice President and Chief Financial Officer