

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

FORM 10-Q

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

For the quarterly period ended March 31, 2023

OR

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

For the transition period from _____ to _____

Commission file number 001-40982
HireRight Holdings Corporation
(Exact name of registrant as specified in its charter)

HIRE RIGHT[®]

Delaware

(State or other jurisdiction of incorporation or organization)

83-1092072

(I.R.S. Employer Identification No.)

100 Centerview Drive, Suite 300
(Address of Principal Executive Offices)

Nashville Tennessee

37214
(Zip Code)

(615) 320-9800

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.001 per share	HRT	New York Stock Exchange

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

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

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

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

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

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

The registrant had outstanding 73,837,499 shares of common stock as of May 2, 2023.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements
HireRight Holdings Corporation
Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2023	December 31, 2022
	(in thousands, except share and per share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 127,410	\$ 162,092
Restricted cash	—	1,310
Accounts receivable, net of allowance for credit losses of \$5,365 and \$5,812 at March 31, 2023 and December 31, 2022, respectively	134,306	136,656
Prepaid expenses and other current assets	20,208	18,745
Total current assets	281,924	318,803
Property and equipment, net	8,374	9,045
Right-of-use assets, net	6,921	8,423
Intangible assets, net	318,057	331,598
Goodwill	811,338	809,463
Cloud computing software, net	39,785	35,230
Deferred tax assets	80,612	74,236
Other non-current assets	20,583	18,949
Total assets	<u>\$ 1,567,594</u>	<u>\$ 1,605,747</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 9,442	\$ 11,571
Accrued expenses and other current liabilities	102,923	75,208
Accrued salaries and payroll	26,085	31,075
Debt, current portion	8,350	8,350
Total current liabilities	146,800	126,204
Debt, long-term portion	681,853	683,206
Tax receivable agreement liability, long-term portion	183,504	210,543
Deferred tax liabilities	5,617	5,748
Other non-current liabilities	10,845	11,728
Total liabilities	<u>1,028,619</u>	<u>1,037,429</u>
Commitments and contingent liabilities (Note 12)		
Preferred stock, \$0.001 par value, authorized 100,000,000 shares; none issued and outstanding as of March 31, 2023 and December 31, 2022	—	—
Common stock, \$0.001 par value, authorized 1,000,000,000 shares; 79,665,328 and 79,660,397 shares issued, and 75,874,099 and 78,131,568 shares outstanding as of March 31, 2023 and December 31, 2022, respectively	80	80
Additional paid-in capital	809,627	805,799
Treasury stock, at cost; 3,791,229 and 1,528,829 shares repurchased at March 31, 2023 and December 31, 2022, respectively	(42,337)	(16,827)
Accumulated deficit	(223,701)	(215,790)
Accumulated other comprehensive loss	(4,694)	(4,944)
Total stockholders' equity	<u>538,975</u>	<u>568,318</u>
Total liabilities and stockholders' equity	<u>\$ 1,567,594</u>	<u>\$ 1,605,747</u>

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

HireRight Holdings Corporation
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2023	2022
	(in thousands, except share and per share data)	
Revenues	\$ 175,447	\$ 198,711
Expenses		
Cost of services (exclusive of depreciation and amortization below)	98,451	112,403
Selling, general and administrative	59,726	48,267
Depreciation and amortization	18,417	18,061
Total expenses	176,594	178,731
Operating income (loss)	(1,147)	19,980
Other expenses		
Interest expense, net	12,402	7,557
Other expense, net	306	41
Total other expenses	12,708	7,598
Income (loss) before income taxes	(13,855)	12,382
Income tax expense (benefit)	(5,944)	818
Net income (loss)	\$ (7,911)	\$ 11,564
Net income (loss) per share:		
Basic	\$ (0.10)	\$ 0.15
Diluted	\$ (0.10)	\$ 0.15
Weighted average shares outstanding:		
Basic	77,285,116	79,392,937
Diluted	77,285,116	79,392,937

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

HireRight Holdings Corporation
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Net income (loss)	\$ (7,911)	\$ 11,564
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on derivatives qualified for hedge accounting:		
Unrealized gain on interest rate swaps	—	7,981
Reclassification adjustments included in earnings ⁽¹⁾	(2,527)	(502)
Total unrealized gain (loss)	(2,527)	7,479
Currency translation adjustment, net of tax expense of \$20 and \$63 for the three months ended March 31, 2023 and 2022, respectively	2,777	(3,793)
Other comprehensive income	250	3,686
Comprehensive income (loss)	\$ (7,661)	\$ 15,250

⁽¹⁾ Represents the reclassification of the effective portion of the gain on the Company's interest rate swaps into interest expense. Includes reclassification to earnings as a reduction to interest expense of unrealized gains included in accumulated other comprehensive loss on the condensed consolidated balance sheet related to the interest rate swap agreements terminated on February 18, 2022. See Note 10 for additional information.

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

HireRight Holdings Corporation
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three Months Ended March 31, 2023

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
	(in thousands, except share data)							
Balances at December 31, 2022	78,131,568	\$ 80	1,528,829	\$ (16,827)	\$ 805,799	\$ (215,790)	\$ (4,944)	\$ 568,318
Issuance of common stock under stock-based compensation plans	4,931	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(7,911)	—	(7,911)
Stock-based compensation	—	—	—	—	3,828	—	—	3,828
Repurchase of common stock	(2,262,400)	—	2,262,400	(25,510)	—	—	—	(25,510)
Other comprehensive income	—	—	—	—	—	—	250	250
Balances at March 31, 2023	<u>75,874,099</u>	<u>\$ 80</u>	<u>3,791,229</u>	<u>\$ (42,337)</u>	<u>\$ 809,627</u>	<u>\$ (223,701)</u>	<u>\$ (4,694)</u>	<u>\$ 538,975</u>

Three Months Ended March 31, 2022

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
	(in thousands, except unit data)							
Balances at December 31, 2021	79,392,937	\$ 79	—	\$ —	\$ 793,382	\$ (360,364)	\$ 12,620	\$ 445,717
Net income	—	—	—	—	—	11,564	—	11,564
Stock-based compensation	—	—	—	—	2,794	—	—	2,794
Other comprehensive income	—	—	—	—	—	—	3,686	3,686
Balances at March 31, 2022	<u>79,392,937</u>	<u>\$ 79</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 796,176</u>	<u>\$ (348,800)</u>	<u>\$ 16,306</u>	<u>\$ 463,761</u>

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

HireRight Holdings Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31,	
	2023	2022
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (7,911)	\$ 11,564
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	18,417	18,061
Deferred income taxes	(6,590)	205
Amortization of debt issuance costs	803	821
Amortization of contract assets	1,212	1,091
Amortization of right-of-use assets	2,384	686
Amortization of unrealized gains on terminated interest rate swap agreements	(2,527)	(2,181)
Amortization of cloud computing software costs	1,571	151
Stock-based compensation	3,828	2,794
Other non-cash charges, net	(383)	496
Changes in operating assets and liabilities:		
Accounts receivable	2,838	(29,852)
Prepaid expenses and other current assets	(1,465)	4,115
Cloud computing software	(6,125)	(8,548)
Other non-current assets	(1,893)	(1,411)
Accounts payable	(1,804)	(7,095)
Accrued expenses and other current liabilities	(771)	14,920
Accrued salaries and payroll	(5,140)	(6,240)
Operating lease liabilities, net	(1,284)	(1,068)
Other non-current liabilities	(175)	(524)
Net cash used in operating activities	(5,015)	(2,015)
Cash flows from investing activities		
Purchases of property and equipment	(693)	(1,867)
Capitalized software development	(2,918)	(2,662)
Other investing	(1,000)	—
Net cash used in investing activities	(4,611)	(4,529)
Cash flows from financing activities		
Repayments of debt	(2,088)	(2,088)
Payments for termination of interest rate swap agreements	—	(18,445)
Repurchase of common stock	(24,584)	—
Net cash used in financing activities	(26,672)	(20,533)
Net decrease in cash, cash equivalents and restricted cash	(36,298)	(27,077)
Effect of exchange rates	306	(420)
Cash, cash equivalents and restricted cash		
Beginning of year	163,402	116,214
End of period	\$ 127,410	\$ 88,717
Cash paid for		
Interest	\$ 15,221	\$ 8,772
Income taxes	\$ 639	\$ 902
Supplemental schedule of non-cash activities		
Unpaid property and equipment and capitalized software purchases	\$ 821	\$ 561

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

HireRight Holdings Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization, Basis of Presentation and Consolidation, and Significant Accounting Policies

Organization

Description of Business

HireRight Holdings Corporation (“HireRight” or the “Company”) is incorporated in Delaware.

The Company is a leading global provider of technology-driven workforce risk management and compliance solutions. The Company provides comprehensive background screening, verification, identification, monitoring, and drug and health screening services for customers across the globe, predominantly under the HireRight brand.

Income Tax Receivable Agreement

In connection with the Company’s initial public offering (“IPO”), the Company entered into an income tax receivable agreement (“TRA”), which provides for the payment by the Company over a period of approximately 12 years to pre-IPO equityholders or their permitted transferees of 85% of the benefits, if any, that the Company and its subsidiaries realize, or are deemed to realize (calculated using certain assumptions) in U.S. federal, state, and local income tax savings as a result of the utilization (or deemed utilization) of certain existing tax attributes. As of March 31, 2023 and December 31, 2022, the Company had a total liability of \$210.5 million in connection with the projected obligations under the TRA. TRA related liabilities are classified as current or non-current based on the expected date of payment and are included on the Company’s condensed consolidated balance sheets under the captions accrued expenses and other current liabilities and tax receivable agreement liability, long-term portion, respectively. See Note 5 — *Accrued Expenses and Other Current Liabilities* for further details related to the current portion of the TRA liability.

Basis of Presentation and Principles of Consolidation

The unaudited condensed consolidated financial statements include the Company’s accounts and those of its wholly-owned subsidiaries. The Company accounts for investments in unconsolidated entities where it exercises significant influence, but does not have control, using the equity method. The unaudited condensed consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting.

Certain information and note disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Therefore, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on March 9, 2023 (“Annual Report”). The December 31, 2022 condensed consolidated balance sheet data included herein was derived from audited financial statements but does not include all disclosures required by GAAP.

In the opinion of management, all adjustments, consisting of normal recurring items, necessary for the fair statement of the condensed consolidated financial statements have been included. All intercompany balances and transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements have been prepared on a consistent basis with the accounting policies described in Note 1 of the notes to the audited consolidated financial statements for the year ended December 31, 2022, included in the Annual Report. Certain reclassifications have been made to prior year presentation to conform to current year presentation.

Significant Accounting Policies

The Company's significant accounting policies are discussed in "Note 1 — Organization, Basis of Presentation and Consolidation, and Significant Accounting Policies" of the notes to the audited consolidated financial statements for the year ended December 31, 2022, included in the Annual Report. There have been no significant changes to these policies which have had a material impact on the Company's unaudited condensed consolidated financial statements during the three months ended March 31, 2023.

Use of Estimates

Preparation of the Company's unaudited condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates, judgments, and assumptions that affect the amounts reported and disclosed in the financial statements. The Company believes that the estimates, judgments, and assumptions used to determine certain amounts that affect the financial statements are reasonable based upon information available at the time they are made. The Company uses such estimates, judgments, and assumptions when accounting for items and matters such as, but not limited to, the allowance for credit losses, customer rebates, impairment assessments and charges, recoverability of long-lived assets, deferred tax assets, lease accounting, uncertain tax positions, income tax expense, liabilities under the TRA, derivative instruments, fair value of debt, stock-based compensation expense, useful lives assigned to long-lived assets, and the stand-alone selling price of performance obligations for revenue recognition purposes. Results and outcomes could differ materially from these estimates, judgments, and assumptions due to risks and uncertainties.

Goodwill

The change in goodwill during the three months ended March 31, 2023 was driven by foreign currency translation, as the U.S. dollar strengthened against the British pound and other currencies.

2. Recently Issued Accounting Pronouncements

Recently Issued Accounting Pronouncements Adopted

Accounting Pronouncements Adopted in 2023

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," to provide financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. In November 2019, the FASB issued ASU 2019-10, "*Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*," which delayed the effective date for this guidance until the fiscal year beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted. The Company adopted ASU 2016-13 effective January 1, 2023, using the modified retrospective transition method. The adoption of this ASU did not have a material impact on the condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, "*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*," which aims to improve the accounting for acquired revenue contracts with customers in a business combination. The ASU requires an entity (acquirer) to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. The new guidance is effective for the Company for annual periods beginning after December 15, 2023.

HireRight Holdings Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

and interim periods within those fiscal years. The Company adopted ASU 2021-08 effective January 1, 2023. The adoption of this ASU did not have a material impact on the condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, “*Reference Rate Reform (Topic 848)*,” which provides temporary, optional practical expedients and exceptions to enable a smoother transition to the new reference rates which will replace the London Interbank Offered Rate (“LIBOR”) and other reference rates expected to be discontinued. In January 2021, the FASB issued ASU 2021-01, “*Reference Rate Reform (Topic 848): Scope*,” which expanded the scope of Topic 848 to include derivative instruments impacted by the discounting transition. In December 2022, the FASB issued ASU 2022-06, “*Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*,” which extended the temporary accounting rules under Topic 848 from December 31, 2022 to December 31, 2024. The Company does not expect the adoption of this guidance to have a material impact on the condensed consolidated financial statements.

3. Prepaid Expenses and Other Current Assets, and Other Non-Current Assets

The components of prepaid expenses and other current assets were as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Prepaid software licenses, maintenance and insurance	\$ 11,570	\$ 9,237
Other prepaid expenses and current assets	8,638	9,508
Total prepaid expenses and other current assets	\$ 20,208	\$ 18,745

The components of other non-current assets were as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Contract implementation assets	\$ 18,237	\$ 17,983
Other non-current assets	2,346	966
Total other non-current assets	\$ 20,583	\$ 18,949

See Note 14 — *Revenues* for further discussion on contract implementation costs and related amortization included in cost of services in the Company’s condensed consolidated statements of operations.

4. Right-of-Use Assets and Lease Liabilities

The Company leases office facilities under operating leases in various domestic and foreign locations with initial terms ranging from 1 to 12 years. Some leases include one or more options to extend the term of the lease, generally at the Company’s sole discretion, with renewal terms that can extend the lease term up to 5 years.

HireRight Holdings Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company's operating leases were as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Right-of-use assets, net ⁽¹⁾	\$ 6,921	\$ 8,423
Current operating lease liabilities ⁽²⁾	\$ 5,752	\$ 5,509
Operating lease liabilities, long-term ⁽²⁾	9,357	10,055
Total operating lease liabilities	\$ 15,109	\$ 15,564

⁽¹⁾ Includes impact of accelerated expense on abandoned right-of-use assets related to the global restructuring plan, see Note 18 — *Restructuring and Related Charges* for additional information.

⁽²⁾ Current and long-term operating lease liabilities are recorded in accrued expenses and other current liabilities, and other non-current liabilities, respectively, on the Company's condensed consolidated balance sheets.

Supplemental cash flow information related to leases was as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Cash paid for amounts included in measurement of operating lease liabilities	\$ 1,549	\$ 1,301
ROU assets obtained in exchange for operating lease liabilities	\$ 824	\$ 10,445

The weighted average remaining lease term and weighted average discount rate for the Company's operating leases were as follows:

	Three Months Ended March 31,	
	2023	2022
Weighted average remaining lease term (in years)	3.92	4.60
Weighted average discount rate	4.9 %	4.6 %

5. Accrued Expenses and Other Current Liabilities

The components of accrued expenses and other current liabilities were as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Accrued data costs	\$ 35,084	\$ 34,080
Tax receivable agreement liability, current portion	27,039	—
Accrued contract labor	8,235	5,554
Other	32,565	35,574
Total accrued expenses and other current liabilities	\$ 102,923	\$ 75,208

6. Accrued Salaries and Payroll

The components of accrued salaries and payroll were as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Wages, benefits and taxes ⁽¹⁾	\$ 20,921	\$ 15,198
Accrued bonus	5,164	15,877
Total accrued salaries and payroll	\$ 26,085	\$ 31,075

⁽¹⁾ Accrued wages, benefits and taxes for the three months ended March 31, 2023 includes \$4.4 million in accrued employee severance and benefits related to the workforce reduction. See Note 18 — *Restructuring and Related Charges* for additional information.

7. Debt

The components of debt were as follows:

	March 31, 2023	December 31, 2022
	(in thousands)	
Amended First Lien Term Loan Facility	\$ 697,425	\$ 699,513
Amended Revolving Credit Facility	—	—
Total debt	697,425	699,513
Less: Unamortized original issue discount	(1,328)	(1,464)
Less: Unamortized debt issuance costs	(5,894)	(6,493)
Less: Current portion of long-term debt	(8,350)	(8,350)
Long-term debt, less current portion	\$ 681,853	\$ 683,206

On July 12, 2018, the Company entered into the following credit arrangements:

- a first lien senior secured term loan facility, in an aggregate principal amount of \$835.0 million, maturing on July 12, 2025 (“First Lien Term Loan Facility”);
- a first lien senior secured revolving credit facility, in an aggregate principal amount of up to \$100.0 million, including a \$40.0 million letter of credit sub-facility, maturing on July 12, 2023 (“Revolving Credit Facility” and, together with the First Lien Term Loan Facility, the “First Lien Facilities”).

On June 3, 2022, the Company entered into an amendment to the First Lien Term Loan Facility (“Amended First Lien Term Loan Facility”) with the lenders party thereto and Bank of America, N.A. as administrative agent. The Amended First Lien Term Loan Facility amends the Company’s First Lien Facilities, by and among the Company, the lending institutions from time to time party thereto and Bank of America, N.A. as administrative agent, collateral agent and a letter of credit issuer (as amended through the Amended First Lien Term Loan Facility, the “Amended First Lien Facilities”).

Under the Amended First Lien Facilities, (i) the aggregate commitments under the Company’s Revolving Credit Facility were increased from \$100.0 million to \$145.0 million; (ii) the maturity date of the Revolving Credit Facility was extended from July 12, 2023 to June 3, 2027 or, if earlier, 91 days prior to the maturity of the Company’s term loans under the Amended First Lien Facilities, as may be extended or refinanced; and (iii) the interest rate benchmark applicable to the Revolving Credit Facility was converted from LIBOR to term Secured Overnight

HireRight Holdings Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

Financing Rate (“SOFR”). The Revolving Credit Facility as amended is herein after referred to as the “Amended Revolving Credit Facility.” The Company’s existing term loans under the Amended First Lien Facilities remained in effect. Upon the effectiveness of the Amended First Lien Term Loan Facilities, the Company did not have any outstanding principal balance on the Revolving Credit Facility. The Amended First Lien Term Loan Facilities did not modify the financial covenants, negative covenants, mandatory prepayment events or security provisions or arrangements under the Amended First Lien Facilities.

Amended First Lien Facilities

The Company is required to make scheduled quarterly payments equal to 0.25% of the aggregate initial outstanding principal amount of the Amended First Lien Term Loan Facility, or approximately \$2.1 million per quarter, with the remaining balance payable at maturity. The Company may make voluntary prepayments on the Amended First Lien Term Loan Facility at any time prior to maturity at par.

The Company is required to make prepayments on the Amended First Lien Term Loan Facility with the net cash proceeds of certain asset sales, debt incurrences, casualty events and sale-leaseback transactions, subject to certain specified limitations, thresholds and reinvestment rights. Additionally, the Company is required to make annual prepayments on the Amended First Lien Term Loan Facility with a percentage (subject to leverage-based reductions) of the Company’s excess cash flow, as defined therein, if the excess cash flow exceeds a certain specified threshold. For the three months ended March 31, 2023 and 2022, the Company was not required to make a prepayment under the Amended First Lien Term Loan Facility based on the Company’s excess cash flow.

The Amended First Lien Term Loan Facility has an interest rate calculated as, at the Company’s option, either (a) LIBOR determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs (“LIBOR Reference Rate”) with a floor of 0.00% or (b) a base rate determined by reference to the highest of (i) the federal funds effective rate plus 0.50% per annum, (ii) the rate the Administrative Agent announces from time to time as its prime lending rate in New York City, and (iii) one-month adjusted LIBOR plus 1.00% per annum (“ABR”), in each case, plus the applicable margin of 3.75% for LIBOR loans and 2.75% for ABR loans, and is payable on each interest payment date, at least quarterly, in arrears. The applicable margin for borrowings under the Revolving Credit Facility is 3.00% for SOFR loans and 2.00% for ABR loans, in each case, subject to adjustment pursuant to a leverage-based pricing grid. As of March 31, 2023, the Amended First Lien Term Loan Facility accrued interest at one-month LIBOR plus 3.75%, and the Amended Revolving Credit Facility accrued interest at one-month SOFR plus 2.50% based upon the current pricing grid.

Unlike the Amended Revolving Credit Facility, the interest rates for the Amended First Lien Term Loan Facility are calculated using LIBOR, which is scheduled to become unavailable in June 2023. The credit agreement underlying the Amended First Lien Term Loan Facility contemplates that, if the administrative agent determines that LIBOR is unavailable or is replaced by a new benchmark interest rate to replace LIBOR for syndicated loans, then, the administrative agent and the Borrower may amend the Amended First Lien Term Loan Facility to replace LIBOR with an alternate benchmark rate (“LIBOR Successor Rate”) unless lenders holding more than 50% in value of the loans or commitments under the credit agreement do not accept such amendment. If no LIBOR Successor Rate has been determined, the obligation of lenders to make or maintain LIBOR loans will be suspended (to the extent of the affected LIBOR rate loans or interest periods), and the LIBOR component will no longer be utilized in determining an alternative benchmark rate. Under such circumstances, the Borrower can revoke any pending request for a new borrowing, conversion to, or continuation of LIBOR loans or such loans will be deemed to be ABR loans of the same amount.

The Borrower from time to time may elect to convert all or a portion of its SOFR loans under the Revolving Credit Facility into ABR loans, and may elect to convert all or a portion of its LIBOR loans under the Amended First Lien Term Loan Facility into ABR loans, in each case, subject to a minimum conversion amount of \$2.5 million.

The Company’s obligations under the Amended First Lien Facilities are guaranteed, jointly and severally, on a senior secured first-priority basis, by substantially all of the Company’s domestic wholly-owned material

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subsidiaries, as defined in the agreement, and are secured by first-priority security interests in substantially all of the assets of the Company and its domestic wholly-owned material subsidiaries, subject to certain permitted liens and exceptions. Collateral includes all outstanding equity interests in whatever form of the borrower and each restricted subsidiary that is owned by any credit party.

As of March 31, 2023, the Company had \$143.7 million in available borrowing under the Amended Revolving Credit Facility, after utilizing \$1.3 million for letters of credit. The Company is required to pay a quarterly fee of 0.38% on unutilized commitments under the Amended Revolving Credit Facility, subject to adjustment pursuant to a leverage-based pricing grid. As of both March 31, 2023 and December 31, 2022, the quarterly fee on unutilized commitments under the Amended Revolving Credit Facility was 0.38%.

Debt Covenants

The Amended First Lien Facilities contain certain covenants and restrictions that limit the Company's ability to, among other things: (a) incur additional debt or issue certain preferred equity interests; (b) create or permit the existence of certain liens; (c) make certain loans or investments (including acquisitions); (d) pay dividends on or make distributions in respect of the capital stock or make other restricted payments; (e) consolidate, merge, sell, or otherwise dispose of all or substantially all of the Company's assets; (f) sell assets; (g) enter into certain transactions with affiliates; (h) enter into sale-leaseback transactions; (i) restrict dividends from the Company's subsidiaries or restrict liens; (j) change the Company's fiscal year; and (k) modify the terms of certain debt agreements. In addition, the Amended First Lien Facilities also provide for customary events of default. The Company was in compliance with the covenants under the Amended First Lien Facilities through the three months ended March 31, 2023.

The Company is also subject to a springing financial maintenance covenant under the Amended Revolving Credit Facility, which requires the Company to not exceed a specified first lien leverage ratio at the end of each fiscal quarter if the outstanding loans and letters of credit under the Amended Revolving Credit Facility, subject to certain exceptions, exceed 35% of the total commitments under the Amended Revolving Credit Facility at the end of such fiscal quarter. The Company was not subject to this covenant as of March 31, 2023 and December 31, 2022, as outstanding loans and letters of credit under the Amended Revolving Credit Facility did not exceed 35% of the total commitments under the facility.

Other

Amortization of debt discount and debt issuance costs related to the Amended First Lien Term Loan Facility are included to interest expense in the condensed consolidated statements of operations and were as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Debt discount amortization	\$ 136	\$ 130
Debt issuance costs amortization	599	578
Total debt discount and issuance costs	<u>\$ 735</u>	<u>\$ 708</u>

Interest expense also includes the amortization of debt issuance costs for the Amended Revolving Credit Facility of \$0.1 million for each of the three months ended March 31, 2023 and 2022. Unamortized debt issuance costs for the Amended Revolving Credit Facility are recorded in other non-current assets on the Company's condensed consolidated balance sheets.

The weighted average interest rate on outstanding borrowings during the three months ended March 31, 2023 and the year ended December 31, 2022 was 8.5% and 5.5%, respectively.

8. Fair Value Measurements

The accounting standard for fair value measurements defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and requires disclosures about fair value measurements. The standard is applicable whenever assets and liabilities are measured at fair value.

The fair value hierarchy established in the standard prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 Quoted prices in active markets for identical assets and liabilities;
- Level 2 Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data; or
- Level 3 Amounts derived from valuation models in which unobservable inputs reflect the reporting entity’s own assumptions about the assumptions of market participants that would be used in pricing the asset or liability, such as discounted cash flow models or valuations.

The Company’s outstanding debt instruments are recorded at their carrying values in the condensed consolidated balance sheets, which may differ from their respective fair values. The estimated fair value of the Company’s debt, which is Level 2 of the fair value hierarchy, is based on quoted prices for similar instruments in active markets or identical instruments in markets that are not active.

The fair value of the Company’s Amended First Lien Term Loan Facility is calculated based upon market price quotes obtained for the Company’s debt agreements (Level 2 fair value inputs). The fair value of the Amended Revolving Credit Facility approximates carrying value, based upon the short-term duration of the interest rate periods currently available to the Company. The estimated fair values were as follows:

	March 31, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Amended First Lien Term Loan Facility	\$ 696,097	\$ 693,055	\$ 698,049	\$ 673,617
Amended Revolving Credit Facility	—	—	—	—
Total	\$ 696,097	\$ 693,055	\$ 698,049	\$ 673,617

9. Derivative Instruments

The Company entered into interest rate swap agreements with a total notional amount of \$700 million with an effective date of December 31, 2018 (“Interest Rate Swap Agreements”) with a scheduled expiration date of December 31, 2023.

Prior to termination discussed herein, the Interest Rate Swap Agreements were determined to be effective hedging agreements. Effective February 18, 2022, the Company terminated the Interest Rate Swap Agreements. In connection with the termination of the Interest Rate Swap Agreements, the Company made a payment of \$ 18.4 million to the swap counterparties. Following these terminations, \$21.5 million of unrealized gains related to the terminated Interest Rate Swap Agreements included in accumulated other comprehensive income (loss) will be reclassified to earnings as reductions to interest expense through December 31, 2023.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company reclassified interest expense related to hedges of these transactions into earnings as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Reclassification of the effective portion of the gain on the Interest Rate Swap Agreements into interest expense	\$ —	\$ 1,679
Reclassification of unrealized gains related to terminated Interest Rate Swap Agreements into interest expense	(2,527)	(2,181)
Total reclassification adjustments included in earnings	\$ (2,527)	\$ (502)

The results of derivative activities are recorded in cash flows from operating activities on the condensed consolidated statements of cash flows.

10. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists primarily of unrealized gains related to the terminated Interest Rate Swap Agreements and cumulative foreign currency translation adjustments.

The components of accumulated other comprehensive income (loss) as of March 31, 2023 and December 31, 2022 were as follows:

	Derivative Instruments	Currency Translation Adjustment	Total
	(in thousands)		
Balance at December 31, 2022	\$ 8,849	\$ (13,793)	\$ (4,944)
Other comprehensive income (loss)	(2,527)	2,777	250
Balance at March 31, 2023	\$ 6,322	\$ (11,016)	\$ (4,694)

The accumulated net loss in foreign currency translation adjustment primarily reflects the strengthening of the U.S. dollar against the British pound and the Japanese yen.

As of March 31, 2023, the remaining \$6.3 million of the accumulated other comprehensive income related to terminated Interest Rate Swap Agreements is expected to be reclassified into earnings as a reduction to interest expense through December 31, 2023.

11. Segments and Geographic Information

The Company operates in one reportable segment.

Revenues are attributed to each geographic region based on the location of the HireRight entity that has contracted for the services that result in the revenues. The following table summarizes the Company's revenues by region:

	Three Months Ended March 31,			
	2023		2022	
(in thousands, except percent)				
Revenues:				
United States	\$ 161,694	92.2 %	\$ 183,377	92.3 %
International	13,753	7.8 %	15,334	7.7 %
Total revenues	<u>\$ 175,447</u>	<u>100.0 %</u>	<u>\$ 198,711</u>	<u>100.0 %</u>

The following table summarizes the Company's long-lived assets, which consist of property and equipment, net, and operating lease ROU assets, net, by geographic region:

	March 31, 2023		December 31, 2022	
	(in thousands)			
Long-lived assets:				
United States	\$	9,208	\$	10,811
International		6,087		6,657
Total long-lived assets	<u>\$</u>	<u>15,295</u>	<u>\$</u>	<u>17,468</u>

12. Commitments and Contingent Liabilities

Indemnification

In the ordinary course of business, the Company enters into agreements with customers, providers of services and data that the Company uses in its business operations, and other third parties pursuant to which the Company agrees to indemnify and defend them and their affiliates for losses resulting from claims of intellectual property infringement, damages to property or persons, business losses, and other costs and liabilities. Generally, these indemnity and defense obligations relate to claims and losses that result from the Company's acts or omissions, including actual or alleged process errors, inclusion of erroneous or impermissible information, or omission of includable information in background screening reports that the Company prepares. In addition, under some circumstances, the Company agrees to indemnify and defend contract counterparties against losses resulting from their own business operations, obligations, and acts or omissions, or the business operations, obligations, and acts or omissions of third parties. For example, its business interposes the Company between suppliers of information that the Company includes in its background screening reports and customers that use those reports; the Company generally agrees to indemnify and defend its customers against claims and losses that result from erroneous information provided by its suppliers, and also to indemnify and defend its suppliers against claims and losses that result from misuse of their information by its customers.

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The Company's agreements with customers, suppliers, and other third parties typically include provisions limiting its liability to the counterparty, and the counterparty's liability to the Company. However, these limits often do not apply to indemnity obligations. The Company's rights to recover from one party for its acts or omissions may be capped below the Company's obligation to another party for those same acts or omissions, and the Company's obligation to provide indemnity and defense for its own acts or omissions in any particular situation may be uncapped.

The Company has entered into indemnification agreements with the members of its board of directors and executive officers that require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service. In addition, customers of the Company may seek indemnity for negligent hiring claims that result from the Company's alleged failure to identify or report adverse background information about an individual. The Company is not aware of any pending demands to provide indemnity or defense under such agreements that would reasonably be expected to have a material adverse effect on its condensed consolidated financial statements.

On December 31, 2022 and February 16, 2023, the Company entered into definitive agreements to purchase 60% of the equity interests in a privately held company for a total purchase price of approximately \$26.5 million, subject to closing conditions that have not yet been satisfied.

13. Legal Proceedings

The Company is subject to claims, investigations, audits, and enforcement proceedings by private plaintiffs, third parties the Company does business with, and governmental and regulatory authorities charged with overseeing the enforcement of laws and regulations that govern the Company's business. In the U.S., most of these matters arise under the federal Fair Credit Reporting Act and various state and local laws focused on privacy and the conduct and content of background reports. These claims are typically brought by individuals alleging process errors, inclusion of erroneous or impermissible information, or failure to include appropriate information in background reports prepared about them by the Company. Proceedings related to the Company's U.S. operations may also be brought under the same laws by the Consumer Financial Protection Bureau or Federal Trade Commission, or by state authorities. Claims or proceedings may also arise under the European Union ("E.U.") and U.K. General Data Protection Regulations and other laws around the world addressing privacy and the use of background information such as criminal and credit histories, and may be brought by individuals about whom the Company has prepared background reports or by the Data Protection Authorities of E.U. member states and other governmental authorities. In addition, customers of the Company may seek indemnity for negligent hiring claims that result from the Company's alleged failure to identify or report adverse background information about an individual.

In addition to claims related to privacy and background checks, the Company is also subject to other claims and proceedings arising in the ordinary course of its business, including without limitation claims for indemnity by customers and vendors, employment-related claims, and claims for alleged taxes owed, infringement of intellectual property rights, and breach of contract.

The Company accrues for contingent liabilities if it is probable that a liability has been incurred and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote.

Although the Company and its subsidiaries are subject to various claims and proceedings from time to time in the ordinary course of business, the Company and its subsidiaries are not party to any pending legal proceedings that the Company believes to be material.

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14. Revenues

Revenues consist of service revenue and surcharge revenue. Service revenue consists of fees charged to customers for services provided by the Company. Surcharge revenue consists of fees charged to customers for obtaining data from federal, state and local jurisdictions, and certain commercial data providers required to fulfill the Company's performance obligations. Revenue is recognized when the Company satisfies its obligation to complete the service and delivers the screening report to the customer.

Disaggregated revenues were as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Revenues:		
Service revenues	\$ 123,696	\$ 141,503
Surcharge revenues	51,751	57,208
Total revenues	<u>\$ 175,447</u>	<u>\$ 198,711</u>

Contract Implementation Costs

Contract implementation costs represent incremental set up costs to fulfill contracts with customers, including, for example, salaries and wages incurred to onboard customers onto the Company's platform to enable the customers to request and access completed background screening reports. Contract implementation costs, net of accumulated amortization are recorded in other non-current assets on the Company's condensed consolidated balance sheets and amortization expense is recorded in cost of services (exclusive of depreciation and amortization) in the Company's condensed consolidated statements of operations. Amortization of contract implementation costs included in cost of services (exclusive of depreciation and amortization) was \$1.2 million and \$1.1 million for the three months ended March 31, 2023, and 2022, respectively. See Note 3 — *Prepaid Expenses and Other Current Assets, and Other Non-Current Assets* for contract implementation costs included in the Company's condensed consolidated balance sheets.

15. Income Taxes

Income tax expense (benefit) and effective tax rates were as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands, except effective tax rate)	
Income (loss) before income taxes	\$ (13,855)	\$ 12,382
Income tax expense (benefit)	(5,944)	818
Effective tax rate	<u>42.9 %</u>	<u>6.6 %</u>

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The Company recorded income tax benefit of \$5.9 million and income tax expense of \$0.8 million for the three months ended March 31, 2023, and 2022, respectively. The effective tax rate for the three months ended March 31, 2023 was 42.9% compared to 6.6% for the three months ended March 31, 2022. The effective tax rate for the three months ended March 31, 2023, differs from the federal statutory rate of 21% primarily due to state taxes and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2022 differs from the federal statutory rate of 21% primarily due to valuation allowances, state taxes, and U.S. tax on foreign operations.

Prior to September 2022, the Company's net U.S. federal and state deferred tax assets were fully offset by a valuation allowance, excluding a portion of its deferred tax liabilities for tax deductible goodwill, primarily as a result of the Company's lack of U.S. earnings history and cumulative loss position. The Company prepares a quarterly analysis of its deferred tax assets which considers positive and negative evidence, including its cumulative income (loss) position, revenue growth, continuing and improved profitability, and expectations regarding future profitability. Although the Company believes its estimates are reasonable, the ultimate determination of the appropriate amount of valuation allowance involves significant judgment.

The Company determined sufficient positive evidence existed to conclude that the U.S. deferred tax assets are more likely than not realizable. As a result, the Company released the valuation allowance attributed to the deferred tax assets associated with the Company's operations in the U.S. during the third quarter of 2022. There is no change in assessment as of March 31, 2023.

On August 16, 2022, the "Inflation Reduction Act" (H.R. 5376) was signed into law in the United States. Among other things, the Act imposes a 15% corporate alternative minimum tax for tax years beginning after December 31, 2022, levies a 1% excise tax on net stock repurchases after December 31, 2022, and provides tax incentives to promote clean energy. The Company does not currently expect the Inflation Reduction Act to have a material impact on the condensed consolidated financial statements.

16. Stock-Based Compensation
Equity Incentive Plans

The Company issues stock-based compensation awards under the 2021 Omnibus Incentive Plan ("Omnibus Incentive Plan"), and prior to the IPO under the HireRight GIS Group Holdings LLC Equity Incentive Plan ("Equity Plan"). At March 31, 2023, the total number of shares authorized for issuance under the Omnibus Incentive Plan was 14.2 million shares and 7.3 million shares remain available for issuance.

Stock-Based Compensation Expense

Stock-based compensation expense recognized in the condensed consolidated statements of operations was as follows:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Selling, general and administrative	\$ 3,181	\$ 2,627
Cost of services (exclusive of depreciation and amortization)	647	167
Total stock-based compensation expense	<u>\$ 3,828</u>	<u>\$ 2,794</u>

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Stock Options under the Equity Plan

For stock options issued under the Equity Plan that were outstanding and unvested as of March 31, 2023, the Company expects to recognize future compensation expense of \$4.1 million over a weighted average remaining vesting period of 1.8 years.

Awards under the Omnibus Incentive Plan

The Company granted 46,081 options during the three months ended March 31, 2023 under the Omnibus Incentive Plan, with a weighted average grant date fair value of \$3.96 calculated using the Black-Scholes option valuation model. For options under the Omnibus Incentive Plan outstanding and unvested as of March 31, 2023, the Company expects to recognize future compensation expense of \$7.2 million over a weighted average remaining vesting period of 2.7 years.

The Company granted 3,171,925 restricted stock units ("RSU"), including the performance RSUs discussed below, with a weighted average grant date fair value of \$9.06 per share during the three months ended March 31, 2023 under the Omnibus Incentive Plan. For RSUs outstanding and unvested as of March 31, 2023, the Company expects to recognize future compensation expense of \$41.4 million over a weighted average remaining vesting period of 2.9 years.

On March 20, 2023, the Company approved a grant of a total of 2,561,275 performance RSUs. A total of 1,116,323 of these performance RSUs had a grant-date fair value of \$5.67 per unit based on a Monte Carlo valuation model and may vest upon the achievement of a market condition related to total shareholder return, achievement of stock price targets of the Company's common stock, and subject to continued service. The expected stock-based compensation expense for the market condition performance RSUs is \$6.3 million and is expected to be recognized over the period from grant date through March 2026. The remaining portion, 1,444,952 units, of these performance RSUs granted on March 20, 2023, had a grant date fair value of \$10.90 per unit and may vest upon the achievement of AEBITDA performance targets and are subject to continued service. The expected stock-based compensation expense for the AEBITDA performance RSUs is \$ 15.8 million and is expected to be recognized over the period from grant date through March 2026.

17. Earnings Per Share

Basic net income (loss) per share ("EPS") is computed by dividing net income (loss) by the weighted average number of outstanding shares during the period.

The weighted average outstanding shares may include potentially dilutive equity awards. Diluted net income (loss) per share includes the effects of potentially dilutive equity awards, which include stock options, restricted stock units, and other potentially dilutive equity awards outstanding during the year. For the three months ended March 31, 2023, and 2022 there were 8,338,300, and 8,039,980 potentially dilutive equity awards, respectively, which were excluded from the calculations of diluted EPS because including them would have had an anti-dilutive effect.

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Basic and diluted EPS for the three months ended March 31, 2023 and 2022 were:

	Three Months Ended March 31,	
	2023	2022
	(in thousands, except share and per share data)	
Numerator:		
Net income (loss)	\$ (7,911)	\$ 11,564
Denominator:		
Weighted average shares outstanding - basic	77,285,116	79,392,937
Effect of dilutive equity awards	—	—
Weighted average shares outstanding - diluted	<u>77,285,116</u>	<u>79,392,937</u>
Net income (loss) per share:		
Basic	<u>\$ (0.10)</u>	<u>\$ 0.15</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ 0.15</u>

18. Restructuring and Related Charges

Global Restructuring Plan

In the first quarter of 2023, the Company began a global restructuring plan intended to improve the Company's cost structure, operating efficiency, and profitability as part of its ongoing margin improvement initiatives. The plan involves reduction in force, offshoring certain functions, and other measures designed to reduce costs to achieve the Company's long term margin goals. The plan was approved and initiated in the first quarter of 2023 and is expected to continue throughout 2023 and early 2024.

During the three months ended March 31, 2023, the Company recognized restructuring charges of \$5.9 million, primarily for employee severance and benefits in connection with the workforce reduction and accelerated expense on abandoned right-of-use assets. In addition, the Company incurred professional service fees of \$4.0 million for consulting costs related to the execution of the Company's global restructuring plan. All charges were recorded as selling, general and administrative expenses and cost of services (exclusive of depreciation and amortization) in the condensed consolidated statements of operations.

The Company expects to recognize additional restructuring charges in 2023 and early 2024 of approximately \$15.0 million to \$20.0 million, primarily for severance and benefits, professional service fees, and transition costs. The Company is continuing to evaluate operating costs and outsourcing opportunities and the expected charges related to our global restructuring plan may be greater than expected, including charges for additional severance and professional service fees.

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The components of the restructuring charges (including professional service fees) are as follows:

	Three Months Ended March 31,	
	2023	
	(in thousands)	
Severance and benefits ⁽¹⁾	\$	4,386
Accelerated expense on abandoned right-of-use assets ⁽²⁾		1,482
Professional fees ⁽³⁾		4,006
Total restructuring charges	\$	9,874

⁽¹⁾ Charges of \$1.7 million recorded in cost of services (exclusive of depreciation and amortization) and charges of \$2.7 million recorded in selling, general and administrative expenses.

⁽²⁾ Charges for accelerated expense on abandoned right-of-use assets recorded in selling, general and administrative expenses.

⁽³⁾ Professional service fees consist of consulting costs related to the execution of the Company's global restructuring plan to improve the Company's cost structure, operating efficiency, and redesign and right size the organization. These charges are recorded in selling, general and administrative expenses.

The following table provides the components of and changes in the Company's restructuring and related charges, included in accrued salaries and payroll and accrued expenses and other current liabilities on the condensed consolidated balance sheets:

	March 31, 2023	
	(in thousands)	
Balance at December 31, 2022	\$	—
Charges incurred ⁽¹⁾		8,392
Payments		(971)
Balance at March 31, 2023	\$	7,421

⁽¹⁾ Includes \$4.4 million in charges for employee severance and benefits related to the workforce reduction, all of which remains unpaid as of March 31, 2023.

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

You should read the following discussion of our financial condition and results of operations together with our condensed consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements for the fiscal year ended December 31, 2022, as disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 9, 2023 ("Annual Report"). The statements in the following discussion and analysis regarding expectations about our future performance, liquidity and capital resources and any other non-historical statements in this discussion and analysis are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those described immediately below.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and related statements by the Company contain forward-looking statements within the meaning of the federal securities laws. You can often identify forward-looking statements by the fact that they do not relate strictly to historical or current facts, or by their use of words such as "anticipate," "estimate," "expect," "project," "forecast," "plan," "intend," "believe," "seek," "could," "targets," "potential," "may," "will," "should," "can have," "likely," "continue," and other terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. Forward-looking statements may include, but are not limited to, statements concerning our anticipated financial performance, including, without limitation, revenue, profitability, net income (loss), adjusted EBITDA, adjusted EBITDA margin, adjusted net income, earnings per share, adjusted diluted earnings per share, and cash flow; strategic objectives; investments in our business, including development of our technology and introduction of new offerings; sales growth and customer relationships; our competitive differentiation; our market share and leadership position in the industry; market conditions, trends, and opportunities; future operational performance; pending or threatened claims or regulatory proceedings; and factors that could affect these and other aspects of our business.

Forward-looking statements are not guarantees. They reflect our current expectations and projections with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

Factors that could affect the outcome of the forward-looking statements include, among other things, our vulnerability to adverse economic conditions, including without limitation inflation and recession, which could increase our costs and suppress labor market activity and our revenue; the aggressive competition we face; our heavy reliance on information management systems, vendors, and information sources that may not perform as we expect; the significant risk of liability we face in the services we perform; the fact that data security, data privacy and data protection laws, emerging restrictions on background reporting due to alleged discriminatory impacts and adverse social consequences, and other evolving regulations and cross-border data transfer restrictions may increase our costs, limit the use or value of our services and adversely affect our business; our ability to maintain our professional reputation and brand name; social, political, regulatory and legal risks in markets where we operate; the impact of foreign currency exchange rate fluctuations; unfavorable tax law changes and tax authority rulings; any impairment of our goodwill, other intangible assets and other long-lived assets; our ability to execute and integrate future acquisitions; our ability to access additional credit or other sources of financing; and the increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted cyber-related attacks that could pose a risk to our systems, networks, solutions, services and data. For more information on the business risks we face and factors that could affect the outcome of forward-looking statements, refer to our Annual Report on Form 10-K filed with the SEC on March 9, 2023, in particular the sections of that document entitled "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements and Risk Factors Summary," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other filings we make from time to time with the SEC. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Investors should read this Quarterly Report on Form 10-Q and the documents that we reference in this report and have filed or will file with the SEC completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Business Overview

HireRight Holdings Corporation (“HireRight” or the “Company”) is a leading global provider of technology-driven workforce risk management and compliance solutions. We provide comprehensive background screening, verification, identification, monitoring, and drug and health screening services for approximately 38,000 customers across the globe. We offer our services via a unified global software and data platform that tightly integrates into our customers’ human capital management (“HCM”) systems enabling highly effective and efficient workflows for workforce hiring, onboarding, and monitoring. In 2022, we screened over 24 million job applicants, employees and contractors for our customers and processed over 107 million screens.

Factors Affecting Our Results of Operations

Economic Conditions

Our business is impacted by the overall economic environment and total employment and hiring. The rapidly changing dynamics of the global workforce are creating increased complexity and regulatory scrutiny for employers, bolstering the importance of the solutions we deliver. We have benefited from key demand drivers, which increase the need for more flexible, comprehensive screening and hiring solutions in the current environment. Our customers are a diverse set of organizations, from large-scale multinational businesses to small and medium businesses across a broad range of industries, including transportation, healthcare, technology, financial services, business and consumer services, manufacturing, education, retail and not-for-profit. Hiring requirements and regulatory considerations can vary significantly across the different types of customers, geographies and industry sectors we serve, creating demand for the extensive institutional knowledge we have developed from our decades of experience.

While we have benefited in the past from the changing dynamics of the labor market, including strength in hiring as the economy recovered from the effects of the COVID pandemic, our business has been adversely affected by recent and continuing uncertainty around near term macroeconomic conditions. This uncertainty stems from high inflation, declining customer confidence, volatile energy prices, rising interest rates, geopolitical concerns, supply chain disruptions and labor shortages. Each of these drivers has its own adverse impact and the outlook for our business in 2023 remains uncertain, with order volumes and revenue anticipated to fall below 2022 levels. In 2022, the annual inflation rate in the United States reached nearly the highest rate in more than three decades, as measured by the Consumer Price Index, and remains elevated. Inflation puts pressure on our suppliers, resulting in increased data costs, and also increases our employment and other expenses. A sustained recession will have an adverse impact on the global hiring market and therefore the demand for our services. Slowing demand for our services will adversely affect our future results. Additionally, rising interest rates will lead directly to higher interest expense. See “Item 3. Quantitative and Qualitative Disclosures about Market Risk” for additional information on the impact of interest rates and inflation on our business. Although the majority of our cost of services is variable in nature and will move in tandem with revenue increases or decreases, there can be no assurance that we can reduce our cost of services in proportion to changes in revenue.

2023 Developments

On November 13, 2022, the Company's Board of Directors authorized a share repurchase program (“Program”). The Program authorizes the Company to repurchase up to \$100.0 million of the Company's common stock, par value \$0.001, and will expire on November 14, 2024, or earlier if the repurchases reach \$100.0 million before that date. Through March 31, 2023, the Company repurchased 3,791,229 shares of common stock for \$42.3 million, including commissions paid and excise taxes, at an average price paid of \$11.17 per share. The repurchased shares are recorded as “Treasury stock” on the Company's consolidated balance sheets. As of March 31, 2023, approximately \$57.7 million remained available for future purchases under the Program. Repurchases under the

Program continued at similar rates through the date of filing of this report, and the Board of Directors has not yet determined whether to renew the Program following its termination.

In the first quarter of 2023, the Company began a global restructuring plan intended to improve the Company's cost structure, operating efficiency, and profitability in response to ongoing uncertain macroeconomic conditions. The plan, which involves a reduction in force, offshoring of certain functions, and other measures designed to reduce cost and compensate for reduced order volumes, was initiated in the first quarter of 2023 and is expected to continue throughout 2023 and early 2024 as the Company implements existing plans and evaluates further opportunities. During the three months ended March 31, 2023, the Company recognized restructuring charges of \$5.9 million, primarily for employee severance and benefits in connection with the workforce reduction and accelerated rent expense on abandoned right-of-use assets. In addition, the Company incurred professional service fees of \$4.0 million for consulting costs related to the execution of the Company's global restructuring plan.

The Company expects to recognize additional restructuring charges in 2023 and early 2024 of approximately \$15.0 million to \$20.0 million, primarily for severance and benefits, professional service fees, and transition costs. Once completed we estimate annualized gross savings of approximately \$50.0 million under the global restructuring plan. Additionally, we may not be able to fully realize the cost savings and benefits initially anticipated from the global restructuring plan, and the expected charges may be greater than expected, including charges for additional severance and professional service fees.

Key Components of Our Results from Operations

Revenues

The Company generates revenues from background screening and related compliance services delivered in online reports. Our customers place orders for our services and reports either individually or through batch ordering. Each report is accounted for as a single order which is then typically consolidated and billed to our customers on a monthly basis. Approximately 27% and 29% of revenues for each of the three months ended March 31, 2023, and 2022, respectively, were generated from the Company's top 50 customers, which consist of large U.S. and multinational companies across diversified industries such as transportation, healthcare, technology, business and consumer services, financial services, manufacturing, education, retail and not-for-profit. None of the Company's customers individually accounted for greater than 3% of revenues for each of the three months ended March 31, 2023, and 2022, respectively. Healthcare, technology, financial services, and transportation customers represent the largest contributors to revenues. Revenues for the three months ended March 31, 2023, from these customers decreased 15% from the prior year period, led by reductions in order volumes from technology companies.

Expenses

Cost of services (excluding depreciation and amortization) consists of data acquisition costs, medical laboratory and collection fees, personnel-related costs for operations, customer service and customer onboarding functions, as well as other direct costs incurred to fulfill our services. Approximately 80% of cost of services is variable in nature.

Selling, general and administrative expenses consist of personnel-related costs for sales, technology, administrative and corporate management functions in addition to costs for third-party technology, professional and consulting services, advertising and facilities expenses. Selling, general and administrative expenses also include amortization of capitalized cloud computing software costs.

Depreciation and amortization expenses consist of depreciation of property and equipment, as well as amortization of purchased and developed software and other intangible assets.

Other expenses consist of interest expense relating to our credit facilities and interest rate swap agreements, gains and losses on asset disposal, foreign exchange gains and losses, as well as other expenses. On our condensed consolidated statements of operations, interest expense is netted with interest income, which is derived primarily from cash and cash equivalent balances held in interest-bearing accounts. The majority of our receivables and

payables are denominated in U.S. dollars, but we also earn revenue, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar, including the Euro, the British pound, the Polish zloty, the Australian dollar, the Canadian dollar, the Singapore dollar, the Mexican peso, the Japanese yen, and the Indian rupee, among others. Therefore, increases or decreases in the value of the U.S. dollar against these currencies could result in realized and unrealized gains and losses in foreign exchange. However, to the extent we earn revenues in currencies other than the U.S. dollar, we generally pay a corresponding amount of expenses in such currency and therefore the cumulative impact of these foreign exchange fluctuations is not generally deemed material to our financial performance.

Income tax expense (benefit) consists of international, U.S. federal, state and local income taxes based on income in multiple jurisdictions for our subsidiaries.

Results of Operations

Comparison of Results of Operations for the three months ended March 31, 2023 and 2022

The following tables present operating results for the three months ended March 31, 2023 and 2022.

	Three Months Ended March 31,			
	2023		2022	
	(in thousands, except percent of revenues)			
Revenues	\$ 175,447	100.0 %	\$ 198,711	100.0 %
Expenses				
Cost of services (exclusive of depreciation and amortization below)	98,451	56.1 %	112,403	56.6 %
Selling, general and administrative	59,726	34.0 %	48,267	24.3 %
Depreciation and amortization	18,417	10.5 %	18,061	9.1 %
Total expenses	176,594	100.7 %	178,731	89.9 %
Operating income (loss)	(1,147)	(0.7)%	19,980	10.1 %
Other expenses				
Interest expense, net	12,402	7.1 %	7,557	3.8 %
Other expense, net	306	0.2 %	41	— %
Total other expenses	12,708	7.2 %	7,598	3.8 %
Income (loss) before income taxes	(13,855)	(7.9)%	12,382	6.2 %
Income tax expense (benefit)	(5,944)	(3.4)%	818	0.4 %
Net income (loss)	\$ (7,911)	(4.5)%	\$ 11,564	5.8 %

Revenues

Revenues for the three months ended March 31, 2023 decreased to \$175.4 million, a decrease of \$23.3 million, or 11.7%, from the prior-year period, primarily driven by lower order volume from existing customers. Of the total \$23.3 million decrease, \$19.0 million was related to volume reductions associated with our technology and services customers, as both have recently undertaken efforts to rightsize their workforce in response to macroeconomic

pressures. Revenues from our remaining customer groups represented a net decrease of \$4.3 million due to lower volumes.

From a geographical perspective, revenues from international regions decreased by \$1.6 million, or 10.3%, and revenues from the United States decreased by \$21.7 million, or 11.8%, during the three months ended March 31, 2023, compared to the three months ended March 31, 2022. The strengthening of the U.S. dollar against the British pound in the three months ended March 31, 2023, compared to the same period in 2022 had an unfavorable impact on revenue from international regions. On a constant currency basis, United Kingdom revenues would have been \$1.1 million higher than actual revenues. Constant currency represents current period results that have been retranslated using exchange rates in effect in the prior comparable period.

Cost of Services (exclusive of depreciation and amortization)

Cost of services for the three months ended March 31, 2023 decreased to \$98.5 million, a decrease of \$14.0 million, or 12.4%, from the prior-year period, primarily due to lower order volumes, decreased use of contract labor, and lower average labor costs per background screen. The decreases in costs of services were partially offset by higher data costs, increases in severance expenses, and increased incentive compensation and fringe benefit programs to keep up with market conditions. Cost of services as a percent of revenues decreased to 56.1% for the three months ended March 31, 2023, compared to 56.6% for the three months ended March 31, 2022, primarily driven by lower average labor costs per background screen as a result of process improvements associated with our technology initiatives as well as a decrease in the use of contract labor.

Selling, General and Administrative

Selling, general and administrative expenses ("SG&A") for the three months ended March 31, 2023 increased \$11.5 million to \$59.7 million primarily due to increases in personnel costs of \$4.6 million and increases in professional service fees of \$4.6 million primarily due to consulting costs related to our global restructuring plan. Other increases were technology expenses increased by \$2.9 million partly due to ongoing operating system improvements and increasing software maintenance costs, as well as increases in facility related expenses of \$1.1 million, driven by acceleration of expense associated with cessation of use of certain office facilities. Of the \$4.6 million increase in personnel costs, \$1.3 million was driven in part by hiring in technology and go to market positions as well as increases in healthcare costs, and \$2.7 million was related to employee severance and benefits in connection with the workforce reduction. SG&A as a percent of revenues for the three months ended March 31, 2023 increased to 34.0% from 24.3% for the three months ended March 31, 2022.

The increases in personnel costs were attributable to employee severance and employee benefits related to our global restructuring plan, increases in market compensation rates, and increased use of stock-based compensation. The increases in SG&A expenses were partially offset by decreases in various other costs, including a reduction of insurance and audit expenses from the prior year period.

Interest Expense, net

Interest expense, net for the three months ended March 31, 2023 increased to \$12.4 million, an increase of \$4.8 million, or 64.1%, from the prior year period. The increase was primarily due to increased interest expense under our variable rate term loan facility of \$8.0 million associated with rising interest rates over the prior year period. The increase in interest expense was partially offset by reclassifications from accumulated other comprehensive income (loss) on the condensed consolidated balance sheet of unrealized gains related our terminated interest rate swap agreements, which reduced interest expense by \$2.5 million during the three months ended March 31, 2023 and is expected to reduce interest expense by \$6.3 million for the remainder of 2023. Additionally, interest income, which

is derived primarily from cash and cash equivalent balances held in interest-bearing accounts, increased \$0.9 million over the prior year period.

Income Tax Expense (Benefit)

The effective tax rate for the three months ended March 31, 2023, was 42.9% compared to 6.6% for the three months ended March 31, 2022. The effective tax rate for the three months ended March 31, 2023, compared to the prior year period, changed primarily due to federal and state valuation allowances and non-deductible stock compensation expense.

The effective tax rate for the three months ended March 31, 2023, differs from the federal statutory rate of 21% primarily due to state taxes and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2022, differs from the federal statutory rate of 21% primarily due to valuation allowances, state taxes, and U.S. tax on foreign operations.

Non-GAAP Financial Measures

We believe that the presentation of our non-GAAP financial measures provides information useful to investors in assessing our financial condition and results of operations. These measures should not be considered an alternative to net income (loss) or any other measure of financial performance or liquidity presented in accordance with accounting principles generally accepted in the United States (“GAAP”). These measures have important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP measures. Additionally, to the extent that other companies in our industry define similar non-GAAP measures differently than we do, the utility of those measures for comparison purposes may be limited.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA represents, as applicable for the period, net income (loss) before interest expense, income taxes, depreciation and amortization expense, stock-based compensation, realized and unrealized gain (loss) on foreign exchange, restructuring charges, amortization of cloud computing software costs, legal settlement costs deemed by management to be outside the normal course of business, and other items management believes are not representative of the Company’s core operations. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenues for the period. Adjusted EBITDA and Adjusted EBITDA margin are supplemental financial measures that management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess our:

- Operating performance as compared to other publicly traded companies without regard to capital structure or historical cost basis;
- Ability to generate cash flow;
- Ability to incur and service debt and fund capital expenditures; and
- Viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

The following table reconciles our non-GAAP financial measure of Adjusted EBITDA to net income (loss), our most directly comparable financial measures calculated and presented in accordance with GAAP, for the periods presented.

	Three Months Ended March 31,	
	2023	2022
	(in thousands, except percents)	
Net income (loss)	\$ (7,911)	\$ 11,564
Income tax (benefit) expense	(5,944)	818
Interest expense, net	12,402	7,557
Depreciation and amortization	18,417	18,061
EBITDA	16,964	38,000
Stock-based compensation	3,828	2,794
Realized and unrealized gain (loss) on foreign exchange	307	(79)
Restructuring charges ⁽¹⁾	9,874	—
Amortization of cloud computing software costs ⁽²⁾	1,571	151
Other items ⁽³⁾	497	860
Adjusted EBITDA	\$ 33,041	\$ 41,726
Net income (loss) margin ⁽⁴⁾	(4.5)%	5.8 %
Adjusted EBITDA margin	18.8 %	21.0 %

⁽¹⁾ Restructuring charges represent costs incurred in connection with the Company's global restructuring plan. Costs incurred in connection with the plan include: (i) \$4.4 million of severance and benefits related to impacted employees, (ii) \$4.0 million of professional service fees related to the execution of our cost savings initiatives, and (iii) \$1.4 million related to the abandonment of certain of our leased facilities,

⁽²⁾ Amortization of cloud computing software costs consists of expense recognized in selling, general and administrative expenses for capitalized implementation costs for cloud computing IT systems incurred in connection with our platform and fulfillment technology initiatives that are intended to achieve greater operational efficiencies. This expense is not included in depreciation and amortization above.

⁽³⁾ Other items for the three months ended March 31, 2023 comprise professional services fees not related to core operations. Other items for the three months ended March 31, 2022 include (i) costs of \$0.9 million associated with the implementation of a company-wide ERP system, (ii) \$0.3 million related to loss on disposal of assets and exit costs associated with one of our short-term leased facilities, (iii) \$0.2 million of information technology related costs including personnel expenses and professional service fees associated with the integration of customers and operations of an entity with which the Company merged, and (iv) a partial offset of these costs by a reduction in previously accrued legal settlement expense of \$0.6 million during the three months ended March 31, 2022 due to a more favorable outcome than originally anticipated in a claim outside the ordinary course of business.

⁽⁴⁾ Net income (loss) margin represents net income (loss) divided by revenues for the period.

Adjusted Net Income and Adjusted Diluted Earnings Per Share

In addition to Adjusted EBITDA, management believes that Adjusted Net Income is a strong indicator of our overall operating performance and is useful to our management and investors as a measure of comparative operating performance from period to period. We define Adjusted Net Income as net income (loss) adjusted for amortization of acquired intangible assets, stock-based compensation, realized and unrealized gain (loss) on foreign exchange, restructuring charges, amortization of cloud computing software costs, legal settlement costs deemed by management to be outside the normal course of business, and other items management believes are not representative of the Company's core operations, to which we apply an adjusted effective tax rate. See the footnotes to the table below for a description of certain of these adjustments. We define Adjusted Diluted Earnings Per Share as Adjusted Net Income divided by the weighted average number of shares outstanding (diluted) for the applicable period. We believe Adjusted Diluted Earnings Per Share is useful to investors and analysts because it enables them

to better evaluate per share operating performance across reporting periods and to compare our performance to that of our peer companies.

The following table reconciles our non-GAAP financial measure of Adjusted Net Income to net income (loss), our most directly comparable financial measure calculated and presented in accordance with GAAP, for the periods presented:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Net income (loss)	\$ (7,911)	\$ 11,564
Income tax (benefit) expense	(5,944)	818
Income (loss) before income taxes	(13,855)	12,382
Amortization of acquired intangible assets	15,394	15,505
Interest expense swap adjustments ⁽¹⁾	(2,527)	(2,181)
Interest expense discounts ⁽²⁾	803	821
Stock-based compensation	3,828	2,794
Realized and unrealized gain (loss) on foreign exchange	307	(79)
Restructuring charges ⁽³⁾	9,874	—
Amortization of cloud computing software costs ⁽⁴⁾	1,571	151
Other items ⁽⁵⁾	497	860
Adjusted income before income taxes	15,892	30,253
Adjusted income taxes ⁽⁶⁾	2,346	439
Adjusted Net Income	\$13,546	\$29,814

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

	Three Months Ended March 31,	
	2023	2022
Diluted net income (loss) per share	\$ (0.10)	\$ 0.15
Income tax (benefit) expense	(0.08)	0.01
Amortization of acquired intangible assets	0.20	0.19
Interest expense swap adjustments ⁽¹⁾	(0.03)	(0.03)
Interest expense discounts ⁽²⁾	0.01	0.01
Stock-based compensation	0.05	0.04
Realized and unrealized gain (loss) on foreign exchange	—	—
Restructuring charges ⁽³⁾	0.13	—
Amortization of cloud computing software costs ⁽⁴⁾	0.02	—
Other items ⁽⁵⁾	0.01	0.01
Adjusted income taxes ⁽⁶⁾	(0.03)	(0.01)
Adjusted Diluted Earnings Per Share	\$ 0.18	\$ 0.37
Weighted average number of shares outstanding - diluted	77,285,116	79,392,937

- (1) Interest expense swap adjustments consist of amortization of unrealized gains on our terminated interest rate swap agreements, which will be recognized through December 2023 as a reduction in interest expense.
- (2) Interest expense discounts consist of amortization of original issue discount and debt issuance costs.
- (3) Restructuring charges represent costs incurred in connection with the Company's global restructuring plan. Costs incurred in connection with the plan include: (i) \$4.4 million of severance and benefits related to impacted employees, (ii) \$4.0 million of professional service fees related to the execution of our cost savings initiatives, and (iii) \$1.4 million related to the abandonment of certain of our leased facilities.
- (4) Amortization of cloud computing software costs consists of expense recognized in selling, general and administrative expenses for capitalized implementation costs for cloud computing IT systems incurred in connection with our platform and fulfillment technology initiatives that are intended to achieve greater operational efficiencies. This expense is not included in depreciation and amortization above.
- (5) Other items for the three months ended March 31, 2023 comprise professional services fees not related to core operations. Other items for the three months ended March 31, 2022 include (i) costs of \$0.9 million associated with the implementation of a company-wide ERP system, (ii) \$0.3 million related to loss on disposal of assets and exit costs associated with one of our short-term leased facilities, (iii) \$0.2 million of information technology related costs including personnel expenses and professional service fees associated with the integration of customers and operations of an entity with which the Company merged, and (iv) a partial offset of these costs by a reduction in previously accrued legal settlement expense of \$0.6 million during the three months ended March 31, 2022 due to a more favorable outcome than originally anticipated in a claim outside the ordinary course of business.
- (6) The tax effect of each adjustment is determined based on the tax laws and valuation allowance status of the jurisdiction to which the adjustment relates. An adjusted effective income tax rate has been determined for each period presented by applying the statutory income tax rate, net of applicable adjustments for valuation allowances, which was used to compute Adjusted Net Income for the periods presented. Due to the existence of a U.S. tax valuation allowance, the tax impact of the pre-tax adjustments for the three months ended March 31, 2022 is immaterial. During the year ended December 31, 2022, the Company determined sufficient positive evidence existed to reverse the Company's valuation allowance attributable to the deferred tax assets associated with the Company's operations in the U.S. There is no change to the manner by which the tax effect of each adjustment is determined as a result of the reversal of the valuation allowance.

Liquidity and Capital Resources

General

Our primary sources of liquidity and capital resources are cash generated from our operating activities, cash on hand, and borrowings under our long-term debt arrangements. Income taxes have historically not been a significant use of funds but after the benefits of our net operating loss ("NOL") carryforwards are fully recognized, could become a material use of funds, depending on our future profitability and future tax rate. Additionally, as a result of the income tax receivable agreement ("TRA") we entered into in connection with the IPO, we will be required to pay certain pre-IPO equityholders or their transferees 85% of the benefits, if any, that the Company and its subsidiaries realize, or are deemed to realize in income tax savings due to our utilization of the NOLs and other tax attributes, for which the Company recognized an estimated total liability of \$210.5 million, including a current portion of \$27.0 million, as of March 31, 2023. Based on our current taxable income estimates, we expect to repay the majority of this obligation by the end of 2030. These payments will result in cash outflows of amounts we would otherwise have retained in the form of tax savings from the application of the NOLs and other tax attributes.

Unrestricted cash and cash equivalents as of March 31, 2023 was \$127.4 million. As of March 31, 2023, cash held in foreign jurisdictions was approximately \$16.1 million and is primarily related to international operations.

Debt

The Company currently has two long-term debt arrangements:

- The Amended First Lien Term Loan Facility, a first lien senior secured term loan facility, bearing interest payable monthly at a LIBOR variable rate (4.84% at March 31, 2023) + 3.75%, maturing on July 12, 2025. Total principal outstanding balance on our debt was \$697.4 million as of March 31, 2023 and \$699.5 million as of December 31, 2022.
- The Amended Revolver Credit Facility, a first lien senior secured revolving credit facility in an aggregate principal amount of up to \$145.0 million, including a \$40.0 million letter of credit sub-facility, bearing interest monthly at a Secured Overnight Financing Rate (“SOFR”) variable rate (4.63% at March 31, 2023) + 2.5% (subject to adjustment pursuant to a leverage-based pricing grid) and maturing on June 3, 2027 or, if earlier, 91 days prior to the maturity of the Company’s term loans under the Amended First Lien Term Loan Facility. The Company had \$143.7 million in available borrowing capacity under the Amended Revolving Credit Facility, after utilizing \$1.3 million for letters of credit as of March 31, 2023.

The Amended First Lien Term Loan Facility includes a springing financial maintenance covenant for the benefit of the revolving lenders thereunder, which requires us to maintain a maximum first lien leverage ratio as of the last day of any fiscal quarter on which greater than 35% of the revolving commitments are drawn (excluding for this purpose up to \$15.0 million of undrawn letters of credit). The Company was not subject to this covenant as of March 31, 2023, as outstanding loans and letters of credit under the Amended Revolving Credit Facility did not exceed 35% of the total commitments under the facility.

The Company’s obligations under the Amended First Lien Facilities are guaranteed, jointly and severally, on a senior secured first-priority basis, by substantially all of the Company’s domestic wholly-owned material subsidiaries, as defined in the agreement, and are secured by first-priority security interests in substantially all of the assets of the Company and its domestic wholly-owned material subsidiaries, subject to certain permitted liens and exceptions. Collateral includes all outstanding equity interests in whatever form of the borrower and each restricted subsidiary that is owned by any credit party.

Operating Commitments

As of March 31, 2023, the Company had purchase obligations to various parties of approximately \$49.7 million in the aggregate, primarily to purchase data and other screening services in the ordinary course of business. These purchase obligations have varying expiration terms through 2023, and approximately \$47.9 million of the total is expected to be paid within one year.

On December 31, 2022 and February 16, 2023, the Company entered into definitive agreements to purchase 60% of the equity interests in a privately held company for a total purchase price of approximately \$26.5 million, subject to closing conditions that have not yet been satisfied.

We expect that cash flow from operations and current cash balances, together with available borrowings under the Amended Revolving Credit Facility, will be sufficient to meet operating requirements as well as the obligations under the TRA through the next twelve months. Although we believe we have adequate sources of liquidity over the long term, cash available from operations could be affected by any general economic downturn or any decline or adverse changes in our business such as a loss of customers, market and or competitive pressures, unanticipated liabilities, or other significant changes in business environment. Additional future financing may be necessary to fund our operations, and there can be no assurance that, if needed, we will be able to secure additional debt or equity financing on terms acceptable to us or at all.

Cash Flow Analysis

The following table summarizes our condensed consolidated cash flows for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Net cash used in operating activities	\$ (5,015)	\$ (2,015)
Net cash used in investing activities	(4,611)	(4,529)
Net cash used in financing activities	(26,672)	(20,533)
Net decrease in cash, cash equivalents and restricted cash	<u>\$ (36,298)</u>	<u>\$ (27,077)</u>

Operating Activities

Cash provided by operating activities reflects net income (loss) adjusted for certain non-cash items and changes in operating assets and liabilities. Cash used in operating activities was \$5.0 million for the three months ended March 31, 2023 compared to cash used in operating activities of \$2.0 million for the three months ended March 31, 2022. The increase in cash used in operating activities was due primarily to net loss of \$7.9 million for the current period compared to net income of \$11.6 million for the prior year period, partly offset by lower use of cash for working capital in the current period compared to the prior year period.

Investing Activities

Cash used in investing activities was approximately \$4.6 million during the three months ended March 31, 2023, compared to approximately \$4.5 million during the three months ended March 31, 2022. The increase was due primarily to increases in other investing and increases in capitalized software development costs under our program to enhance operational efficiencies compared to the prior period, partly offset by a decrease of purchases of property and equipment.

Financing Activities

Cash used in financing activities was approximately \$26.7 million for the three months ended March 31, 2023 compared to cash used in financing activities of approximately \$20.5 million during the three months ended March 31, 2022. The increase was due primarily to the \$24.6 million of cash used for repurchases of our common stock made under the Program during the three months ended March 31, 2023, partly offset by \$18.4 million payment for termination of interest rate swap agreements during the prior year period. Mandatory repayments on our debt facilities were \$2.1 million in each of the three months ended March 31, 2023 and 2022.

Share Repurchase Program

On November 13, 2022, the Company's Board of Directors authorized the Program. The Program authorizes the Company to repurchase up to \$100.0 million of the Company's common stock and will expire on November 14, 2024, or earlier if repurchases reach \$100.0 million before that date. Repurchases under the Program may be made in the open market, in privately negotiated transactions or otherwise, including through Rule 10b5-1 trading plans, with the amount and timing of repurchases depending on stock price, trading volume, market conditions and other general business considerations. This Program does not obligate the Company to acquire any particular amount of common stock and the Program may be extended, modified, suspended or discontinued at any time at the Company's discretion.

Through March 31, 2023, the Company repurchased 3,791,229 shares of Common stock for \$42.3 million, including commissions paid, at an average price paid of \$11.17 per share. As of March 31, 2023, approximately \$57.7 million remained available for future purchases under the Program. Repurchases under the Program continued at similar rates through the date of filing of this report, and the Board of Directors has not yet determined whether to renew the Program following its termination.

Off-Balance Sheet Arrangements

As of March 31, 2023, we had no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Recently Issued Accounting Pronouncements

See Note 2 — *Recently Issued Accounting Pronouncements* for further information on recently adopted accounting pronouncements and those not yet adopted.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk to our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily due to potential interest rate risk, potential foreign exchange risk and potential increases in inflation. We do not hold financial instruments for trading purposes.

Interest Rate Risk

We are exposed to changes in interest rates as a result of the outstanding balance under the Amended First Lien Term Loan Facility, as well as any borrowings under the Amended Revolving Credit Facility. Primary exposures include movements in LIBOR and SOFR. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness.

As of March 31, 2023, the outstanding principal balance of \$697.4 million on the Amended First Lien Term Loan Facility was subject to variable interest rates. Based upon a sensitivity analysis, a hypothetical 1% change in interest rates on our debt outstanding would change our annual interest expense by approximately \$7.0 million.

The last publication date of LIBOR rates against various currencies by the Financial Conduct Authority in the United Kingdom was December 31, 2021, with the publication of certain United States dollar rates being phased out after June 30, 2023. We have negotiated terms in consideration of this discontinuation and do not expect that the discontinuation of the LIBOR rate, including any legal or regulatory changes made in response to its future phase out, will have a material impact on our liquidity or results of operations.

Foreign Exchange Risk

The majority of our revenue is denominated in U.S. dollars; however, we do earn revenue, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar, including the Euro, the British pound, the Polish zloty, the Australian dollar, the Canadian dollar, the Singapore dollar, the Mexican peso, the Japanese yen, and the Indian rupee, among others. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenue, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other currencies will affect our statements of operations and the value of balance sheet items denominated in foreign currencies. We generally do not mitigate the risks associated with fluctuating exchange rates because we typically incur expenses and generate revenue in these currencies and the cumulative impact of these foreign exchange fluctuations are not deemed material to our financial performance.

Inflation Risk

Recent growth in inflation has increased and may continue to increase our operating costs. In response to high inflation rates, the Federal Reserve has been raising interest rates and has indicated that a decision on pausing the interest rate increases has not been made but instead the Federal Reserve will continue to monitor economic data. Higher interest rates imposed by the Federal Reserve to address inflation will increase our interest expense. We also expect our labor costs to continue to increase due to the growing competition for labor and the effect of inflation on wage rates. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. However, we may not be able to raise our pricing sufficiently to offset our increased costs, for competitive reasons or because some of our customer agreements fix the prices we may charge for some period of time and/or limit permissible price increases. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of March 31, 2023. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2023.

(b) Limitations on effectiveness of controls and procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2023, as defined under Rule 13a-15(f) under the Exchange Act, 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

The Company is subject to claims, investigations, audits, and enforcement proceedings by private plaintiffs, third parties the Company does business with, and federal, state and foreign authorities charged with overseeing the enforcement of laws and regulations that govern the Company's business. In the U.S., most of these matters arise under the federal Fair Credit Reporting Act and various state and local laws focused on privacy and the conduct and content of background reports. In addition to claims related to privacy and background checks, the Company is also subject to other claims and proceedings arising in the ordinary course of its business, including without limitation claims for indemnity by customers and vendors, employment-related claims, and claims for alleged taxes owed, infringement of intellectual property rights, and breach of contract. The Company and its subsidiaries are not party to any pending legal proceedings that the Company believes to be material.

See "Part I, Item 1. Financial Statements (unaudited) - Note 13 — Legal Proceedings" of this Quarterly Report on Form 10-Q for additional information on legal proceedings.

Item 1A. Risk Factors

Current macroeconomic conditions are volatile and the near-term macroeconomic outlook is uncertain due to high inflation, rising interest rates, geopolitical concerns, supply chain disruptions and labor shortages. These factors have led to reduction in order volumes, and consequently we expect 2023 revenue below 2022 levels. We do not know how long these conditions will persist.

Inflation puts pressure on our suppliers, resulting in increased data costs, and also increases our employment and other expenses. We may not be able to raise our pricing sufficiently to offset increased costs, for competitive reasons or because some of our customer agreements limit price increases. Further, portions of our costs are relatively fixed so it may not be possible for us to cut costs quickly or deeply enough to keep cost increases from adversely affecting our margins.

In response to high inflation, the Federal Reserve has been raising interest rates and has indicated that a decision on pausing the interest rate increases has not been made but instead the Federal Reserve will continue to monitor economic data. Higher interest rates increase our interest expense on variable-rate borrowings under our credit facilities. Further, interest rate hikes or other factors could lead to recessionary conditions, which could adversely affect the global hiring market and therefore the demand for our services.

Customers have been reacting to these uncertainties by reducing hiring, which in turn causes uncertainty in our near-term revenue outlook.

In addition to the other information contained in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report. The risks discussed in our Annual Report could materially affect our business, financial condition, and future results. The risks described in our Annual Report may change over time, and additional risks and uncertainties that we are not aware of, or that we do not consider to be material, may emerge.

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

Repurchases of Common Stock

The following table summarizes the Company's share repurchase program during the three months ended March 31, 2023:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
			(1)	(in millions)
January 1 — January 31, 2023	577,300	\$ 11.79	577,300	\$ 76.4
February 1 — February 28, 2023	463,166	11.65	463,166	71.0
March 1 — March 31, 2023	1,221,934	10.89	1,221,934	57.7
Total	2,262,400	\$ 11.28	2,262,400	\$ 57.7

(1) On November 13, 2022, the Company's Board of Directors authorized a share repurchase program. The share repurchase program authorizes the Company to repurchase up to \$100.0 million of the Company's common stock, par value \$0.001 and will expire on November 14, 2024, or earlier if repurchases reach \$100.0 million before that date. Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, including through Rule 10b5-1 trading plans, with the amount and timing of repurchases depending on stock price, trading volume, market conditions and other general business considerations. Open market repurchases will be structured to occur within the pricing and volume requirements of Rule 10b-18. This program does not obligate the Company to acquire any particular amount of common stock and the program may be extended, modified, suspended or discontinued at any time at the Company's discretion. Repurchases under the Program continued at similar rates through the date of filing of this report, and the Board of Directors has not yet determined whether to renew the Program following its termination.

Item 6. Exhibits

Exhibit Number	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13(a)-14(a) and 15(d)-14(a), as adopted
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13(a)-14(a) and 15(d)-14(a), as adopted
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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.

HireRight Holdings Corporation

Date: May 9, 2023

By: /s/ Thomas M. Spaeth
Name: Thomas M. Spaeth
Title: Chief Financial Officer
(Principal Financial Officer)

Date: May 9, 2023

By: /s/ Laurie Blanton
Name: Laurie Blanton
Title: Chief Accounting Officer
(Principal Accounting Officer)

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

I, Guy P. Abramo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HireRight Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023 By: /s/ Guy P. Abramo

Name: Guy P. Abramo

Title: President and Chief Executive Officer

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

I, Thomas M. Spaeth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HireRight Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023 By: /s/ Thomas M. Spaeth

Name: Thomas M. Spaeth
Title: Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of HireRight Holdings Corporation (the "Company") for the three months ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Guy P. Abramo, as President and Chief Executive Officer, and Thomas M. Spaeth, as Chief Financial Officer, of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his 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: May 9, 2023 By: /s/ Guy P. Abramo
Name: Guy P. Abramo
Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2023 By: /s/ Thomas M. Spaeth
Name: Thomas M. Spaeth
Title: Chief Financial Officer
(Principal Financial Officer)