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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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	**82-1092072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Centerview Drive, Suite 300	**Nashville**	**Tennessee**	**37214**
(Address of Principal Executive Offices)			(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 79,484,907 shares of common stock as of October 27, 2022.

EXPLANATORY NOTE

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to "we," "us," "our," the "Company," and similar references refer: (1) following the consummation of our conversion to a Delaware corporation on October 15, 2021 in connection with our initial public offering, to HireRight Holdings Corporation, and (2) prior to the completion of such conversion, to HireRight GIS Group Holdings, LLC. See "*Part I, Item 1. Financial Statements (Unaudited) - Note 1 — Organization, Basis of Presentation and Consolidation, and Significant Accounting Policies*" in this Quarterly Report on Form 10-Q for further information.

For convenience, we often refer to the individuals about whom we prepare screening reports as "applicants" because the majority of our screening reports are ordered by our customers to assist in their evaluation of applicants for employment or engagement as contractors. However, we also prepare screening reports on our customers' existing employees, vendor personnel, volunteers, and others, and our references to "applicants" refer to all subjects of our screening reports.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Part I - FINANCIAL INFORMATION

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

	September 30, 2022	December 31, 2021
	(in thousands, except share and per share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 146,508	$ 111,032
Restricted cash	1,306	5,182
Accounts receivable, net of allowance for doubtful accounts of $5,170 and $4,284 at September 30, 2022 and December 31, 2021, respectively	165,944	142,473
Prepaid expenses and other current assets	17,067	18,583
Total current assets	330,825	277,270
Property and equipment, net	9,492	11,127
Right-of-use assets, net	8,802	—
Intangible assets, net	343,025	389,483
Goodwill	801,674	819,538
Cloud computing software, net	29,844	8,133
Deferred tax assets	63,167	—
Other non-current assets	18,811	18,211
Total assets	$ 1,605,640	$ 1,523,762
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 11,355	$ 13,688
Accrued expenses and other current liabilities	79,867	75,294
Accrued salaries and payroll	33,158	29,280
Derivative instruments, short-term	—	16,662
Debt, current portion	8,350	8,350
Total current liabilities	132,730	143,274
Debt, long-term portion	684,565	688,683
Derivative instruments, long-term	—	11,444
Tax receivable agreement liability	211,438	210,639
Deferred tax liabilities	5,760	14,765
Operating lease liabilities, long-term	11,051	—
Other non-current liabilities	2,394	9,240
Total liabilities	1,047,938	1,078,045
Commitments and contingent liabilities (Note 12)		
Preferred stock, $0.001 par value, authorized 100,000,000 shares; none issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Common stock, $0.001 par value, authorized 1,000,000,000 shares; 79,482,612 and 79,392,937 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	79	79
Additional paid-in capital	802,484	793,382
Accumulated deficit	(231,065)	(360,364)
Accumulated other comprehensive income (loss)	(13,796)	12,620
Total stockholders' equity	557,702	445,717
Total liabilities and stockholders' equity	$ 1,605,640	$ 1,523,762

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except share and per share data)			
Revenues	$ 210,303	$ 204,981	$ 631,306	$ 531,522
Expenses				
Cost of services (exclusive of depreciation and amortization below)	110,848	111,328	343,241	295,832
Selling, general and administrative	49,378	47,652	152,032	130,261
Depreciation and amortization	17,946	19,531	54,056	56,013
Total expenses	178,172	178,511	549,329	482,106
Operating income	32,131	26,470	81,977	49,416
Other expenses				
Interest expense	8,457	18,518	20,971	54,674
Other expense, net	89	22	163	125
Total other expenses, net	8,546	18,540	21,134	54,799
Income (loss) before income taxes	23,585	7,930	60,843	(5,383)
Income tax (benefit) expense	(69,704)	649	(68,456)	2,954
Net income (loss)	$ 93,289	$ 7,281	$ 129,299	$ (8,337)
Net income (loss) per share:				
Basic	$ 1.17	$ 0.13	$ 1.63	$ (0.15)
Diluted	$ 1.17	$ 0.13	$ 1.63	$ (0.15)
Weighted average shares outstanding:				
Basic	79,459,633	57,168,291	79,419,725	57,168,291
Diluted	79,542,715	57,199,204	79,476,574	57,168,291

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net income (loss)	$ 93,289	$ 7,281	$ 129,299	$ (8,337)
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on derivatives qualified for hedge accounting:				
Unrealized gain (loss) on interest rate swaps	—	(991)	7,981	973
Reclassification adjustments included in earnings [1]	(3,413)	5,018	(7,997)	14,733
Total unrealized gain (loss)	(3,413)	4,027	(16)	15,706
Currency translation adjustment, net of tax benefit (expense) of ($64) and ($16) for the three months ended September 30, 2022 and 2021, respectively, and ($210) and ($1) for the nine months ended September 30, 2022, and 2021, respectively	(12,565)	(3,595)	(26,400)	(2,333)
Other comprehensive income (loss)	(15,978)	432	(26,416)	13,373
Comprehensive income	$ 77,311	$ 7,713	$ 102,883	$ 5,036

(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 income (loss) on the condensed consolidated balance sheet related to the interest rate swap agreements terminated on February 18, 2022. See Note 9 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 September 30, 2022					
	Common Stock					
	Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	(in thousands, except share data)					
Balances at June 30, 2022	79,432,321	$ 79	$ 800,566	$ (324,354)	$ 2,182	$ 478,473
Common stock issuance for vesting of restricted stock units and exercise of stock options	50,291	—	803	—	—	803
Net income	—	—	—	93,289	—	93,289
Stock-based compensation	—	—	1,115	—	—	1,115
Other comprehensive loss	—	—	—	—	(15,978)	(15,978)
Balances at September 30, 2022	79,482,612	$ 79	$ 802,484	$ (231,065)	$ (13,796)	$ 557,702

	Three Months Ended September 30, 2021					
	Class A Member Units					
	Units	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(in thousands, except unit data)					
Balances at June 30, 2021	57,168,291	$ 590,711	$ 17,012	$ (354,679)	$ 2,818	$ 255,862
Net income	—	—	—	7,281	—	7,281
Stock-based compensation	—	—	841	—	—	841
Other comprehensive income	—	—	—	—	432	432
Balances at September 30, 2021	57,168,291	$ 590,711	$ 17,853	$ (347,398)	$ 3,250	$ 264,416

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

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

	Nine Months Ended September 30, 2022										
	Common Stock										
	Shares	Amount		Additional Paid in Capital		Accumulated Deficit		Accumulated Other Comprehensive Income (Loss)		Total Stockholders' Equity	
	(in thousands, except share data)										
Balances at December 31, 2021	79,392,937	$	79	$	793,382	$	(360,364)	$	12,620	$	445,717
Common stock issuance for vesting of restricted stock units and exercise of stock options	89,675		—		803		—		—		803
Net income	—		—		—		129,299		—		129,299
Stock-based compensation	—		—		8,299		—		—		8,299
Other comprehensive loss	—		—		—		—		(26,416)		(26,416)
Balances at September 30, 2022	79,482,612	$	79	$	802,484	$	(231,065)	$	(13,796)	$	557,702

	Nine Months Ended September 30, 2021										
	Class A Member Units										
	Units	Amount		Additional Paid in Capital		Accumulated Deficit		Accumulated Other Comprehensive Income (Loss)		Total Stockholders' Equity	
	(in thousands, except unit data)										
Balances at December 31, 2020	57,168,291	$	590,711	$	15,360	$	(339,061)	$	(10,123)	$	256,887
Net loss	—		—		—		(8,337)		—		(8,337)
Stock-based compensation	—		—		2,493		—		—		2,493
Other comprehensive income	—		—		—		—		13,373		13,373
Balances at September 30, 2021	57,168,291	$	590,711	$	17,853	$	(347,398)	$	3,250	$	264,416

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

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

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ 129,299	$ (8,337)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	54,056	56,013
Deferred income taxes	(70,954)	1,933
Amortization of debt issuance costs	2,549	3,139
Amortization of contract assets	3,312	2,782
Amortization of right-of-use assets	2,094	—
Amortization of unrealized gains on terminated interest rate swap agreements	(9,676)	—
Amortization of cloud computing software costs	1,446	—
Stock-based compensation	8,587	2,493
Increase in tax receivable agreement liability	800	—
Other non-cash charges, net	524	(541)
Changes in operating assets and liabilities:		
Accounts receivable	(24,521)	(44,715)
Prepaid expenses and other current assets	1,516	(2,327)
Cloud computing software	(23,158)	—
Other non-current assets	(3,934)	(4,157)
Accounts payable	(5,212)	(13,736)
Accrued expenses and other current liabilities	5,498	19,676
Accrued salaries and payroll	3,631	6,194
Operating lease liabilities, net	(4,125)	—
Other non-current liabilities	(805)	626
Net cash provided by operating activities	70,927	19,043
Cash flows from investing activities		
Purchases of property and equipment	(3,973)	(5,092)
Capitalized software development	(9,149)	(4,891)
Net cash used in investing activities	(13,122)	(9,983)
Cash flows from financing activities		
Repayments of debt	(6,263)	(6,263)
Borrowings on line of credit	—	30,000
Repayments on line of credit	—	(30,000)
Payments for termination of interest rate swap agreements	(18,445)	—
Payment of issuance costs - revolving credit facility	(342)	—
Other financing	—	(1,240)
Net cash used in financing activities	(25,050)	(7,503)
Net increase in cash, cash equivalents and restricted cash	32,755	1,557
Effect of exchange rates	(1,155)	(978)
Cash, cash equivalents and restricted cash		
Beginning of period	116,214	24,059
End of period	$ 147,814	$ 24,638
Cash paid for		
Interest	$ 27,890	$ 51,355
Income taxes paid	2,718	787
Supplemental schedule of non-cash activities		
Unpaid deferred offering costs	$ —	$ 2,975
Unpaid property and equipment and capitalized software purchases	1,102	468

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

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

Organization

Description of Business

HireRight GIS Group Holdings LLC ("HGGH") was formed in July 2018 in connection with the combination of two groups of companies: the HireRight Group and the General Information Services ("GIS") Group, each of which includes a number of wholly-owned subsidiaries that conduct the Company's business in the United States, as well as other countries. Since July 2018, the combined group of companies and their subsidiaries have operated as a unified operating company providing screening and compliance services, predominantly under the HireRight brand.

Corporate Conversion and Stock Split

On October 15, 2021, HGGH converted into a Delaware corporation and changed its name to HireRight Holdings Corporation ("HireRight" or the "Company"). In conjunction with the conversion, all of HGGH's outstanding equity interests were converted into shares of common stock of HireRight Holdings Corporation. The conversion and related transactions are referred to herein as the "Corporate Conversion." The Corporate Conversion did not affect the assets and liabilities of HGGH, which became the assets and liabilities of HireRight Holdings Corporation.

On October 18, 2021, HireRight Holdings Corporation effected a one-for-15.969236 reverse stock split ("Stock Split"). All shares of the Company's common stock, stock-based instruments, and per-share data included in the condensed consolidated financial statements give retroactive effect to the Stock Split.

Initial Public Offering

On November 2, 2021, the Company completed its initial public offering ("IPO"), in which the Company issued 22,222,222 shares of its common stock. The shares began trading on the New York Stock Exchange on October 29, 2021 under the symbol "HRT." The shares were sold at an IPO price of $ 19.00 per share for net proceeds of $393.5 million, after deducting underwriting discounts and commissions of $23.2 million and other offering costs payable by the Company of $5.5 million. On November 30, 2021, the Company issued an additional 2,424 shares pursuant to the partial exercise of the underwriters' option to purchase additional shares for net proceeds of an immaterial amount.

Income Tax Receivable Agreement

In connection with the Company's 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. During the three months ended September 30, 2022, the Company recognized an expense of $0.8 million related to an increase in the estimated liability pertaining to the TRA as a result of federal return-to-provision adjustments. The expense is included in Other expense, net in the Company's condensed consolidated statements of operations. As of September 30, 2022 and December 31, 2021, the Company had a total liability of $211.4 million and $210.6 million, respectively, in connection with the projected obligations under the TRA on its condensed consolidated balance sheets.

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 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, 2021, as filed with the SEC on March 21, 2022 ("Annual Report"). The December 31, 2021 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, 2021, 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, 2021, included in the Annual Report. Except as noted below and in Note 2 — *Recently Issued Accounting Pronouncements* regarding leases, 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 nine months ended September 30, 2022.

Implementation Costs Incurred in Cloud Computing Arrangements

For cloud computing arrangements that are a service contract, the Company capitalizes certain implementation costs incurred, including employee costs and third-party costs, during the application development stage, and expenses costs as incurred during the preliminary project and post-implementation stages. Capitalized implementation costs are expensed on a straight-line basis over the estimated useful life. Capitalized amounts related to such arrangements are recorded within prepaid expenses and other current assets and within cloud computing software in the condensed consolidated balance sheets and amortized to selling, general and administrative expenses in the condensed consolidated statement of operations.

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 doubtful accounts, 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 nine months ended September 30, 2022 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 2022

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "*Leases (Topic 842)*" ("Topic 842") to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases, with the exception of short-term leases if a policy election is made, on their balance sheets as a right-of-use ("ROU") asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis, while recognizing lease expense on their income statements in a manner similar to current GAAP. The guidance also requires an entity to disclose key quantitative and qualitative information about its leasing arrangements.

The Company leases office facilities under operating lease agreements. All of the Company's leases are operating leases. The Company adopted Topic 842 on January 1, 2022 using the modified retrospective transition approach. Under this transition provision, results for the reporting period beginning on January 1, 2022 are presented under Topic 842 while prior period amounts continue to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, *Leases*.

The Company elected the "package of practical expedients" permitted under the transition guidance, which among other things, does not require reassessment of whether contracts entered into prior to adoption are or contain leases, and allows carryforward of the historical lease classification for existing leases. The Company did not elect the "hindsight" practical expedient, and therefore measured the ROU asset and lease liability using the remaining portion of the lease term at adoption on January 1, 2022.

The Company made an accounting policy election not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less. For all other leases, the Company recognizes ROU assets and lease liabilities based on the present value of lease payments over the lease term at the commencement date of the lease (or January 1, 2022 for existing leases upon the adoption of Topic 842). Lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index). Subsequent changes to an index and any other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

The Company has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component. The non-lease components typically represent additional services transferred to the Company, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

The Company uses its incremental borrowing rate which is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term and amount in a similar economic environment to determine the present value of lease payments as the Company's leases do not have a readily determinable implicit discount rate. Judgment is applied in assessing factors such as Company specific credit risk, lease term, nature and quality of the underlying collateral, currency, and economic environment in determining the incremental borrowing rate to apply to each lease.

Upon adoption, the Company recorded ROU assets and operating lease liabilities of $9.9 million and $18.9 million, respectively, related to the Company's operating leases. The adoption of the new lease standard did not materially impact the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2022, or the condensed consolidated statements of cash flows for the nine months ended September 30, 2022.

In November 2021, the FASB issued ASU 2021-10, "*Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*." The ASU requires additional disclosures for transactions with a government accounted for by applying a grant or contribution accounting model by analogy, including: (i) information about the nature of the transactions and related accounting policy used to account for the transactions; (ii) the line items on the balance sheet and income statement affected by these transactions including amounts applicable to each line; and (iii) significant terms and conditions of the transactions, including commitments and contingencies. The Company adopted this ASU effective January 1, 2022. 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 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 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this standard on the condensed consolidated financial statements.

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 No. 2021-01, *"Reference Rate Reform (Topic 848): Scope,*" which expanded the scope of Topic 848 to include derivative instruments impacted by the discounting transition. This collective guidance is effective at any time after March 12, 2020 but no later than December 31, 2022. The Company does not expect the adoption of this guidance to have a material impact on the condensed consolidated financial statements.

In June 2016, the FASB issued 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 expects there to be no material impact on the condensed consolidated financial statements from the adoption of this ASU.

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

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

	September 30, 2022	December 31, 2021
	(in thousands)	
Prepaid software licenses, maintenance, and insurance	$ 10,433	$ 11,668
Other prepaid expenses and current assets	6,634	6,915
Total prepaid expenses and other current assets	$ 17,067	$ 18,583

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

	September 30, 2022	December 31, 2021
	(in thousands)	
Contract implementation costs	$ 17,680	$ 17,242
Other non-current assets	1,131	969
Total other non-current assets	$ 18,811	$ 18,211

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 determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed, and if the arrangement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. See Note 2 — *Recently Issued Accounting Pronouncements* for more information on the Company’s accounting policies for leases.

The Company leases office facilities under operating lease agreements that have initial terms ranging from1 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. In addition, certain leases give the Company, the lessor, or both parties the right to terminate. Options to extend a lease are included in the lease term when it is reasonably certain that the Company will exercise the option. Options to terminate a lease are excluded from the lease term when it is reasonably certain that the Company will not exercise the option. The Company’s leases generally do not contain any material restrictive covenants or residual value guarantees.

The Company’s operating leases were as follows:

	September 30, 2022
	(in thousands)
Right-of-use assets, net	$ 8,802
Current operating lease liabilities [1]	$ 5,207
Operating lease liabilities, long-term	11,051
Total operating lease liabilities	$ 16,258

[1] Current lease liabilities are recorded in other current liabilities on the Company's condensed consolidated balance sheets.

The components of lease cost are recorded in selling, general, and administrative expenses for the three and nine months ended September 30, 2022 and were as follows:

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(in thousands)	
Operating lease cost	$ 981	$ 2,764
Short-term lease cost	137	470
Variable lease cost	12	36
Total lease cost	$ 1,130	$ 3,270

Operating lease cost is recognized on a straight-line basis over the lease term.

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30, 2022
	(in thousands)
Cash paid for amounts included in measurement of operating lease liabilities	$ 4,193
ROU assets obtained in exchange for operating lease liabilities	$ 10,896

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

	September 30, 2022
Weighted-average remaining lease term (in years)	4.22
Weighted-average discount rate	4.6 %

Maturities of the Company's operating lease liabilities were as follows:

	September 30, 2022
	(in thousands)
2022 (excluding the nine months ended September 30, 2022)	$ 1,499
2023	5,958
2024	3,636
2025	2,166
2026	1,357
Thereafter	3,392
Total lease payments	18,008
Less amount representing interest	(1,750)
Total present value of lease liabilities	$ 16,258

Cease-use Liabilities

The Company periodically identifies opportunities for cost savings through office consolidations or by exit from certain underutilized facilities. Cease-use costs represent lease obligation charges and executory costs for exited facilities. The Company accounts for cease-use costs pursuant to guidance under ASC 420, *Costs Related to Exit or Disposal Activities*. Charges related to these cease-use costs are estimated based on the discounted future cash flows of rent expense and executory costs that the Company is obligated to pay under the lease agreements, partially offset by projected sublease income, which is calculated based on certain sublease assumptions.

As a result of the exit from certain facilities, the Company recorded a cease-use liability in 2021. The cease-use liability of $9.0 million was reclassified and treated as a reduction to the beginning ROU asset recorded upon adoption of ASC 842, *Leases*, on January 1, 2022. Cease-use costs were $0.2 million during the nine months ended September 30, 2022, and are included as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. No cease-use costs were incurred during the three months ended September 30, 2022. Cease-use costs were $1.5 million during the three and nine months ended September 30, 2021.

Cease-use costs are included in other non-current liabilities and accrued expenses and other current liabilities on the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021. The following table summarizes the activity for the liability for cease-use costs for the periods presented:

	Cease-use Liability
	(in thousands)
Balance at December 31, 2021	$ 11,588
Cease-use costs	160
Reclassified as a reduction to the beginning ROU asset upon adoption of ASC 842	(9,001)
Accretion of liability	(146)
Payments	(874)
Foreign currency translation	(390)
Balance at September 30, 2022	$ 1,337

5. Accrued Expenses and Other Current Liabilities

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

	September 30, 2022	December 31, 2021
	(in thousands)	
Accrued data costs	$ 39,017	$ 34,632
Litigation settlements (Note 13)	607	3,310
Other [(1)]	40,243	37,352
Total accrued expenses and other current liabilities	$ 79,867	$ 75,294

(1) During the nine months ended September 30, 2022, the Company paid $3.9 million, which was previously held in escrow as of December 31, 2021, as unsecured creditors' funds pursuant to plans of liquidation and restructurings of predecessor entities.

6. Accrued Salaries and Payroll

The components of accrued salaries and payroll were as follows:

	September 30, 2022	December 31, 2021
	(in thousands)	
Wages, benefits and taxes	$ 18,258	$ 12,017
Accrued bonus	14,900	17,263
Total accrued salaries and payroll	$ 33,158	$ 29,280

7. Debt

The components of debt were as follows:

	September 30, 2022	December 31, 2021
	(in thousands)	
Amended First Lien Term Loan Facility	$ 701,600	$ 707,863
Amended Revolving Credit Facility	—	—
Total debt	701,600	707,863
Less: Original issue discount	(1,598)	(1,993)
Less: Unamortized debt issuance costs	(7,087)	(8,837)
Less: Current portion of long-term debt	(8,350)	(8,350)
Long-term debt, less current portion	$ 684,565	$ 688,683

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 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.

The Amended First Lien Term Loan Facility was accounted for as a modification for certain lenders and an extinguishment for other lenders and debt issuance costs and lender fees were accounted for in proportion to whether the related borrowing commitment was considered modified or extinguished. Accordingly, newly incurred and existing deferred debt issuance costs of $0.4 million and $0.4 million, respectively, will be amortized to interest expense over the new remaining term of the Amended Revolving Credit Facility. Additionally, the Company wrote off unamortized debt issuance costs of $ 0.1 million related to the modification of the Revolving Credit Facility, which is recorded in interest expense in the condensed consolidated statements of operations.

Amended First Lien Facilities

The Company is required to make scheduled quarterly payments equal to0.25% 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 and nine months ended September 30, 2022 and 2021, 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 of3.75% 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 September 30, 2022, 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 also has the ability to convert all or a portion equal to at least $2.5 million of LIBOR loans to ABR loans under the credit agreement.

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.

As of September 30, 2022, 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 0.50% on unutilized commitments under the Amended Revolving Credit Facility, subject to adjustment pursuant to a leverage-based pricing grid. As of September 30, 2022 and December 31, 2021, the quarterly fee on unutilized commitments under the Amended Revolving Credit Facility was 0.38% and 0.50%, respectively.

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 for the three and nine months ended September 30, 2022.

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 September 30, 2022 and December 31, 2021, 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 in interest expense in the condensed consolidated statements of operations and were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Debt discount amortization	$ 133	$ 146	$ 395	$ 431
Debt issuance costs amortization	588	658	1,750	1,955
Total debt discount and issuance cost amortization	$ 721	$ 804	$ 2,145	$ 2,386

In addition, interest expense includes the amortization of debt issuance costs for the Amended Revolving Credit Facility of $0.1 million for each of the three months ended September 30, 2022 and 2021, and $0.4 million and $0.3 million, for the nine months ended September 30, 2022 and 2021, respectively. 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.

Interest expense for the three and nine months ended September 30, 2021 includes $4.2 million and $12.4 million, respectively, related to a second lien senior secured term loan facility which was repaid in full on November 3, 2021 using proceeds from the IPO.

The weighted average interest rate on outstanding borrowings as of September 30, 2022 and December 31, 2021 was 4.8% and 4.5%, 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.

Recurring Fair Value Measurements

The carrying amounts of the Company's cash, cash equivalents, and restricted cash approximate their fair value due to the short-term maturity of these instruments.

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 Company’s derivative instruments, all of which the Company terminated during the quarter ended March 31, 2022, consisted of interest rate swap contracts which were Level 2 of the fair value hierarchy and reported in the condensed consolidated balance sheet as of December 31, 2021 as derivative liabilities current and derivative liabilities long-term. See Note 9 — *Derivative Instruments* for more information.

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:

	September 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Amended First Lien Term Loan Facility	$ 700,002	$ 684,693	$ 705,870	$ 704,550
Amended Revolving Credit Facility	—	—	—	—
Total	$ 700,002	$ 684,693	$ 705,870	$ 704,550

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”). The Interest Rate Swap Agreements were designed to provide predictability against changes in the interest rates on the Company’s debt, as the Interest Rate Swap Agreements converted a portion of the variable interest rate on the Company’s debt to a fixed rate. The Interest Rate Swap Agreements were originally scheduled to expire on December 31, 2023.

On September 26, 2019, the Company modified the terms of the Interest Rate Swap Agreements with the then existing counterparties to change the LIBOR reference period to one month. The notional amount and maturities of the Interest Rate Swap Agreements remained unchanged. The Company elected hedge accounting treatment at that time. To ensure the effectiveness of the Interest Rate Swap Agreements, the Company elected the one-month LIBOR rate option for its variable rate interest payments on term balances equal to or in excess of the applicable notional amount of the Interest Rate Swap Agreements as of each reset date. The reset dates and other critical terms on the term loans perfectly matched with the interest rate cap reset dates and other critical terms through February 18, 2022, the date the Interest Rate Swap Agreements were terminated, and during the three and nine months ended September 30, 2021. At September 30, 2022 and December 31, 2021, the effective portion of the Interest Rate Swap Agreements was included on the condensed consolidated balance sheets in accumulated other comprehensive income (loss).

For derivative instruments that qualify for hedge accounting treatment, the fair value is recognized on the Company’s condensed consolidated balance sheets as derivative assets or liabilities with offsetting changes in fair value, to the extent effective, recognized in accumulated other comprehensive income (loss) until reclassified into earnings when the related transaction occurs. The portion of a cash flow hedge that does not offset the change in the fair value of the transaction being hedged, which is commonly referred to as the ineffective portion, is immediately recognized in earnings. Prior to termination discussed below, 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Reclassification of the effective portion of the gain on the Interest Rate Swap Agreements into interest expense	$ —	$ 5,018	$ 1,679	$ 14,733
Reclassification of unrealized gains related to terminated Interest Rate Swap Agreements into interest expense	(3,413)	—	(9,676)	—
Total reclassification adjustments included in earnings	$ (3,413)	$ 5,018	$ (7,997)	$ 14,733

The fair value of the Interest Rate Swap Agreements was as follows:

	December 31, 2021			
	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	(in thousands)			
Derivative instruments, current	$ —	$ 16,662	$ —	$ 16,662
Derivative instruments, long-term	—	11,444	—	11,444
Total liabilities measured at fair value	$ —	$ 28,106	$ —	$ 28,106

There were no amounts excluded from the measurement of hedge effectiveness at February 18, 2022, the date of termination, and December 31, 2021. See Note 10— *Accumulated Other Comprehensive Income (Loss)* for further information.

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 changes in fair value of derivative instruments that qualified for hedge accounting prior to termination and cumulative foreign currency translation adjustments.

The components of accumulated other comprehensive income (loss) as of September 30, 2022 and December 31, 2021 were as follows:

	Derivative Instruments	Currency Translation Adjustment	Total
		(in thousands)	
Balance at December 31, 2021	$ 11,823	$ 797	$ 12,620
Other comprehensive income (loss)	(16)	(26,400)	(26,416)
Balance at September 30, 2022	$ 11,807	$ (25,603)	$ (13,796)

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.

The Company terminated the Interest Rate Swap Agreements effective February 18, 2022. As of September 30, 2022, $9.8 million of the remaining accumulated other comprehensive income related to hedge accounting is expected to be reclassified into earnings over the next 12 months.

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 September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	(in thousands, except percent)							
Revenues								
United States	$ 194,081	92.3 %	$ 189,097	92.3 %	$ 582,817	92.3 %	$ 491,490	92.5 %
International	16,222	7.7 %	15,884	7.7 %	48,489	7.7 %	40,032	7.5 %
Total revenues	$ 210,303	100.0 %	$ 204,981	100.0 %	$ 631,306	100.0 %	$ 531,522	100.0 %

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:

	September 30, 2022	December 31, 2021
	(in thousands)	
Long-lived assets:		
United States	$ 12,047	$ 7,154
International	6,247	3,973
Total long-lived assets	$ 18,294	$ 11,127

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.

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 its obligation to another party for those same acts or omissions, and its 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.

As of December 31, 2021, the Company included $1.4 million in accrued expenses and other current liabilities in the condensed consolidated balance sheets as a result of the Company agreeing to indemnify a customer from a negligent hiring claim. While the Company did not believe it had legal responsibility, the Company chose to indemnify the customer against the negligent hiring claim in the interests of customer relations and to limit risk. On January 11, 2022, the Company paid the $1.4 million to the customer. The Company is not aware of any other 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.

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.

On November 6, 2020, the Company entered into a settlement agreement related to24 lawsuits that had been filed in 2009 and 2010 against HireRight Solutions, Inc. ("Old HireRight"), which is the predecessor to the Company's subsidiary HireRight, LLC, by approximately 1,400 individuals alleging violation of the California Investigative Consumer Reporting Agencies Act by Old HireRight and one of its customers ("Customer") related to background reports that Old HireRight prepared for the Customer about those individuals.

Pursuant to the settlement agreement the Company paid $11.2 million on November 15, 2021, and the remaining balance of $0.3 million on March 31, 2022. No amounts related to the settlement agreement are accrued at September 30, 2022.

While Old HireRight's insurer has denied coverage, the Company believes it has valid claims against the carrier and is pursuing those claims. Any insurance recovery would defray the cost of the settlement to HireRight, LLC, but at this time the Company is not able to assess the likelihood or amount of any potential insurance recovery.

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. These fees are generally charged to the Company's customers at cost. 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 September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(in thousands)			
Revenues				
Service revenues	$ 151,256	$ 152,332	$ 451,184	$ 395,624
Surcharge revenues	59,047	52,649	180,122	135,898
Total revenues	$ 210,303	$ 204,981	$ 631,306	$ 531,522

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 and the related amortization are recorded in other non-current assets on the Company's condensed consolidated balance sheets and in cost of services (exclusive of depreciation and amortization) in the Company's condensed consolidated statements of operations, respectively. Amortization of contract implementation costs included in cost of services (exclusive of depreciation and amortization) was $1.1 million and $3.3 million for the three and nine months ended September 30, 2022, respectively, and $1.0 million and $2.8 million for the three and nine months ended September 30, 2021, 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 and effective tax rates were as follows:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(in thousands, except effective tax rate)			
Income (loss) before income taxes	$ 23,585	$ 7,930	$ 60,843	$ (5,383)
Income tax (benefit) expense	(69,704)	649	(68,456)	2,954
Effective tax rate	(295.5)%	8.2 %	(112.5)%	54.9 %

In general, with certain exceptions, ASC 740-270, *Income Taxes,* requires the use of an estimated annual effective tax rate to compute the tax provision during an interim period. For the three and nine months ended September 30, 2022, the Company has net income before income taxes and used an estimated annual effective tax rate to compute the income tax provision. However, due to operating losses for the nine months ended September 30, 2021, the Company determined that it was unable to reliably estimate its annual effective tax rate. As such, for the three and nine months ended September 30, 2021, the Company used a discrete method, which reflected the actual tax attributable to year-to-date earnings and losses for the period.

The Company recorded income tax benefit of $69.7 million and income tax expense of $0.6 million for the three months ended September 30, 2022 and 2021, respectively. The effective tax rate for the three months ended September 30, 2022 was negative 295.5% compared to 8.2% for the three months ended September 30, 2021. The effective tax rate for the three months ended September 30, 2022, differs from the Federal statutory rate of 21%

primarily due to the release of federal and state valuation allowances during the quarter as discussed below, state taxes, and U.S. tax on foreign operations. The effective tax rate for the three months ended September 30, 2021 differs from the Federal statutory rate of 21% primarily due to valuation allowances and state taxes.

The Company recorded income tax benefit of $68.5 million and income tax expense of $3.0 million for the nine months ended September 30, 2022 and 2021, respectively. The effective tax rate for the nine months ended September 30, 2022 was negative 112.5% compared to 54.9% for the nine months ended September 30, 2021. The effective tax rate for the nine months ended September 30, 2022, differs from the Federal statutory rate of 21% primarily due to the release of federal and state valuation allowances during the quarter as discussed below, state taxes, and U.S. tax on foreign operations. The effective tax rate for the nine months ended September 30, 2021 differs from the Federal statutory rate of 21% primarily due to revaluation of deferred taxes in the United Kingdom, valuation allowances and state taxes.

The Company's net U.S. federal and state deferred tax assets were previously 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 three months ended September 30, 2022. In making the determination to release the valuation allowance, the Company considered its movement into a cumulative income position for the most recent three-year period, the significant decrease in interest expense from the paydown of debt in the fourth quarter of 2021 using IPO proceeds, its seventh consecutive quarter of operating income, forecasts for future earnings for its U.S. operations, and other factors. The release of the valuation allowance resulted in a non-cash deferred tax benefit of $70.2 million, which materially decreased the Company's income tax expense during the three months ended September 30, 2022.

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 is still in the process of analyzing the provisions of the Act. 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

On October 22, 2018, the Company implemented the HireRight GIS Group Holdings LLC Equity Incentive Plan ("Equity Plan") providing for the issuance of up to 4,573,463 of its Class A Units ("Units") pursuant to awards made under the Equity Plan to members of the board of managers, officers and employees as determined by the Company's compensation committee. Following the adoption of the Omnibus Incentive Plan (as defined below), the Company did not grant further awards under the Equity Plan. However, any outstanding awards granted under the Equity Plan remain subject to the Equity Plan and applicable award agreement. In connection with the Corporate Conversion, each option to purchase units of HireRight GIS Group Holdings LLC was converted into an option to purchase shares of common stock of HireRight Holdings Corporation.

On October 18, 2021, the Company's stockholders adopted the Company's 2021 Omnibus Incentive Plan ("Omnibus Incentive Plan"), which became effective on October 28, 2021. The Omnibus Incentive Plan provides for the grant of awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units ("RSU"), other stock-based awards, other cash-based awards or any combination of the foregoing to eligible employees, consultants, directors, and officers. At September 30, 2022, 6,332,851 shares were available for issuance under the Omnibus Incentive Plan.

Modification of Certain Pre-IPO Equity Awards

The stock option awards issued prior to the Company's IPO pursuant to the Equity Plan had vesting schedules based either upon continued service ("Time-Vesting Options"), or upon attainment of specified levels of cash-on-cash return to the Company's pre-IPO investors as a multiple of invested capital ("MOIC") on their investments in the Company ("Performance-Vesting Options"). On March 19, 2022, the compensation committee of the Company's Board of Directors approved a modification of outstanding Performance-Vesting Options to vest based solely on continued service rather than MOIC attainment. Under the modified vesting terms, the amended Performance-Vesting Options vest quarterly starting March 31, 2022 and ending December 31, 2024 based solely on continued service.

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Selling, general and administrative	$ 1,089	$ 841	$ 8,083	$ 2,493
Cost of services (exclusive of depreciation and amortization)	193	—	504	—
Total stock-based compensation expense	$ 1,282	$ 841	$ 8,587	$ 2,493

Equity Plan Awards (Pre-IPO)

For stock options issued under the Equity Plan that were outstanding and unvested as of September 30, 2022, the Company expects to recognize future compensation expense of $6.0 million over a weighted average remaining vesting period of 2.19 years.

Omnibus Incentive Plan Awards

During the three months ended September 30, 2022, the Company determined that it is no longer probable that the target performance conditions will be achieved for certain awards granted under the Omnibus Incentive Plan during the three months ended March 31, 2022. Accordingly, the Company reversed $1.8 million of previously recognized stock-based compensation expense and no stock-based compensation expense was recognized in the current period for these awards.

The Company granted 1,167,199 options during the nine months ended September 30, 2022 under the Omnibus Incentive Plan, with a weighted-average grant date fair value of $5.14 calculated using the Black-Scholes option valuation model. For options under the Omnibus Incentive Plan outstanding and unvested as of September 30, 2022, the Company expects to recognize future compensation expense of $14.2 million over a weighted average remaining vesting period of 2.70 years.

The Company granted 1,134,464 RSUs with a weighted-average grant date fair value of $15.30 per share during the nine months ended September 30, 2022 under the Omnibus Incentive Plan. For RSUs outstanding and unvested as of September 30, 2022, the Company expects to recognize future compensation expense of $11.5 million over a weighted average remaining vesting period of 2.99 years.

On June 1, 2022, the Company approved a grant of a total of 422,143 RSUs with a grant-date fair value of $14.45 per unit. A portion of these RSUs may vest upon the achievement of a series of goal-based performance milestones, and the balance of these RSUs may vest based upon achievement of all aggregated milestones by a final target date, followed by subsequent continued service for a specified period of time. The fair value of these awards, until vested, is included in accrued expenses and other current liabilities and other non-current liabilities in the condensed consolidated balance sheets. The Company measures stock-based compensation cost for liability classified awards based on the fair value of the award at each quarterly reporting date and recognizes the expense over the vesting period. The expected stock-based compensation expense of these June 1, 2022 approved RSUs is $6.1 million, which is expected to be recognized over the period from grant date through April 2024.

For the three and nine months ended September 30, 2022, compensation expense associated with these awards totaled $0.3 million and $0.4 million, respectively.

Employee Stock Purchase Plan

The first offering period for the Company's Employee Stock Purchase Plan ("ESPP") began on May 20, 2022 and will continue for six months until the purchase date on November 19, 2022. Thereafter, offerings will begin on November 20 and May 20 and will end on the following May 19 and November 19, respectively. Such shares will be purchased at an amount equal to 85% of the fair market value of a share on (i) the purchase date or (ii) the offering date, whichever amount is lower; provided, that the purchase price will in no event be less than the par value of a share.

The Company recognized $0.1 million and $0.2 million of stock-based compensation expense related to the ESPP during the three and nine months ended September 30, 2022, respectively. As of September 30, 2022, total unrecognized compensation expense related to the ESPP was $0.1 million, which will be recognized on a straight-line basis over a weighted-average remaining period of 0.14 years.

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 options. Diluted net income (loss) per share includes the effects of potentially dilutive awards. For the three and nine months ended September 30, 2022, there were 6,630,588, and 6,799,424 potentially dilutive awards, respectively, which were excluded from the calculations of diluted EPS because including them would have had an anti-dilutive effect. For the three and nine months ended September 30, 2021, there were 3,927,359 potentially dilutive awards, which were excluded from the calculation of diluted EPS because including them would have had an anti-dilutive effect.

Basic and diluted EPS for the three and nine months ended September 30, 2022 and 2021 were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except share and per share data)			
Numerator:				
Net income (loss)	$ 93,289	$ 7,281	$ 129,299	$ (8,337)
Denominator:				
Weighted average shares outstanding - basic	79,459,633	57,168,291	79,419,725	57,168,291
Effect of dilutive options	83,082	30,913	56,849	—
Weighted average shares outstanding - diluted	79,542,715	57,199,204	79,476,574	57,168,291
Net income (loss) per share:				
Basic	$ 1.17	$ 0.13	$ 1.63	$ (0.15)
Diluted	$ 1.17	$ 0.13	$ 1.63	$ (0.15)

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

You should read the following discussion of the financial condition and results of operations together with our condensed consolidated financial statements 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, 2021, as disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 21, 2022 ("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; the impacts, direct and indirect, of the COVID-19 pandemic on our business, our personnel and vendors, and the overall economy; 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 21, 2022, in particular the sections of that document entitled "Risk Factors," "Forward-Looking Statements," 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 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 39,000 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 2021, we screened over 29 million job applicants, employees and contractors for our customers and processed over 110 million screens.

HireRight GIS Group Holdings LLC ("HGGH"), was formed in July 2018 in connection with the combination of two groups of companies: the HireRight Group and the General Information Services ("GIS") Group, each of which includes a number of wholly-owned subsidiaries that conduct the Company's business in the United States, as well as other countries. Since July 2018, the combined group of companies and their subsidiaries have operated as a unified operating company providing screening and compliance services, predominantly under the HireRight brand.

On October 15, 2021, HGGH converted into a Delaware corporation and changed its name to HireRight Holdings Corporation ("HireRight" or the "Company"). In conjunction with the conversion, all of HGGH's outstanding equity interests were converted into shares of common stock of HireRight Holdings Corporation. The foregoing conversion and related transactions are referred to herein as the "Corporate Conversion." The Corporate Conversion did not affect the assets and liabilities of HGGH, which became the assets and liabilities of HireRight Holdings Corporation.

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 from the changing dynamics of the labor market as well as a strong hiring environment, there continues to be uncertainty around the near term macroeconomic environment. This uncertainty stems from high inflation, 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 remains uncertain. 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 — Inflation Risk*" for additional information on the impact of inflation on our business. Although the majority of our cost of services are 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. The Company has taken steps to continue to improve its profitability, including the impact of lowering interest expense through the voluntary repayment of debt.

The Company's net U.S. federal and state deferred tax assets were previously 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.

Even though there are factors creating uncertainty in the future financial results of the business as described above, 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 three months ended September 30, 2022. In making the determination to release the valuation allowance, the Company considered its movement into a cumulative income position for the most recent three-year period, the significant decrease in its interest expense from the paydown of debt in the fourth quarter of 2021 using IPO proceeds, its seventh consecutive quarter of operating income, forecasts of future earnings for its U.S. operations, and other factors. The release of the valuation allowance resulted in a non-cash deferred tax benefit of $70.2 million, which materially decreased the Company's income tax expense during the three months ended September 30, 2022.

2022 Developments

On June 3, 2022, the Company entered into an amendment to its First Lien Term Loan Facility, as defined below under "Liquidity and Capital Resources", ("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 amended the Company's revolving credit facility ("Amended Revolving Credit Facility") to increase the aggregate commitments under the facility from $100.0 million to $145.0 million and extend the maturity date from July 12, 2023 to the earlier of June 3, 2027 or 91 days prior to the maturity of the First Lien Term Loan Facility. The interest rate benchmark applicable to the Amended Revolving Credit Facility was converted from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financing Rate ("SOFR").

Effective February 18, 2022, the Company terminated the Interest Rate Swap Agreements, as defined below, prior to their stated termination dates. 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) on the condensed consolidated balance sheet will be reclassified to earnings as reductions to interest expense through December 31, 2023. See "Liquidity and Capital Resources — Interest Rate Swaps" below for additional information.

Key Components of Our Results from Operations

Revenues

The Company generates revenues from background screening and 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 28% of revenues for each of the three and nine months ended September 30, 2022 and 32% and 29% of revenues for the three and nine months ended September 30, 2021, 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, financial services, business and consumer services, manufacturing, education, retail and not-for-profit. None of the Company's customers individually accounted for greater than 3% of revenues during each of the three and nine months ended September 30, 2022, and

5% of revenues during each of the three and nine months ended September 30, 2021. Technology, healthcare, financial services, and transportation customers represent the largest contributors to revenues. Revenues for the three and nine months ended September 30, 2022, from these customers increased 5% and 24%, respectively, over the prior year periods.

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, principally resulting from the acquisition of GIS in 2018.

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. 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 other currencies could result in realized and unrealized gains and losses in foreign exchange. However, to the extent we earn revenue 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 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 and nine months ended September 30, 2022 and 2021

The following tables present operating results for the three and nine months ended September 30, 2022 and 2021.

	Three Months Ended September 30,			
	2022		2021	
	(in thousands, except percent of revenues)			
Revenues	$ 210,303	*100.0 %*	$ 204,981	*100.0 %*
Expenses				
Cost of services (exclusive of depreciation and amortization below)	110,848	*52.7 %*	111,328	*54.3 %*
Selling, general and administrative	49,378	*23.5 %*	47,652	*23.2 %*
Depreciation and amortization	17,946	*8.5 %*	19,531	*9.5 %*
Total expenses	178,172	*84.7 %*	178,511	*87.1 %*
Operating income	32,131	*15.3 %*	26,470	*12.9 %*
Other expenses				
Interest expense	8,457	*4.0 %*	18,518	*9.0 %*
Other expense, net	89	*— %*	22	*— %*
Total other expenses, net	8,546	*4.1 %*	18,540	*9.0 %*
Income before income taxes	23,585	*11.2 %*	7,930	*3.9 %*
Income tax (benefit) expense	(69,704)	*(33.1)%*	649	*0.3 %*
Net income	$ 93,289	*44.4 %*	$ 7,281	*3.6 %*

	Nine Months Ended September 30,			
	2022		2021	
	(in thousands, except percent of revenues)			
Revenues	$ 631,306	*100.0 %*	$ 531,522	*100.0 %*
Expenses				
Cost of services (exclusive of depreciation and amortization below)	343,241	*54.4 %*	295,832	*55.7 %*
Selling, general and administrative	152,032	*24.1 %*	130,261	*24.5 %*
Depreciation and amortization	54,056	*8.6 %*	56,013	*10.5 %*
Total expenses	549,329	*87.0 %*	482,106	*90.7 %*
Operating income	81,977	*13.0 %*	49,416	*9.3 %*
Other expenses				
Interest expense	20,971	*3.3 %*	54,674	*10.3 %*
Other expense, net	163	*— %*	125	*— %*
Total other expenses, net	21,134	*3.3 %*	54,799	*10.3 %*
Income (loss) before income taxes	60,843	*9.6 %*	(5,383)	*(1.0)%*
Income tax (benefit) expense	(68,456)	*(10.8)%*	2,954	*0.6 %*
Net income (loss)	$ 129,299	*20.5 %*	$ (8,337)	*(1.6)%*

Revenues

Revenues for the three months ended September 30, 2022 increased to $210.3 million, an increase of $5.3 million, or 2.6%, from the prior-year period, primarily driven by increases in surcharge revenues. Surcharge revenues increased due to price increases. Revenues from international and United States regions increased by $0.3 million, or 2.1%, and by $5.0 million, or 2.6%, respectively, during the three months ended September 30, 2022, compared to the three months ended September 30, 2021. The strengthening of the U.S. dollar against the British pound in the three months ended September 30, 2022, compared to the same period in 2021 had an unfavorable impact on revenue from international regions. On a constant currency basis, United Kingdom revenues would have been $2.0 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.

Revenues for the nine months ended September 30, 2022 increased to $631.3 million, an increase of $99.8 million, or 18.8%, from prior-year period, primarily driven by higher order volume and higher average order values associated with existing customers and sales to new customers. Revenues from international and United States regions increased by $8.5 million, or 21.1%, and by $91.3 million, or 18.6%, respectively, during the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021. For the same reasons noted in the preceding paragraph, on a constant currency basis, United Kingdom revenues would have been $3.5 million higher than actual revenues for the nine months ended September 30, 2022.

Cost of Services (exclusive of depreciation and amortization)

Cost of services for the three months ended September 30, 2022 decreased to $110.8 million, a decrease of $0.5 million, or 0.4%, from the prior-year period, primarily due to lower average labor costs per background screen partially offset by increased data supplier costs and increased fringe benefit programs to keep up with market conditions. Cost of services as a percent of revenues decreased to 52.7% for the three months ended September 30, 2022, compared to 54.3% for the three months ended September 30, 2021, primarily driven by lower average labor costs per background screen as a result of process improvements associated with our ongoing technology initiatives as well as an increase in the use of offshore labor.

Cost of services for the nine months ended September 30, 2022 increased to $343.2 million, an increase of $47.4 million, or 16.0%, from the prior-year period, primarily due to higher volumes and increased incentive compensation and fringe benefit programs to keep up with market conditions. For the same reasons noted in the preceding paragraph, cost of services as a percent of revenues decreased to 54.4% for the nine months ended September 30, 2022, compared to 55.7% for the nine months ended September 30, 2021.

Selling, General and Administrative

Selling, general and administrative expenses (“SG&A”) for the three months ended September 30, 2022 increased $1.7 million to $49.4 million primarily due to increases in personnel costs of $3.4 million and increases in professional service fees of $1.3 million, partially offset by a decrease in facility related expenses of $2.7 million. Of the $3.4 million increase in personnel costs, $3.2 million was related to increased salary expenses, incentive compensation and fringe benefit programs. SG&A as a percent of revenues for the three months ended September 30, 2022 increased to 23.5% from 23.2% for the three months ended September 30, 2021.

SG&A expenses for the nine months ended September 30, 2022 increased $21.8 million to $152.0 million primarily due to increases in personnel costs of $19.1 million, investments in technology of $3.3 million, and the addition of public company costs of $3.2 million. Of the $19.1 million increase in personnel costs, $5.6 million was related to stock-based compensation and $13.5 million was related to increased salary expenses, incentive compensation and fringe benefit programs. The increases were partially offset by a decrease in facility related expenses of $4.9 million. SG&A as a percent of revenues for the nine months ended September 30, 2022 decreased slightly to 24.1% from 24.5% for the nine months ended September 30, 2021.

The increases in personnel costs in both periods were attributable to responses to increases in market compensation rates, the increased use of stock-based compensation following our initial public offering in November 2021, and staffing to support growth. Our initial public offering also drove the addition of public company costs including incremental audit, accounting and legal fees as well as premiums for increased insurance coverage, which were not present in the 2021 periods but which will continue. The increases in SG&A expenses were partially offset in each period by decreases in various other costs, including a reduction of facility expenses resulting from exiting unused office space during 2021.

Interest Expense

Interest expense decreased by $10.1 million to $8.5 million for the three months ended September 30, 2022, and by $33.7 million to $21.0 million for the nine months ended September 30, 2022. The decreases in both periods were primarily due to a reduction in outstanding indebtedness under our credit facilities as a result of voluntary principal prepayments using IPO proceeds during the fourth quarter of 2021, and scheduled principal repayments. Interest expense for the three and nine months ended September 30, 2021 includes $4.2 million and $12.4 million, respectively, related to a second lien senior secured term loan facility which was repaid on November 3, 2021. Additionally, reclassifications from accumulated other comprehensive income (loss) on the condensed consolidated balance sheet of unrealized gains related to the terminated Interest Rate Swap Agreements, reduced interest expense by $3.4 million and $9.7 million during the three and nine months ended September 30, 2022, respectively. The decreases for the three and nine months ended September 30, 2022 were partially offset by increased interest expense of $3.7 million and $4.9 million, respectively, associated with rising interest rates during those periods.

Income Tax (Benefit) Expense

The effective tax rate for the three months ended September 30, 2022, was negative 295.5% compared to 8.2% for the three months ended September 30, 2021. The effective tax rate for the nine months ended September 30, 2022, was negative 112.5% compared to 54.9% for the nine months ended September 30, 2021. The effective tax rate for the three and nine month periods ended September 30, 2022, compared to the prior year periods, changed primarily due to the release of the federal and state valuation allowances in 2022 and revaluation of deferred taxes in the United Kingdom in 2021.

The effective tax rate for the three and nine months ended September 30, 2022, differs from the Federal statutory rate of 21% primarily due to the release of federal and state valuation allowances, state taxes, and U.S. tax on foreign operations. The effective tax rate for the three months ended September 30, 2021, differs from the Federal statutory rate of 21% primarily due to valuation allowances, state taxes, and U.S. tax on foreign operations. The effective tax rate for the nine months ended September 30, 2021, differs from the Federal statutory rate of 21% primarily due to the revaluation of deferred taxes in the United Kingdom.

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, because they may be defined differently by other companies in our industry, our definitions may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

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, merger integration expenses, 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net income (loss)	$93,289	$7,281	$129,299	$(8,337)
Income tax (benefit) expense [(1)]	(69,704)	649	(68,456)	2,954
Interest expense	8,457	18,518	20,971	54,674
Depreciation and amortization	17,946	19,531	54,056	56,013
EBITDA	49,988	45,979	135,870	105,304
Stock-based compensation	1,282	841	8,587	2,493
Realized and unrealized (gain) loss on foreign exchange	(780)	24	(795)	125
Merger integration expenses [(2)]	—	193	205	1,174
Technology investments [(3)]	559	1,690	559	1,690
Amortization of cloud computing software costs [(4)]	980	—	1,446	—
Other items [(5)]	1,943	2,895	3,501	6,659
Adjusted EBITDA	$53,972	$51,622	$149,373	$117,445
Net income (loss) margin [(6)]	44%	4%	20%	2%
Adjusted EBITDA margin	26%	25%	24%	22%

(1) During the three months ended September 30, 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. This reversal resulted in a non-cash deferred tax benefit of $70.2 million, which materially decreased the Company’s income tax expense during the three and nine months ended September 30, 2022.

(2) Merger integration expenses consist primarily of information technology (“IT”) related costs including personnel expenses, professional and service fees associated with the integration of customers and operations of GIS, which commenced in July 2018 and was substantially completed by the end of 2020.

(3) Technology investments represent discovery phase costs associated with various platform and fulfillment technology initiatives that are intended to achieve greater operational efficiencies.

(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 include (i) costs of $0.4 million and $1.7 million associated with the implementation of a company-wide enterprise resource planning (“ERP”) system during the three and nine months ended September 30, 2022, respectively, (ii) $1.0 million and $1.6 million of severance costs during the three and nine months ended September 30, 2022, respectively, and (iii) $0.4 million related to professional services fees not related to core operations for the three and nine months ended September 30, 2022, and (iv) $0.2 million related to loss on disposal of assets and exit costs associated with one of our short-term leased facilities during the nine months ended September 30, 2022. These costs were partially offset by a reduction in previously accrued legal settlement expense of $0.6 million during the nine months ended September 30, 2022 due to a more favorable outcome than originally anticipated in a claim outside the ordinary course of business. Other items for the three and nine months ended September 30, 2021 include (i) $1.1 million and $4.3 million, respectively, related to the preparation of the Company’s initial public offering during 2021, (ii) $1.5 million related to loss on disposal of assets and exit costs associated with one of our short-term leased facilities during the three and nine months ended September 30, 2021, and (iii) costs of $0.3 million and $0.8 million associated with the implementation of an ERP system during the three and nine months ended September 30, 2021.

(6) 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, merger integration expenses, 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 adjusted 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net income (loss)	$ 93,289	$ 7,281	$ 129,299	$ (8,337)
Income tax (benefit) expense [1]	(69,704)	649	(68,456)	2,954
Income (loss) before income taxes	23,585	7,930	60,843	(5,383)
Amortization of acquired intangible assets	15,353	16,226	46,335	47,518
Interest expense swap adjustments [2]	(3,413)	—	(9,676)	—
Interest expense discounts [3]	790	1,057	2,549	3,139
Stock-based compensation	1,282	841	8,587	2,493
Realized and unrealized (gain) loss on foreign exchange	(780)	24	(795)	125
Merger integration expenses [4]	—	193	205	1,174
Technology investments [5]	559	1,690	559	1,690
Amortization of cloud computing software costs [6]	980	—	1,446	—
Other items [7]	1,943	2,895	3,501	6,659
Adjusted income before income taxes	40,299	30,856	113,554	57,415
Adjusted income taxes [8]	(71,216)	662	(70,951)	2,533
Adjusted Net Income	$111,515	$30,194	$184,505	$54,882

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Diluted net income (loss) per share	$ 1.17	$ 0.13	$ 1.63	$ (0.15)
Income tax (benefit) expense [(1)]	(0.88)	0.01	(0.86)	0.05
Amortization of acquired intangible assets	0.19	0.29	0.58	0.83
Interest expense swap adjustments [(2)]	(0.04)	—	(0.12)	—
Interest expense discounts [(3)]	0.01	0.02	0.03	0.06
Stock-based compensation	0.02	0.01	0.11	0.04
Realized and unrealized loss on foreign exchange	(0.01)	—	(0.01)	—
Merger integration expenses [(4)]	—	—	—	0.02
Technology investments [(5)]	0.01	0.03	0.01	0.03
Amortization of cloud computing software costs [(6)]	0.01	—	0.02	—
Other items [(7)]	0.02	0.05	0.04	0.12
Adjusted income taxes [(8)]	0.90	(0.01)	0.89	(0.04)
Adjusted Diluted Earnings Per Share	$ 1.40	$ 0.53	$ 2.32	$ 0.96
Weighted average number of shares outstanding - diluted	79,542,715	57,199,204	79,476,574	57,168,291

(1) During the three months ended September 30, 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. This reversal resulted in a non-cash deferred tax benefit of $70.2 million, which materially decreased the Company's income tax expense during the three and nine months ended September 30, 2022.

(2) Interest expense swap adjustments consist of amortization of unrealized gains on the terminated Interest Rate Swap Agreements, which will be recognized through December 2023 as a reduction in interest expense.

(3) Interest expense discounts consist of amortization of original issue discount and debt issuance costs.

(4) Merger integration expenses consist primarily of information technology ("IT") related costs including personnel expenses, professional and service fees associated with the integration of customers and operations of GIS, which commenced in July 2018 and was substantially completed by the end of 2020.

(5) Technology investments represent discovery phase costs associated with various platform and fulfillment technology initiatives that are intended to achieve greater operational efficiencies.

(6) 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.

(7) Other items include (i) costs of $0.4 million and $1.7 million associated with the implementation of a company-wide enterprise resource planning ("ERP") system during the three and nine months ended September 30, 2022, respectively, (ii) $1.0 million and $1.6 million of severance costs during the three and nine months ended September 30, 2022, respectively, and (iii) $0.4 million related to professional services fees not related to core operations for the three and nine months ended September 30, 2022, and (iv) $0.2 million related to loss on disposal of assets and exit costs associated with one of our short-term leased facilities during the nine months ended September 30, 2022. These costs

were partially offset by a reduction in previously accrued legal settlement expense of $0.6 million during the nine months ended September 30, 2022 due to a more favorable outcome than originally anticipated in a claim outside the ordinary course of business. Other items for the three and nine months ended September 30, 2021 include (i) $1.1 million and $4.3 million, respectively, related to the preparation of the Company's initial public offering during 2021, (ii) $1.5 million related to loss on disposal of assets and exit costs associated with one of our short-term leased facilities during the three and nine months ended September 30, 2021, and (iii) costs of $0.3 million and $0.8 million associated with the implementation of an ERP system during the three and nine months ended September 30, 2021.

(8) 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 and nine months ended September 30, 2021 is immaterial. During the three months ended September 30, 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. This reversal resulted in a non-cash deferred tax benefit of $70.2 million, which materially decreased the Company's income tax expense during the three and nine months ended September 30, 2022. As a result of the reversal of the valuation allowance, the U.S. tax provision for the remainder of the year is expected to be immaterial.

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 $211.4 million as of September 30, 2022. 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 September 30, 2022 was $146.5 million. As of September 30, 2022, cash held in foreign jurisdictions was approximately $17.1 million and is primarily related to international operations.

Restricted cash of $1.3 million as of September 30, 2022 consists primarily of $1.1 million held in escrow for the benefit of former investors in a subsidiary of the Company pursuant to the terms of its divestiture of a former affiliate in April 2018.

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 (3.12% at September 30, 2022) + 3.75%, maturing on July 12, 2025. Total principal outstanding on our debt was $701.6 million as of September 30, 2022 and $707.9 million as of December 31, 2021.

- 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 SOFR variable rate (2.47% at September 30, 2022) + 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 September 30, 2022.

The Amended First Lien Term Loan Facility includes a 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 in compliance with the covenants under the Amended First Lien Facilities for the three and nine months ended September 30, 2022.

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 September 30, 2022, the Company had purchase obligations to various parties of approximately $28.9 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 $25.8 million of the total is expected to be paid within one year. Our obligations as of September 30, 2022, have increased from $21.7 million as of December 31, 2021, due to the extension of a service agreement with one of the Company's current vendors.

In addition to our regular capital expenditures, we expect to invest approximately $45 to $50 million in a capital expenditure program, expected to extend through the end of fiscal year 2023 to continue to enhance our operating systems and technologies to improve operational efficiency. 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

Comparison of Cash Flows for the nine months ended September 30, 2022 versus the nine months ended September 30, 2021.

The following table sets forth a summary of our condensed consolidated cash flows for the nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	$ 70,927	$ 19,043
Net cash used in investing activities	(13,122)	(9,983)
Net cash used in financing activities	(25,050)	(7,503)
Net increase in cash, cash equivalents and restricted cash	$ 32,755	$ 1,557

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 provided by operating activities was $70.9 million for the nine months ended September 30, 2022 compared to cash provided by operating activities of $19.0 million for the nine months ended September 30, 2021. The increase in cash provided by operating activities was due primarily to higher net income for the current period compared to the prior year period, partly offset by the tax benefit from the release of the valuation allowance and higher use of cash for working capital which includes our expenditures related to our cloud computing platform modernization and automation efforts.

Investing Activities

Cash used in investing activities was approximately $13.1 million during the nine months ended September 30, 2022, compared to approximately $10.0 million during the nine months ended September 30, 2021. The increase was due primarily to 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 $25.1 million for the nine months ended September 30, 2022 compared to cash used in financing activities of approximately $7.5 million during the nine months ended September 30, 2021. The increase was due primarily to the $18.4 million payment related to the termination of the Interest Rate Swap Agreements, as defined below. Mandatory repayments on our debt facilities were $6.3 million in in each of the nine months ended September 30, 2022 and 2021.

Interest Rate Swaps

Effective December 31, 2018, the Company had entered into interest rate swap agreements with a total notional amount of $700.0 million (“Interest Rate Swap Agreements”). The Interest Rate Swap Agreements were designed to provide predictability against changes in the interest rates on the Company’s debt, as the Interest Rate Swap Agreements converted a portion of the variable interest rate on the Company’s debt to a fixed rate. The Interest Rate Swap Agreements were originally scheduled to expire on December 31, 2023.

On September 26, 2019, the Company modified the terms of the Interest Rate Swap Agreements with the then existing counterparties to change the LIBOR reference period to one month. The notional amount and maturities of the Interest Rate Swap Agreements remained unchanged. The Company elected hedge accounting treatment at that time. To ensure the effectiveness of the Interest Rate Swap Agreements, the Company elected the one-month LIBOR rate option for its variable rate interest payments on term balances equal to or in excess of the applicable notional amount of the Interest Rate Swap Agreement as of each reset date. The reset dates and other critical terms on the term loans perfectly matched with the interest rate cap reset dates and other critical terms through February 18, 2022, the date the Interest Rate Swap Agreements were terminated, and during the three and nine months ended September 30, 2021. At September 30, 2022 and December 31, 2021, the effective portion of the Interest Rate Swap

Agreements was included on the condensed consolidated balance sheets in accumulated other comprehensive income (loss).

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.

Off-Balance Sheet Arrangements

As of September 30, 2022, 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 of loss that may impact 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 September 30, 2022, the outstanding principal balance of $701.6 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

Based on our analysis of the periods presented, we believe that inflation has not had a material effect on our operating results. However, recent growth in inflation may increase our operating costs. In response to high inflation rates, the Federal Reserve has been raising interest rates and has indicated that it foresees further interest rate increases throughout the year and into next year. 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 as the growing competition for labor has a greater impact on our business. 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) of the Securities Exchange Act of 1934, as amended) as of September 30, 2022. Based on the evaluation of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2022 due to the material weaknesses in our internal control over financial reporting as described below.

(b) Material weaknesses in internal control over financial reporting

In preparing our financial statements, management of the Company identified material weaknesses in our internal control over financial reporting as of December 31, 2020. These material weaknesses continued to exist as of September 30, 2022. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses we identified were as follows:

- We did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we lacked a sufficient number of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. This material weakness further contributed to the material weaknesses described below.

- We did not design and maintain sufficient formal accounting policies, procedures and controls to achieve complete, accurate and timely financial accounting, reporting and disclosures, including controls over the preparation and review of journal entries and account reconciliations. Additionally, the Company did not design and maintain sufficient controls to assess the reliability of reports and spreadsheets used in controls.

These material weaknesses did not result in a material misstatement to the consolidated financial statements included herein, however, they did result in adjustments to substantially all accounts and disclosures for the year ended December 31, 2020 and prior. Additionally, these material weaknesses resulted in immaterial adjustments to goodwill, prepaid expenses, accrued expenses and other current liabilities, and selling, general and administrative expenses for the quarters ended March 31, 2021, June 30, 2021 and September 30, 2021. Furthermore, these material weaknesses could result in a misstatement of substantially all of our financial statement accounts and disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

- We did not design and maintain effective controls over certain information technology ("IT") general controls for information systems that are relevant to the preparation of the financial statements. Specifically, we did not design and maintain: (i) program change management controls for certain financial systems to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately, (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel and (iii) computer operations controls to ensure that data backups are authorized and monitored. These IT deficiencies did not result in a material misstatement to the financial statements, however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected. Accordingly, management has determined these deficiencies in the aggregate constitute a material weakness.

(c) Remediation plan for the previously identified material weaknesses

We have implemented or are in the process of implementing measures designed to improve our internal control over financial reporting and remediate the control deficiencies that led to the material weaknesses. Specifically, we have undertaken the following remedial actions:

- We hired several accounting and finance personnel with the appropriate level of public accounting knowledge and experience.

- We engaged a nationally recognized public accounting firm that assisted us in creating comprehensive process narratives and Company policies and procedures.

- Our Internal Audit team, along with a third-party consultant, assisted us in evaluating our internal control over financial reporting ("ICFR") and made several recommendations for findings noted. We enhanced our controls and documentation support based on these recommendations.

- We implemented a new ERP system to assist us in processing transactions more efficiently and effectively. The new ERP system provides significant enhancements to our internal control and reporting environment.

- We have designed and implemented controls related to user provisioning and maintenance to ensure access is restricted to appropriate personnel. In addition, we have strengthened procedures and controls around program change management and computer operations.

While we believe that these efforts have improved and will continue to improve our internal control over financial reporting, the newly implemented controls have not been in place and operating for a sufficient period to evaluate if the material weakness has been remediated. Therefore, these material weaknesses have not been remediated as of September 30, 2022.

(d) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2022, 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.

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 it foresees further interest rate increases. 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 begun to react 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 on Form 10-K for the year ended December 31, 2021. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition, and future results. The risks described in our Annual Report on Form 10-K 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 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: November 3, 2022

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

Date: November 3, 2022

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

Exhibit 31.1

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)) 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. [Omitted];
   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: November 3, 2022 By: /s/ Guy P. Abramo
Name: Guy P. Abramo
Title: President and Chief Executive Officer

Exhibit 31.2

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)) 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. [Omitted];
    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: November 3, 2022 By: /s/ Thomas M. Spaeth
Name: Thomas M. Spaeth
Title: Chief Financial Officer

Exhibit 32.1

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 September 30, 2022 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: November 3, 2022 By: /s/ Guy P. Abramo
Name: Guy P. Abramo
Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: November 3, 2022 By: /s/ Thomas M. Spaeth
Name: Thomas M. Spaeth
Title: Chief Financial Officer
(Principal Financial Officer)