REFINITIV

DELTA REPORT

10-Q

PWSC - POWERSCHOOL HOLDINGS, INC

10-Q - MARCH 31, 2023 COMPARED TO 10-Q - SEPTEMBER 30, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	1512
CHANGES	178
DELETIONS	736
ADDITIONS	598

REFINITIV

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022 March 31, 2023

OR

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

For the transition period from to

Commission file number 001-40684

PowerSchool Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**85-4166024**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
150 Parkshore Drive Folsom, CA (Address of Principal Executive Offices)	**95630 (Zip Code)**

(877) 873-1550
(Registrant's telephone number, including area code)
Not applicable
(Former name or former address, if changed since last report)

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

Title of Each Class of Securities to be Registered	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, par value $0.0001 per share	PWSC	The 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 and posted 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 and post 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 "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The registrant had 199,421,799 200,623,713 shares of common stock outstanding as of October 31, 2022 April 28, 2023.

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Part I - Financial Information

Item 1. - Condensed Consolidated Financial Statements (Unaudited)

POWERSCHOOL HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands) thousands, except for number of shares and par value)

	As of September 30, 2022	As of December 31, 2021	As of March 31, 2023	As of December 31, 2022
Assets				
Current Assets:				
Cash and cash equivalents	$ 108,873	$ 86,479	$ 64,273	$ 137,471
Accounts receivable—net of allowance of $6,160 and $4,964 respectively	102,402	48,403		
Accounts receivable - net of allowance of $4,540 and $4,712, respectively			45,567	54,296

Prepaid expenses and other current assets	Prepaid expenses and other current assets	36,889	38,423	Prepaid expenses and other current assets	44,011	36,886
Total current assets	Total current assets	248,164	173,305	Total current assets	153,851	228,653
Property and equipment - net	Property and equipment - net	6,793	15,676	Property and equipment - net	5,753	6,173
Operating lease right-of-use assets	Operating lease right-of-use assets	9,962	—	Operating lease right-of-use assets	7,987	8,877
Capitalized product development costs - net	Capitalized product development costs - net	98,338	80,611	Capitalized product development costs - net	104,209	100,861
Goodwill	Goodwill	2,486,423	2,454,692	Goodwill	2,487,024	2,487,007
Intangible assets - net	Intangible assets - net	745,805	804,909	Intangible assets - net	698,473	722,147
Other assets	Other assets	28,562	27,489	Other assets	31,809	29,677
Total assets	**Total assets**	**$ 3,624,047**	**$ 3,556,682**	**Total assets**	**$ 3,489,106**	**$ 3,583,395**
Liabilities and Stockholders'/Members' Equity						
Liabilities and Stockholders' Equity				**Liabilities and Stockholders' Equity**		
Current Liabilities:	Current Liabilities:			Current Liabilities:		
Accounts payable	Accounts payable	$ 6,509	$ 12,449	Accounts payable	$ 6,319	$ 5,878
Accrued expenses	Accrued expenses	73,255	71,167	Accrued expenses	93,871	84,270
Operating lease liabilities, current	Operating lease liabilities, current	6,419	—	Operating lease liabilities, current	4,567	5,263
Deferred revenue, current	Deferred revenue, current	363,754	294,276	Deferred revenue, current	236,068	310,536
Current portion of long-term debt	Current portion of long-term debt	7,750	7,750	Current portion of long-term debt	7,750	7,750
Total current liabilities	Total current liabilities	457,687	385,642	Total current liabilities	348,575	413,697
Noncurrent Liabilities:	Noncurrent Liabilities:			Noncurrent Liabilities:		
Other liabilities	Other liabilities	2,315	7,423	Other liabilities	2,097	2,099
Operating lease liabilities—net of current		9,241	—			
Operating lease liabilities - net of current				Operating lease liabilities - net of current	6,949	8,053
Deferred taxes	Deferred taxes	294,682	295,959	Deferred taxes	273,355	281,314
Tax Receivable Agreement liability	Tax Receivable Agreement liability	397,679	404,394	Tax Receivable Agreement liability	392,671	410,361
Deferred revenue—net of current		4,962	6,881			
Deferred revenue - net of current				Deferred revenue - net of current	6,084	5,303
Long-term debt, net	Long-term debt, net	729,818	733,425	Long-term debt, net	727,414	728,624
Total liabilities	Total liabilities	1,896,384	1,833,724	Total liabilities	1,757,145	1,849,451

Commitments and contingencies (Note 13)	Commitments and contingencies (Note 13)			Commitments and contingencies (Note 13)		
	Stockholders'/Members' Equity:					
	Class A common stock, $0.0001 par value per share, 500,000,000 shares authorized, 159,365,089 shares issued and outstanding as of September 30, 2022. 158,034,497 shares issued and outstanding as of December 31, 2021	16	16			
	Class B common stock, $0.0001 par value per share, 300,000,000 shares authorized, 39,928,472 shares issued and outstanding as of September 30, 2022. 39,928,472 shares issued and outstanding as of December 31, 2021	4	4			
Stockholders' Equity:				Stockholders' Equity:		
Class A common stock, $0.0001 par value per share, 500,000,000 shares authorized, 162,870,882 and 159,596,001 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively.				Class A common stock, $0.0001 par value per share, 500,000,000 shares authorized, 162,870,882 and 159,596,001 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively.	16	16
Class B common stock, $0.0001 par value per share, 300,000,000 shares authorized, 37,654,059 and 39,928,472 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively.				Class B common stock, $0.0001 par value per share, 300,000,000 shares authorized, 37,654,059 and 39,928,472 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively.	4	4
Additional paid-in capital	Additional paid-in capital	1,429,664	1,399,967	Additional paid-in capital	1,477,630	1,438,019
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(1,960)	(216)	Accumulated other comprehensive loss	(2,033)	(2,122)
Accumulated deficit	Accumulated deficit	(185,629)	(165,026)	Accumulated deficit	(199,103)	(187,250)
	Total stockholders'/members' equity attributable to PowerSchool Holdings, Inc.	1,242,095	1,234,745			
Total stockholders' equity attributable to PowerSchool Holdings, Inc.				Total stockholders' equity attributable to PowerSchool Holdings, Inc.	1,276,514	1,248,667
Non-controlling interest	Non-controlling interest	485,568	488,213	Non-controlling interest	455,447	485,277
	Total stockholders'/members' equity	1,727,663	1,722,958			

Total liabilities and stockholders'/members' equity	**$ 3,624,047**	**$ 3,556,682**			
Total stockholders' equity			Total stockholders' equity	1,731,961	1,733,944
Total liabilities and stockholders' equity			**Total liabilities and stockholders' equity**	**$ 3,489,106**	**$ 3,583,395**

See notes to condensed consolidated financial statements.

POWERSCHOOL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands except for per-share data)

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
Revenue:	**Revenue:**					**Revenue:**		
Subscriptions and support	Subscriptions and support	$ 137,095	$ 124,272	$ 401,870	$ 349,126	Subscriptions and support	$ 141,073	$ 129,765
Service	Service	19,933	18,497	55,114	47,533	Service	16,233	16,063
License and other	License and other	5,406	6,183	12,633	15,843	License and other	2,148	3,764
Total revenue	Total revenue	162,434	148,952	469,617	412,502	Total revenue	159,454	149,592
Cost of revenue:	**Cost of revenue:**					**Cost of revenue:**		
Subscriptions and support	Subscriptions and support	39,009	35,138	114,303	97,802	Subscriptions and support	38,194	38,034
Service	Service	14,852	14,482	45,585	37,971	Service	14,323	14,996
License and other	License and other	1,087	618	2,790	1,547	License and other	951	986
Depreciation and amortization	Depreciation and amortization	14,839	13,094	43,069	37,696	Depreciation and amortization	16,021	13,961
Total cost of revenue	Total cost of revenue	69,787	63,332	205,747	175,016	Total cost of revenue	69,489	67,977
Gross profit	**Gross profit**	**92,647**	**85,620**	**263,870**	**237,486**	**Gross profit**	**89,965**	**81,615**
Operating expenses:	**Operating expenses:**					**Operating expenses:**		
Research and development	Research and development	27,821	24,400	80,528	64,874	Research and development	25,421	26,618
Selling, general, and administrative	Selling, general, and administrative	45,530	47,276	133,117	103,260	Selling, general, and administrative	49,558	40,102
Acquisition costs	Acquisition costs	11	295	2,630	6,074	Acquisition costs	—	1,575
Depreciation and amortization	Depreciation and amortization	15,955	16,103	48,050	46,816	Depreciation and amortization	15,771	15,958
Total operating expenses	Total operating expenses	89,317	88,074	264,325	221,024	Total operating expenses	90,750	84,253
Income (loss) from operations		**3,330**	**(2,454)**	**(455)**	**16,462**			

Interest expense—Net		11,158	12,857	26,923	51,416			
Loss on extinguishment of debt		—	12,905	—	12,905			
Other expenses (income) —Net		(3,100)	(403)	(3,677)	(634)			
Loss from operations						**Loss from operations**	**(785)**	**(2,638)**
Interest expense - net						Interest expense - net	14,029	7,022
Other expenses (income) - net						Other expenses (income) - net	44	(78)
Loss before income taxes	**Loss before income taxes**	**(4,728)**	**(27,813)**	**(23,701)**	**(47,225)**	**Loss before income taxes**	**(14,858)**	**(9,582)**
Income tax expense (benefit)		(811)	(2,685)	794	(20,035)			
Income tax (benefit) expense						Income tax (benefit) expense	(45)	4,538
Net loss	**Net loss**	**(3,917)**	**(25,128)**	**(24,495)**	**(27,190)**	**Net loss**	**(14,813)**	**(14,120)**
Less: Net loss attributable to non-controlling interest	Less: Net loss attributable to non-controlling interest	(1,389)	(5,752)	(5,330)	(5,752)	Less: Net loss attributable to non-controlling interest	(2,960)	(2,007)
Net loss attributable to PowerSchool Holdings, Inc.	**Net loss attributable to PowerSchool Holdings, Inc.**	**(2,528)**	**(19,376)**	**(19,165)**	**(21,438)**	**Net loss attributable to PowerSchool Holdings, Inc.**	**$ (11,853)**	**$ (12,113)**
Net loss attributable to the PowerSchool Holdings, Inc. per share of Class A common stock - basic and diluted		**$ (0.02)**	**$ (0.12)**	**$ (0.12)**	**$ (0.14)**			
Weighted average shares of Class A common stock outstanding - basic and diluted		**158,812,536**	**156,962,167**	**158,387,266**	**156,962,167**			
Other comprehensive income (loss) — Foreign currency translation		(741)	(336)	(1,744)	(564)			
Total other comprehensive income (loss)		(741)	(336)	(1,744)	(564)			
Less: comprehensive income (loss) attributable to non-controlling interest		$ (149)	$ (11)	$ (350)	$ (57)			
Net loss attributable to PowerSchool Holdings, Inc. per share of Class A common stock - basic and diluted						**Net loss attributable to PowerSchool Holdings, Inc. per share of Class A common stock - basic and diluted**	**$ (0.07)**	**$ (0.08)**
Weighted average shares of Class A common stock - basic and diluted						**Weighted average shares of Class A common stock - basic and diluted**	**160,506,571**	**158,112,296**
Other comprehensive income, net of taxes:						Other comprehensive income, net of taxes:		
Foreign currency translation						Foreign currency translation	86	209
Change in unrealized gain on investments						Change in unrealized gain on investments	3	—
Total other comprehensive income						Total other comprehensive income	89	209

Less: comprehensive income attributable to non-controlling interest						Less: comprehensive income attributable to non-controlling interest	17	42
Comprehensive loss attributable to PowerSchool Holdings, Inc.	**Comprehensive loss attributable to PowerSchool Holdings, Inc.**	**$ (3,120)**	**$ (19,701)**	**$ (20,559)**	**$ (21,945)**	**Comprehensive loss attributable to PowerSchool Holdings, Inc.**	**$ (11,781)**	**$ (11,946)**

See notes to condensed consolidated financial statements

POWERSCHOOL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS'/ MEMBERS' EQUITY

(in thousands)

		Members investment	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Non-controlling interest	Total		Class A common stock		Class B common st
			Shares	Amount	Shares	Amount							Shares	Amount	Shares Amo
Balance—December 31, 2021		$ —	158,034	$ 16	39,928	$ 4	$1,399,967	$ (216)	$ (165,026)	$ 488,213	$1,722,958				
Issuance of common stock upon vesting of Restricted Stock Awards		—	116	—	—	—	—	—	—	—	—				
Share-based compensation		—	—	—	—	—	12,209	—	—	—	12,209				
Foreign currency translation		—	—	—	—	—	—	(469)	—	—	(469)				
Allocation of equity to noncontrolling interests		—	—	—	—	—	(2,024)	—	—	2,024	—				
Deferred offering costs		—	—	—	—	—	(295)	—	—	—	(295)				
Adjustments to deferred taxes		—	—	—	—	—	212	—	—	—	212				
Cumulative effect adjustment upon adoption of ASC 842 (note 2)		—	—	—	—	—	—	—	(1,437)	—	(1,437)				
Net loss		—	—	—	—	—	—	—	(12,113)	(2,007)	(14,120)				
Balance—March 31, 2022		$ —	158,150	$ 16	39,928	$ 4	$1,410,069	$ (685)	$ (178,576)	$ 488,230	$1,719,058				
Issuance of common stock upon vesting of Restricted Stock Awards		—	116	—	—	—	—	—	—	—	—				
Share-based compensation		—	—	—	—	—	14,937	—	—	—	14,937				
Foreign currency translation		—	—	—	—	—	—	(534)	—	—	(534)				
Allocation of equity to noncontrolling interests		—	—	—	—	—	(2,605)	—	—	2,605	—				
Net loss		—	—	—	—	—	—	—	(4,525)	(1,933)	(6,458)				
Balance—June 30, 2022		$ —	158,266	$ 16	39,928	$ 4	$1,422,401	$ (1,219)	$ (183,101)	$ 488,902	$1,727,003				
Balance—December 31, 2022												**Balance—December 31, 2022**	159,596	$ 16	39,928 $
Issuance of common stock upon vesting of Restricted Stock Awards	Issuance of common stock upon vesting of Restricted Stock Awards	—	1,099	—	—	—	—	—	—	—	—	Issuance of common stock upon vesting of Restricted Stock Awards	1,000	—	—
Share-based compensation	Share-based compensation	—	—	—	—	—	13,300	—	—	—	13,300	Share-based compensation	—	—	—
Net share settlement of equity awards	Net share settlement of equity awards	—	—	—	—	—	(8,825)	—	—	—	(8,825)	Net share settlement of equity awards	—	—	—

Adjustments to deferred taxes		—	—	—	—	—	843	—	—	—	843				
Foreign currency translation		—	—	—	—	—	—	(741)	—	—	(741)				
Other comprehensive income (loss)												Other comprehensive income (loss)	—	—	—
Allocation of equity to noncontrolling interests	Allocation of equity to noncontrolling interests	—	—	—	—	—	1,945	—	—	(1,945)	—	Allocation of equity to noncontrolling interests	—	—	—
Exchange of Class B common stock for Class A common stock related to secondary offering												Exchange of Class B common stock for Class A common stock related to secondary offering	2,274	—	(2,274)
Adjustments to deferred taxes and Tax Receivable Agreement liability related to secondary offering												Adjustments to deferred taxes and Tax Receivable Agreement liability related to secondary offering	—	—	—
Net loss	Net loss	—	—	—	—	—	—	—	(2,528)	(1,389)	(3,917)	Net loss	—	—	—
Balance—September 30, 2022		$ —	159,365	$ 16	39,928	$ 4	$1,429,664	$ (1,960)	$ (185,629)	$ 485,568	$1,727,663				
Balance—March 31, 2023												**Balance—March 31, 2023**	162,870 $	16	37,654 $

	Members investment	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Non-controlling interest	Total
		Shares	Amount	Shares	Amount					
Balance—December 31, 2020	$ 1,855,730	—	$ —	—	$ —	$ —	$ 441	$ (178,298)	$ —	$ 1,677,873
Repurchase of management incentive units	(448)	—	—	—	—	—	—	—	—	(448)
Management incentive unit-based compensation	1,364	—	—	—	—	—	—	—	—	1,364
Foreign currency translation	—	—	—	—	—	—	153	—	—	153
Net income	—	—	—	—	—	—	—	483	—	483
Balance—March 31, 2021	$ 1,856,646	—	$ —	—	$ —	$ —	$ 594	$ (177,815)	$ —	$ 1,679,425
Repurchase of management incentive units	—	—	—	—	—	—	—	—	—	—
Management incentive unit-based compensation	1,373	—	—	—	—	—	—	—	—	1,373
Foreign currency translation	—	—	—	—	—	—	(381)	—	—	(381)
Net loss	—	—	—	—	—	—	—	(2,545)	—	(2,545)
Balance—June 30, 2021	$ 1,858,019	—	$ —	—	$ —	$ —	$ 213	$ (180,360)	$ —	$ 1,677,872
Activity prior to IPO and organizational transactions:	—	—	—	—	—	—	—	—	—	—
Management incentive unit-based compensation	467	—	—	—	—	—	—	—	—	467
Foreign currency translation	—	—	—	—	—	—	(55)	—	—	(55)
Net Income	—	—	—	—	—	—	—	553	—	553
Balance—July 30, 2021	$ 1,858,486	—	$ —	—	$ —	$ —	$ 158	$ (179,807)	$ —	$ 1,678,837
Effects of the IPO and organizational transactions:										

Issuance of Class A common stock in the IPO, net of underwriting discount, commissions and deferred offering costs	—	157,918	16	—	—	754,448	—	—	—	754,464
Issuance of Class B common stock	—	—	—	39,928	4	—	—	—	—	4
Effects of organizational transactions	(1,858,486)	—	—	—	—	1,370,041	—	—	488,445	—
Allocation of equity to non-controlling interests	—	—	—	—	—	(51,700)	—	47,041	4,659	—
Establishment of tax receivable agreement liability	—	—	—	—	—	(403,799)	—	—	—	(403,799)
Adjustment to deferred taxes	—	—	—	—	—	(287,549)	—	—	—	(287,549)
Activity subsequent to the IPO and organizational transactions:										
Stock-based compensation	—	—	—	—	—	10,907	—	—	—	10,907
Foreign currency translation	—	—	—	—	—	—	(384)	—	—	(384)
Allocation of equity to non-controlling interests	—	—	—	—	—	(2,097)	—	—	2,097	—
Net loss	—	—	—	—	—	—	—	(19,929)	(5,752)	(25,681)
Balance—September 30, 2021	$ —	157,918	$ 16	39,928	$ 4	$ 1,390,251	$ (226)	$ (152,695)	$ 489,449	$ 1,726,799

	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Non-controlling interest	Total
	Shares	Amount	Shares	Amount					
Balance—December 31, 2021	158,034	$ 16	39,928	$ 4	$ 1,399,967	$ (216)	$ (165,026)	$ 488,213	$ 1,722,958
Issuance of common stock upon vesting of Restricted Stock Awards	116	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	12,209	—	—	—	12,209
Foreign currency translation	—	—	—	—	—	(469)	—	—	(469)
Allocation of equity to noncontrolling interests	—	—	—	—	(2,024)	—	—	2,024	—
Deferred offering costs	—	—	—	—	(295)	—	—	—	(295)
Adjustments to deferred taxes	—	—	—	—	212	—	—	—	212
Cumulative effect adjustment upon adoption of ASC 842	—	—	—	—	—	—	(1,437)	—	(1,437)
Net loss	—	—	—	—	—	—	(12,113)	(2,007)	(14,120)
Balance—March 31, 2022	158,150	$ 16	39,928	$ 4	$ 1,410,069	$ (685)	$ (178,576)	$ 488,230	$ 1,719,058

See notes to condensed consolidated financial statements.

POWERSCHOOL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

		Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021		Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash flows from operating activities:	**Cash flows from operating activities:**			**Cash flows from operating activities:**		
Net loss	Net loss	$ (24,495)	$ (27,190)	Net loss	$ (14,813)	$ (14,120)
Adjustments to reconcile net loss to net cash provided by operating activities:						
Loss on extinguishment of debt		—	12,905			
Adjustments to reconcile net loss to net cash used in operating activities:				Adjustments to reconcile net loss to net cash used in operating activities:		

Depreciation and amortization	Depreciation and amortization	91,119	84,496	Depreciation and amortization	31,792	29,935
Share-based compensation	Share-based compensation	38,100	13,455	Share-based compensation	14,549	11,550
	Write-off of right-of-use assets and disposal of property and equipment	8,597	27			
				Amortization of operating lease right-of-use assets	788	1,911
Change in fair value of acquisition-related contingent consideration	Change in fair value of acquisition-related contingent consideration	(5,586)	—	Change in fair value of acquisition-related contingent consideration	(450)	163
	Other	1,216	8,329			
				Amortization of debt issuance costs	876	876
				Provision for allowance for doubtful accounts	369	(475)
				Loss on lease modification	52	—
				Disposal of property and equipment	48	3
Changes in operating assets and liabilities — net of effects of acquisitions:	Changes in operating assets and liabilities — net of effects of acquisitions:			Changes in operating assets and liabilities — net of effects of acquisitions:		
Accounts receivables	Accounts receivables	(52,651)	(28,982)	Accounts receivables	8,360	4,775
Prepaid expenses and other current assets	Prepaid expenses and other current assets	1,635	(4,333)	Prepaid expenses and other current assets	(7,135)	(4,686)
Other assets	Other assets	(1,526)	(1,667)	Other assets	(2,283)	(1,450)
Accounts payable	Accounts payable	(5,621)	(1,995)	Accounts payable	250	(6,423)
Accrued expenses	Accrued expenses	(521)	1,246	Accrued expenses	(16,512)	(10,911)
Other liabilities	Other liabilities	(8,290)	(192)	Other liabilities	(1,737)	(6,566)
Deferred taxes	Deferred taxes	(507)	(21,406)	Deferred taxes	(494)	4,894
Deferred revenue	Deferred revenue	65,312	88,193	Deferred revenue	(73,687)	(74,019)
	Net cash provided by operating activities	106,782	122,886			
				Net cash used in operating activities	(60,027)	(64,543)
Cash flows from investing activities:	**Cash flows from investing activities:**			**Cash flows from investing activities:**		
Purchases of property and equipment	Purchases of property and equipment	(2,844)	(3,222)	Purchases of property and equipment	(356)	(1,761)
Investment in capitalized product development costs	Investment in capitalized product development costs	(33,285)	(28,278)	Investment in capitalized product development costs	(9,676)	(8,920)
Acquisitions—net of cash acquired	Acquisitions—net of cash acquired	(31,155)	(319,230)	Acquisitions—net of cash acquired	—	(15,530)

Partial payment of acquisition-related contingent consideration		(1,392)	—			
Net cash used in investing activities	Net cash used in investing activities	(68,676)	(350,730)	Net cash used in investing activities	(10,032)	(26,211)
Cash flows from financing activities:				**Cash flows from financing activities:**		
Taxes paid related to the net share settlement of equity awards				Taxes paid related to the net share settlement of equity awards	(1,284)	—
Proceeds from Revolving Credit Agreement				Proceeds from Revolving Credit Agreement	—	30,000
Repayment of First Lien Debt				Repayment of First Lien Debt	(1,938)	(1,938)
Payments of deferred offering costs				Payments of deferred offering costs	—	(295)
Net cash (used in) provided by financing activities				Net cash (used in) provided by financing activities	(3,222)	27,767
Effect of foreign exchange rate changes on cash				Effect of foreign exchange rate changes on cash	73	92
Net decrease in cash, cash equivalents, and restricted cash				Net decrease in cash, cash equivalents, and restricted cash	(73,208)	(62,895)
Cash, cash equivalents, and restricted cash—Beginning of period				Cash, cash equivalents, and restricted cash—Beginning of period	137,981	86,991
Cash, cash equivalents, and restricted cash—End of period				Cash, cash equivalents, and restricted cash—End of period	$ 64,773	$ 24,096

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows from financing activities:		
Taxes paid related to the net share settlement of equity awards	(8,824)	—
Proceeds from Revolving Credit Agreement	70,000	55,000
Proceeds from Bridge Loan	—	315,200
Repayment of Bridge Loan	—	(320,000)
Repayment of Second Lien Debt	—	(365,000)
Repayment of Revolving Credit Agreement	(70,000)	(95,000)
Repayment of Incremental Facility	—	(68,775)
Repayment of First Lien Debt	(5,813)	(5,813)
Payments for repurchase of management incentive units	—	(448)
Payments of deferred offering costs	(295)	(11,753)
Payment of debt issuance costs	—	(2,823)
Repayment of capital leases	—	(25)
Proceeds from initial public offering	—	766,075
Net cash (used in) provided by financing activities	(14,932)	266,638
Effect of foreign exchange rate changes on cash	(782)	(515)
Net increase in cash, cash equivalents, and restricted cash	22,392	38,279
Cash, cash equivalents, and restricted cash—Beginning of period	86,991	53,246
Cash, cash equivalents, and restricted cash—End of period	$ 109,383	$ 91,525

Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 24,700	$ 44,774
Cash paid for income taxes	1,586	1,399
Supplemental disclosures of noncash investing and financing activities:		
Property and equipment additions in accounts payable and accrued liabilities	$ 326	$ 234
Capitalized interest related to investment in capitalized product development costs	497	267
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	$ 108,873	$ 91,013
Restricted cash, included in other current assets	510	512
Total cash, cash equivalents, and restricted cash	$ 109,383	$ 91,525

	Three Months Ended March 31,	
	2023	2022
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 13,695	$ 6,183
Cash paid for income taxes	390	715
Supplemental disclosures of noncash investing and financing activities:		
Property and equipment additions in accounts payable and accrued liabilities	$ 317	$ 67
Capitalized interest related to investment in capitalized product development costs	296	61
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	$ 64,273	$ 23,585
Restricted cash, included in other current assets	500	511
Total cash, cash equivalents, and restricted cash	$ 64,773	$ 24,096

See notes to condensed consolidated financial statements.

POWERSCHOOL HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BUSINESS

Background and Nature of Operations

PowerSchool Holdings, Inc. (the “Company,” “PowerSchool,” “we,” “us,” or “our”) was formed as a Delaware corporation on November 30, 2020 for the purpose of completing an initial public offering (“IPO”) and related organizational a series of transactions in order to carry on the business of PowerSchool Holdings LLC (“Holdings LLC”), formerly known as Severin Holdings, LLC. Our Principal Stockholders are Onex Partners Managers LP (“Onex”) and Vista Equity Partners (“Vista”).

The transactions include amendments to the Company’s operating agreement to modify its capital structure by replacing the membership interests then held by its existing owners with a new class of membership interests (“LLC Units”) held initially by Severin Topco LLC (“Topco LLC”), a portion of which have a participation threshold (the “Participation Units”) and appointing the Company as the sole managing member of Holdings LLC; issuance of unrestricted and restricted Class A common stock in exchange for vested and unvested pre-IPO share-based awards, issuance of 39,928,472 shares of Class B common stock, par value $0.0001 per share to Topco LLC, on a one-to-one basis with the number of LLC Units (other than Participation Units), restructuring of certain entities (“Blocker Entities”) associated with the Principal Stockholders, and execution of an exchange agreement (the “Exchange Agreement”) with Topco LLC. Pursuant to the Exchange Agreement, Topco LLC is entitled to exchange LLC Units (other than Participation Units), together with an equal number of shares of Class B common stock, for shares of Class A common stock on a one-for-one basis or, at its election, for cash from a substantially concurrent public offering or private sale. Participation Units may be exchanged for a number of shares of Class A common stock based on an exchange formula that takes into account the current value of a share of Class A common stock and a pre-determined participation threshold. Additionally, the Company entered into a tax receivable agreement (the “TRA”) with Topco LLC, and the Principal Stockholders that provides for the payment by the Company to Topco LLC and the Principal Stockholders, collectively, of 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes. Collectively, these transactions are referred to as “Organizational Transactions”.

The Company’s cloud platform is an integrated, enterprise-scale suite of solutions purpose-built for the K-12 education market. The Company’s platform is embedded in school workflows and is used by educators, students, administrators, and parents. Its cloud-based technology platform helps schools and districts efficiently manage state reporting and related compliance, special education, finance, human resources, talent, registration, attendance, funding, learning, instruction, grading, assessments and analytics in one unified platform. The Company’s integrated technology approach streamlines operations, aggregates disparate data sets, and develops insights using predictive modelling and machine learning.

The Company is headquartered in Folsom, California, and together with its subsidiaries has locations in the United States ("U.S."), Canada, and India.

Initial Public Offering and Organizational Transactions

On July 30, 2021, the Company completed the IPO of 39,473,685 shares of Class A common stock, par value $0.0001 per share, at an offering price of $18.00 per share, and received $673.2 million in IPO proceeds, net of $37.3 million in underwriting discounts and commissions. On August 10, 2021, the underwriters for the IPO exercised the option to purchase an additional 5,447,581 shares of Class A common stock and the Company received an additional $92.9 million in the proceeds upon exercise of this option, net of $5.1 million in underwriting discounts and commissions.

In connection with the consummation of the IPO, the Company consummated the following transactions (the "Organizational Transactions"):

- Holdings LLC's operating agreement was amended and restated to (i) modify its capital structure by replacing the membership interests then held by its existing owners with a new class of membership interests ("LLC Units") held initially by Severin Topco LLC ("Topco LLC"), a portion of which have a participation threshold (the "Participation Units") and (ii) appoint the Company as the sole managing member of Holdings LLC.

- The Company engaged in a series of transactions that resulted in holders of time-based management incentive units ("MIUs") in Topco LLC receiving, in the aggregate, (i) 1,208,770 shares of unrestricted Class A common stock and (ii) 657,661 restricted shares of Class A common stock in exchange for vested and unvested time-based MIUs, respectively. The restricted shares are subject to the same time-based vesting schedule as prior to the exchange. The existing performance-based MIUs were exchanged for LLC Units. In connection with the Organizational Transactions, the vesting conditions on these MIUs were modified as described in Note 15.

- The Company issued 39,928,472 shares of Class B common stock, par value $0.0001 per share, which provides no economic rights, to Topco LLC, on a one-to-one basis with the number of LLC Units (other than Participation Units) the Company owns, for nominal consideration.

- Certain entities (the "Blocker Entities") through which the funds associated with Onex Partners Manager LP ("Onex") and Vista Equity Partners, known collectively as the "Principal Stockholders", held their ownership interests in Topco LLC, engaged in a series of transactions (the "Blocker Contributions") that resulted in each of the Blocker Entities becoming subsidiaries of the Company.

- The Company entered into an exchange agreement (the "Exchange Agreement") with Topco LLC pursuant to which Topco LLC is entitled to exchange LLC Units (other than Participation Units), together with an equal number of shares of Class B common stock, for shares of Class A common stock on a one-for-one basis or, at its election, for cash from a substantially concurrent public offering or private sale (based on the price of the Class A common stock in such public offering or private sale). Participation Units may be exchanged for a number of shares of Class A common stock equal to the then current value of a share of Class A common stock less the applicable participation threshold multiplied by the number of Participation Units being exchanged, divided by the then current value of Class A common stock.

- The Company entered into a tax receivable agreement ("TRA") with Topco LLC, and the Principal Stockholders that provides for the payment by the Company to Topco LLC and the Principal Stockholders, collectively, of 85% of the amount of cash savings, if any, in U.S. federal, state and local income taxes.

The Company's corporate structure following the IPO is commonly referred to as an "Up-C" structure, which is commonly used by partnerships and limited liability companies when they undertake an initial public offering of their business. The Up-C structure, together with the TRA, allows the owners of Holdings LLC at the time of the IPO to continue to realize tax benefits associated with owning interests in an entity that is treated as a partnership, or "pass-through" entity, for income tax purposes following the IPO. One of these benefits is that future taxable income of Holdings LLC that is allocated to such owners will be taxed on a flow-through basis and therefore will not be subject to corporate taxes at the entity level. Additionally, because the LLC Units that the owners at the time of the IPO will continue to hold are exchangeable for shares of Class A common stock or, at the Company's option, for cash, the Up-C structure also provides the owners of Holdings LLC at the time of the IPO potential liquidity that holders of non-publicly traded limited liability companies are not typically afforded.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying interim condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021 March 31, 2023, the interim condensed consolidated statements of operations and comprehensive loss and stockholders'/members' equity for the three and nine months ended September 30, 2022 March 31, 2023 and 2021, 2022, and cash flows for the nine three months ended September 30, 2022 March 31, 2023 and 2021, 2022, and the notes to such interim condensed consolidated financial statements are unaudited.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial information. As permitted under those rules, we have condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements.

These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in management's opinion, include all adjustments necessary to state fairly the consolidated financial position of the Company as of September 30, 2022 March 31, 2023, the results of operations for the three and nine months ended September 30, 2022 March 31, 2023 and 2021 2022 and cash flows for the nine three months ended September 30, 2022 March 31, 2023 and 2021. 2022. These adjustments consist of normal and recurring items. The results of operations for the three and nine months ended September 30, 2022 March 31, 2023 and cash flows for the nine three months ended September 30, 2022 March 31, 2023 are not necessarily indicative of the results expected for the year ending December 31, 2022 December 31, 2023 or any future interim or annual period. Our unaudited interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and related notes. notes provided in our Annual Report on Form 10-K for the year ended December 31, 2022.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Use of estimates is required in the preparation of the consolidated financial statements in conformity with GAAP. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the

disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that it believes are reasonable under the circumstances.

The estimates the Company evaluates include, but are not limited to:

- the fair value of assets acquired and liabilities assumed in business combinations, including acquired intangible assets, goodwill, contingent consideration and liabilities associated with deferred revenue and deferred taxes;

- the average period of benefit related to contract cost assets;
- the allowance for doubtful accounts;
- the fair value of certain stock awards;
- the useful lives and recoverability of long-lived assets, including capitalized product development costs;
- the recognition, measurement and valuation of deferred income taxes; and
- the incremental borrowing rate ("IBR") to measure actual amounts and timing of payments under the present value of operating lease right-of-use ("ROU") assets and liabilities. Tax Receivable Agreement

Actual results could differ from those estimates under different assumptions or conditions including, but not limited to, the continued uncertainty surrounding the rapidly changing market and economic conditions due to the novel Coronavirus Disease 2019 ("COVID-19") pandemic. onditions.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, There are no recently issued accounting pronouncements that are expected to have a material impact on the Financial Company's condensed consolidated financial statements.

Accounting Standards Board ("FASB") issued Pronouncements Recently Adopted

On January 1, 2023, the Company prospectively adopted ASU No. 2016-13, *Financial Instruments—Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). This update changes the accounting for recognizing impairments of financial assets, such that credit losses for certain types of financial instruments will be estimated based on expected losses. The update also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for the Company beginning on January 1, 2023. Early adoption is permitted after for periods beginning after December 15, 2018. The Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial statements.

Accounting Pronouncements Recently Adopted

On January 1, 2022, we adopted ASU No. 2016-02, *Leases* (Topic 842). The ASU requires an entity to recognize ROU assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. The guidance offers specific accounting guidance for a lessee, lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. The Company elected the optional transition approach to not apply Topic 842 in the comparative periods presented. Further, the Company made the following elections:

- Not to reassess whether existing contracts contain leases, the lease classification for existing leases and whether existing initial direct costs meet the new definition under the available practical expedients allowed by Topic 842.

- Not to separate non-lease components from lease components, therefore, it accounts for lease and non-lease components as a single lease component.

- The short-term lease recognition exemption for all qualifying leases.

The adoption of this standard resulted in the recognition of total ROU assets of $15.8 million, total lease liabilities of $17.8 million, and a decrease to accumulated deficit of $1.4 million as of the adoption date. The

adoption of Topic 842 accounting pronouncement did not have a material impact on the valuation of the Company's financial instruments.

Significant Accounting Policies

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2022 that have had a material impact on our condensed consolidated financial statements and related notes.

3. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment securities with remaining maturities at the date of operations purchase of three months or statements less to be cash equivalents. As of March 31, 2023, cash flows.

On January 1, 2022, we adopted ASU No. 2021-08, Business Combinations (Topic 805), *Accounting equivalents included $19.0 million of money-market funds. The fair value of money-market funds, which was consistent with their carrying value, was determined using unadjusted prices in active, accessible markets for Contract Assets and Contract Liabilities from Contracts with Customers*. This update requires contract identical assets, and contract as such, are classified as Level 1 assets.

4. BUSINESS COMBINATIONS

We did not have any acquisitions during the three months ended March 31, 2023 and completed three acquisitions in fiscal year 2022. The purchase price allocation for acquisitions, discussed in detail below, reflects various fair value estimates and analyses, including certain tangible assets acquired and liabilities (i.e., deferred revenue) assumed, the valuation of intangible assets acquired, income taxes and goodwill, which are subject to change within the measurement period as preliminary valuations are finalized. Measurement period adjustments are recorded in a business combination to be recognized the reporting period in which the estimates are finalized and measured by adjustment amounts are determined. The fair value of the acquirer on the acquisition date in accordance with ASC 606 (as defined below), as if it had originated the contracts. This accounting pronouncement was applied to the contract assets and liabilities assumed from all of our acquisitions subsequent acquired are based on valuations using the Level 3, unobservable inputs that are supported by little or no market activity and that are significant to the adoption date.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform: Facilitation fair value of the Effects assets or liabilities.*

The results of Reference Rate Reform on Financial Reporting (ASU 2020-04) and subsequently ASU No. 2021-01, *Reference Rate Reform* (Topic 848) operations of these business combinations have been included in January 2021. The guidance provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference London Interbank Offered Rate ("LIBOR") or other reference rates expected to be discontinued in the Company's consolidated financial statements from their respective acquisition dates.

Fiscal 2022 or potentially 2023 (pending possible extension). The optional expedients within ASU 2020-04 are effective as of March 12, 2020 through December 31, 2022 and may be applied prospectively. Acquisitions

Kinvolved, Inc.

On September 16, 2022 February 1, 2022, the Company amended its First Lien acquired all of the equity interests of Kinvolved, Inc. ("Kinvolved"). Kinvolved is a leading provider of K-12 communications, attendance and Revolving Credit Agreement (each as defined below) engagement solutions software. The purpose of the acquisition was to change the reference rate from LIBOR to the Secured Overnight Financing Rate ("SOFR"), as administered by the Federal Reserve Bank of New York. We applied practical expedients provided in Topic 848 to account for these modifications as if they were not substantial. These modifications had no significant impact on our financial statements. Refer to Note 11 for further information. enhance and expand PowerSchool's product offering.

Revenue Recognition

The Company generates revenue from total purchase price for Kinvolved was $23.3 million, which included $16.2 million of cash and additional contingent cash consideration, payable based on the following sources: (i) software-as-a-service ("SaaS") offerings in cloud and hosted environments; (ii) professional services including implementation, consulting, customization, training and data migration services; (iii) software license; (iv) software maintenance; and (v) reseller arrangements.

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process:

1. Identify the contract(s) with a customer
2. Identify the achievement of certain performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the Company satisfies a performance obligation

conditions. The Company identifies enforceable contracts with a customer when the agreement is signed and has determined that contract terms are generally 12 months since customers are generally permitted to terminate after 12 months without incurring a penalty. The Company also evaluates whether any optional periods represent a material right. Some acquisition-date fair value of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they contingent consideration was $7.1 million. Transaction costs of $1.2 million are distinct. Transaction price includes both fixed and variable consideration. However, the Company only includes variable consideration recorded in the transaction price to the extent that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on its overall pricing objectives, taking into consideration market conditions and other factors, including the value of its contracts, the products sold, customer demographics, geographic locations, and the number and types of users within the Company's contracts. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental entities (e.g., sales and other indirect taxes).

The following describes the nature of the Company's primary types of revenue and related revenue recognition policies:

SaaS Offerings

The Company offers SaaS-based solutions to customers that purchase remote access to its software and its functionality. For the Company's SaaS offerings, the nature of its promise to the customer is to provide continuous access to its application platforms. Accordingly, the Company's SaaS offerings are generally viewed as stand-ready performance obligations comprised of a series of distinct daily services. The Company typically satisfies its SaaS performance obligations over time as the services are provided. A time-elapsed output method is used to measure progress because its efforts are expended evenly throughout the period and customers benefit consistently throughout the contract term. As such, for fixed-fee contracts, revenue is recognized ratably over the contract period and classified as Subscriptions and Support revenue acquisition costs in the consolidated statements of operations and comprehensive loss.

Professional Services

Professional services revenue The Company has accounted for this acquisition as a business combination and recognized intangible assets of $4.5 million and net tangible assets of $0.2 million. The Company recorded $18.6 million of goodwill arising from the acquisition, none of which is comprised of implementation, consulting, customization, training, and data migration services associated with the Company's SaaS offerings and licensed software. These services are generally recognized at expected to be deductible for tax purposes. The goodwill is a point in time when services are rendered, with service durations spanning from several weeks to several months, depending on the scope and complexity result of the work. Payment terms for professional services may be based on growth expected by creating a fixed fee or charged on a time and materials basis. comprehensive education technology portfolio.

Professional services are typically considered distinct performance obligations. The Company's professional services that are billed on a fixed fee basis are typically satisfied as services are rendered, and

Chalk.com Education ULC

On May 2, 2022, the Company generally uses efforts expended (labor hours) to measure progress toward completion as this is considered a faithful representation acquired all of the transfer equity interests of control Chalk.com Education ULC ("Chalk"). Chalk is an integrated curriculum planning and analytics platform for K-12 schools. The purpose of the services given the nature acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Chalk was $13.5 million, which included $10.4 million of the performance obligation. For professional services that are billed on a time cash and materials basis, the Company applies the 'as-invoiced' practical expedient. Accordingly, revenue is generally recognized additional contingent cash consideration payable based on the amount that the Company has a right to invoice, as this amount corresponds directly with the achievement of certain performance conditions. The acquisition-date fair value to the customer of the Company's performance completed to date and is classified as Service revenue contingent consideration was $3.1 million. Transaction costs of $0.9 million are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss.

Software License

The Company licenses software that is distinct has accounted for this acquisition as a business combination and has significant stand-alone functionality (i.e., functional IP). Revenue attributable to such arrangements is typically recognized at the point in time when the customer is able to use intangible assets of $3.6 million and benefit net tangible liabilities of $0.2 million. The Company recorded goodwill of $10.0 million arising from the software, acquisition,

all of which is generally upon delivery expected to the customer or upon the commencement be deductible for U.S. income tax purposes. The goodwill is a result of the renewal term. Software license revenue growth expected by creating a comprehensive education technology portfolio.

Headed2, LLC

On June 1, 2022, the Company acquired all of the equity interests of Headed2, LLC ("Headed2"). Headed2 is classified as License a career path planning platform that delivers state-level support for college, career, military, and Other revenue life readiness to students of all ages by providing a more complete approach to researching and preparing for future success. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Headed2 was $5.8 million, which was paid in cash. Transaction costs of $0.5 million are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss.

Software Maintenance

Software maintenance is comprised of stand-ready services including technical support services and unspecified software updates and upgrades, which are provided on a when-and-if-available basis. Software maintenance is transferred evenly using a time-elapsed output method over the contract term given it is a stand-ready obligation and there is no discernible pattern of performance. Software maintenance revenue is generally based on fixed fees. Payments are typically required annually in advance of the Company's performance of the relevant services and recognized as revenue ratably over the maintenance term. This revenue is classified as Subscriptions and Support revenue in the consolidated statements of operations and comprehensive loss.

Reseller Arrangements

The Company has reseller arrangements with several third-party partners. For certain reseller arrangements, the Company does not control the products or services prior to when they are transferred to the customer. Revenue from these arrangements is recorded on accounted for this acquisition as a business combination and recognized intangible assets of $2.3 million and net basis. Reseller revenue is recognized at a point in time when the products or services are resold to the end customer as there are no outstanding performance obligations under these arrangements after the resale. The revenue for these arrangements is classified as License and Other revenue in the consolidated statements tangible assets of operations and comprehensive loss.

Principal vs. Agent

From time to time the Company enters into arrangements with third parties to offer their products both as integrated into the Company's offerings as well as add-ons for specific configurations with separate pricing. $0.2 million. The Company considers recorded goodwill of $3.3 million arising from the terms acquisition, all of our arrangements and the economics of the transactions with the third parties to determine the nature of our promise to the customer and whether or not the Company has control of the products or services prior to the transfer to the customer. Where we determine that the nature of our promise is to provide the underlying good or service, we recognize revenue on a gross basis (as the principal) and where the nature of the promise is primarily to facilitate the sale, we recognize revenue on a net basis (as the agent).

Contract Acquisition Costs

Contract and customer acquisition costs, consisting primarily of sales commissions, are incremental and recoverable costs of obtaining a contract. These costs are capitalized using the portfolio approach and are amortized over the expected period of benefit, which is the estimated life of the technology (determined to be approximately 7 years) provided in the underlying contract. The amortization is determined on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Deferred commissions that will amortize within the next 12-month period are classified as current and included in prepaid expenses and other current assets. The remaining balance is classified as noncurrent and are included in other assets. The Company also applies the practical expedient to expense certain costs as incurred when the amortization period is expected to be one year or less. deductible for U.S. income tax purposes. The practical expedient typically applies goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

5. REVENUE

Disaggregation of Revenue

The following table depicts the disaggregation of revenue according to the Company's professional services offerings. revenue streams. The Company believes this depicts the nature, amount, timing and uncertainty of revenue and cash flows consistent with how we evaluate our financial statements (in thousands):

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
SaaS	$ 113,964	$ 102,664
Professional services	16,233	16,063
Software maintenance	27,109	27,101
License and other	2,148	3,764
Total revenue	$ 159,454	$ 149,592

Revenue recognized for the three month periods ended March 31, 2023 and 2022 from performance obligations satisfied in the prior periods was immaterial.

Revenue by principal geographic areas based on where the customer is located was as follows (in thousands):

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
United States	$ 148,807	$ 138,462
Canada	8,178	8,744
Other	2,469	2,386
Total revenue	$ 159,454	$ 149,592

The Company had no customers accounting for more than 10% of total revenue for the periods presented.

Deferred Revenue Fiscal 2022 Acquisitions

Kinvolved, Inc.

On February 1, 2022, the Company acquired all of the equity interests of Kinvolved, Inc. ("Kinvolved"). Kinvolved is a leading provider of K-12 communications, attendance and engagement solutions software. The timing purpose of revenue recognition may differ from the timing acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Kinvolved was $23.3 million, which included $16.2 million of invoicing to customers. The Company records a receivable when it can contractually invoice a customer cash and payment will become due solely additional contingent cash consideration, payable based on the passage achievement of time, a contract asset when revenue is recognized prior to invoicing and payment is contingent upon transfer of control of another separate certain performance obligation, or deferred revenue (contract liability) when consideration is received from or amounts are billed to customers which precedes its performance to fully satisfy the associated performance obligation(s).

Deferred revenue primarily results from the revenue from our SaaS offerings that is billed in advance of when such services are provided by the Company. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as non-current.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 days for net new contracts. For renewal invoices, the due date is generally the start date of the renewal. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that contracts generally do not include a significant financing component.

Fair Value Measurements

GAAP guidance for fair value measurements clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

conditions. The Company has established a fair value hierarchy which prioritizes the inputs to the valuation techniques used to measure fair value into three levels. These levels are determined based on the lowest-level input that is significant to the fair value measurement. Levels within the hierarchy are defined as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2—Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable, either directly or indirectly; and

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company does not have any assets or liabilities that are required to be recorded at fair value on a recurring basis using values determined by Level 2 or Level 3 inputs, with the exception of the contingent consideration liability related to the acquisitions of Kinvolved and Chalk (each as defined below) classified as accrued expenses on the Company's consolidated balance sheet. The acquisition-date fair value of the contingent consideration liability related was $7.1 million. Transaction costs of $1.2 million are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss. The Company has accounted for this acquisition as a business combination and recognized intangible assets of $4.5 million and net tangible assets of $0.2 million. The Company recorded $18.6 million of goodwill arising from the acquisition, none of which is expected to be deductible for tax purposes. The goodwill is a result of the acquisitions growth expected by creating a comprehensive education technology portfolio.

Chalk.com Education ULC

On May 2, 2022, the Company acquired all of Kinvolved and the equity interests of Chalk.com Education ULC ("Chalk"). Chalk is an integrated curriculum planning and analytics platform for K-12 schools. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Chalk was $13.5 million, which included $10.4 million of cash and additional contingent cash consideration payable based on unobservable inputs, including management estimates and assumptions about future revenues and share price, and is, therefore, classified as Level 3. See Note 10 for further information regarding the achievement of certain performance conditions. The acquisition-date fair value of the contingent consideration. consideration was $3.1 million. Transaction costs of $0.9 million The are recorded amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable, and accrued expenses and other liabilities approximate the fair values principally because of their short-term nature. Short-term and long-term debt are reported at amortized in acquisition costs in the Company's consolidated balance sheets. statements of operations and comprehensive loss. The remaining financial instruments Company has accounted for this acquisition as a business combination and recognized intangible assets of $3.6 million and net tangible liabilities of $0.2 million. The Company recorded goodwill of $10.0 million arising from the acquisition,

all of which is expected to be deductible for U.S. income tax purposes. The goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

Headed2, LLC

On June 1, 2022, the Company acquired all of the equity interests of Headed2, LLC ("Headed2"). Headed2 is a career path planning platform that delivers state-level support for college, career, military, and life readiness to students of all ages by providing a more complete approach to researching and preparing for future success. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Headed2 was $5.8 million, which was paid in cash. Transaction costs of $0.5 million are reported recorded in acquisition costs in the Company's consolidated balance sheets at amounts that approximate current fair values. statements of operations and comprehensive loss. The Company has accounted for this acquisition as a business combination and recognized intangible assets of $2.3 million and net tangible assets of $0.2 million. The Company recorded goodwill of $3.3 million arising from the acquisition, all of which is expected to be deductible for U.S. income tax purposes. The goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

Concentration

5. REVENUE

Disaggregation of Credit Risk Revenue

The following table depicts the disaggregation of revenue according to the Company's cash, cash equivalents, revenue streams. The Company believes this depicts the nature, amount, timing and accounts receivable are potentially subject to concentration uncertainty of credit risk. Cash revenue and cash equivalents are deposited flows consistent with how we evaluate our financial institutions that management believes are creditworthy. As of September 30, 2022 statements (in thousands):

	Three Months Ended March 31,	
	2023	2022

SaaS	$ 113,964	$ 102,664
Professional services	16,233	16,063
Software maintenance	27,109	27,101
License and other	2,148	3,764
Total revenue	$ 159,454	$ 149,592

Revenue recognized for the three month periods ended March 31, 2023 and December 31, 2021, substantially all 2022 from performance obligations satisfied in the Company's cash has been deposited in low-interest-bearing accounts. prior periods was immaterial.

The Company maintains cash balances in excess of the Federal Deposit Insurance Corporation limits at certain financial institutions. We have deposits only with financial institutions believed to have high-quality credit.

The Company maintains an allowance for doubtful accounts receivable Revenue by principal geographic areas based on various factors, including where the Company's review of credit profiles of its customers, contractual terms and conditions, historical payments, and current economic trends. The Company had no customers who accounted for more than 10% of accounts receivable customer is located was as of September 30, 2022 and December 31, 2021. Since most of these receivables were satisfied in subsequent periods, the Company believes that this does not pose an undue concentration of credit risk on the Company. follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
United States	$ 148,807	$ 138,462
Canada	8,178	8,744
Other	2,469	2,386
Total revenue	$ 159,454	$ 149,592

The Company had no customers accounting for more than 10% of total revenue for all periods presented.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable primarily includes trade accounts receivable from the Company's customers. Allowances for doubtful accounts are established based on various factors, including, but not limited to, credit profiles of the Company's customers, contractual terms and conditions, historical payments, and current economic trends. Accounts receivable are written off or credited on a case-by-case basis, net of any amounts that may be collected.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of software, equipment, and furniture and fixtures which is generally three to ten years. Buildings are depreciated over a useful life of 20 years or based on the life assigned in the contract. Amortization of leasehold improvements is computed using the shorter of the estimated useful lives or the terms of their respective leases, generally one year to nine years.

Significant improvements that substantially extend the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as they are incurred.

Intangible Assets

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values using the straight-line method designed to match the amortization to the benefits received.

Leases

Leases arise from contractual obligations that convey the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company determines whether an arrangement is or contains a lease at inception, based on whether there is an identified asset and whether it controls the use of the identified asset throughout the period of use. At lease commencement date, the Company determines lease classification between finance and operating and recognizes an ROU asset and corresponding lease liability. An ROU asset represents our right to use an underlying asset and a lease liability represents our obligation to make payments during the lease term.

The lease liability is initially measured as the present value of the remaining lease payments over the lease term. The discount rate used to determine the present value is the Company's incremental borrowing rate ("IBR") because the interest rate implicit in the Company's leases is not readily determinable. The Company estimates its IBR based on the information available at lease commencement date for borrowings with a similar term. The ROU asset is initially measured as the present value of the lease payments, adjusted for initial direct costs, prepaid lease payments to lessors and lease incentives. The operating lease ROU assets and liabilities recognized at January 1, 2022, the adoption date, were based on the present value of lease payments over the remaining lease term as of that date, using the IBR as of that date.

The Company elected the practical expedients to not recognize ROU assets and liabilities for leases with a term of less than twelve months and to not separate nonlease components from the associated lease components. The total consideration includes fixed payments and contractual escalation provisions. The Company is responsible for maintenance, insurance, property taxes and other variable payments, which are expensed as incurred. Some leases include options to renew or terminate. The Company includes the option to renew or terminate in its determination of the lease term when the option is deemed to be reasonably assured to be exercised. The Company accounts for changes in the expected lease term as a modification of the original contract.

Operating leases are classified in "Operating lease right-of-use assets", "Operating lease liabilities, current", and "Operating lease liabilities—net of current" on our condensed consolidated balance sheets.

Capitalized Product Development Costs

The Company's software and website development costs are accounted for under the guidance for internal use software and website development costs. The costs in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, if: (1) the costs are direct and incremental and (2) management has determined that it is probable that the project will be completed and the software will be used to perform the function intended, internal and external costs are capitalized until the application is substantially complete and ready for its intended use. The Company makes ongoing evaluations of the recoverability of its capitalized software projects by comparing the net amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes off the amount by which the unamortized software development costs exceed net realizable value. Capitalized software development costs are being amortized to cost of revenue on a straight-line basis over five years. Useful lives are reviewed at least annually and adjusted if appropriate.

Capitalized Cloud Computing Arrangement Implementation Costs

The Company capitalizes certain qualifying costs to implement cloud computing hosting arrangements that are service contracts. Such qualifying costs include direct costs for third-party consulting services, and do not include software maintenance and training costs, which are expensed as incurred. Capitalization of these costs ceases once the software of the hosting arrangement is ready for its intended use. Capitalized costs, net of accumulated amortization, are included in prepaid expenses and non-current assets on the Company's consolidated balance sheets and amortized primarily to operating expense on a straight-line basis over the expected term of the associated arrangement, including periods that are reasonably expected to be renewed. The amount capitalized is included as a component of net cash used in operating activities in the statements of cash flows.

Capitalized Interest

Interest is capitalized on software products under development. Interest capitalization is based on rates applicable to borrowings outstanding during the period and the balance of qualified assets under development during the period. Capitalized interest is amortized over the useful lives of such assets and the amortization is reported as cost of revenue.

Goodwill Assets

Goodwill is the excess of the purchase price in a business combination over the fair value of identifiable net assets acquired. Goodwill is subject to periodic testing for impairment.

Goodwill is assessed at least annually, but also whenever events or changes in circumstances indicate the carrying values may not be recoverable. Factors that could trigger an impairment review, include (a) significant underperformance relative to historical or projected future operating results; (b) significant changes in the manner of or use of the acquired assets or the strategy for the Company's overall business; and (c) significant negative industry or economic trends.

The Company conducts an impairment assessment on December 31 of each year taking a qualitative and quantitative evaluation approach to determine if there are any adverse market factors or changes in circumstances indicating that the carrying value of goodwill may not be recoverable. If it is more likely than not that an impairment exists, the Company performs a quantitative test that compares the fair value to the net carrying value and records an impairment of goodwill to the extent that the net carrying value exceeds the fair value equal to the excess amount. There was no goodwill impairment recorded by the Company in any of the periods presented.

Recoverability of Long-Lived and Intangible Assets

The Company evaluates the recoverability of its long-lived assets, including amortizable intangible and tangible assets in accordance with authoritative guidance on accounting for the impairment or disposal of long-lived assets. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. No long-lived asset impairment losses were recorded by the Company during any of the periods presented.

Debt Issuance Costs and Debt Discount

The Company records debt issuance costs as a reduction to the carrying value of the related debt and such amounts are being amortized over the term of the related debt using the straight-line method of amortization, which approximates the effective interest method. Amortization of debt issuance costs are included in interest expense - net on the consolidated statements of operations and comprehensive loss.

The Company accounts for the discounts as an adjustment to the carrying amount and then amortizes the discounts over the terms using the effective interest method.

Deferred Offering Costs

Prior to the Completion of the IPO, the Company recorded deferred offering costs as other assets on its consolidated balance sheets. The costs consist of costs incurred in connection with the Company's IPO, including certain legal, accounting, printing, and other IPO related costs. After completion of the IPO, these costs were recorded in stockholders' deficit as a reduction from the IPO proceeds.

There were no deferred offering costs included in other assets as of September 30, 2022 and December 31, 2021 as the accumulated deferred offering costs of $11.8 million were reclassified to additional paid-in capital upon consummation of the IPO in the third quarter of the fiscal year ended December 31, 2021. Additional deferred offering costs of

$0.3 million were incurred and included in additional paid-in capital for the nine months ended September 30, 2022. No additional deferred offering costs were incurred for the three months ended September 30, 2022.

Business Combinations

The Company accounts for acquisitions under the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The consolidated statements of operations and comprehensive loss include the results of operations of the acquirees since the date of acquisition. The net assets of the acquisition with the exception of contract assets and contract liabilities (i.e., deferred revenue) were recorded at their estimated fair values as of the acquisition date. Contract assets and contract liabilities acquired in a business combination are recognized and measured on the acquisition date in accordance with ASC 606, as if the Company had originated the contracts.

The fair values may change as the Company obtains additional information, and are expected to be finalized as soon as practicable, but not later than one year from the acquisition date ("measurement period"). Any changes in the fair value of assets and liabilities assumed during the measurement period may result in adjustments to goodwill.

Share-Based Compensation

Prior to the IPO, certain employees were granted unit-based awards by the Company's predecessor entity, Holdings LLC, as profit interests based on the estimated fair value of the awards at the date of grant. Holdings LLC utilized the Black-Scholes pricing model for determining the estimated fair value of the unit-based awards on the date that the awards are granted. Given the absence of any active market for the shares underlying the awards, the fair value of the awards was determined with input from management and third-party valuations.

In connection with the Organizational Transactions, certain of these outstanding unit-based awards were converted into restricted and unrestricted shares and restricted stock units ("RSUs") of PowerSchool Holdings, Inc. After the IPO, the Company uses the publicly quoted price as reported on the New York Stock Exchange as the fair value of the restricted shares, unrestricted shares and its RSUs on their respective grant dates.

For service based awards, compensation expense is recognized on a straight-line basis over the respective requisite service periods of the awards. For performance-based awards where vesting is contingent upon both a service and a performance condition, compensation expense is recognized over the respective requisite service period of the award when achievement of the performance condition is considered probable. Share-based compensation expense is recognized within cost of revenue; research and development; and selling, general, and administrative expense on the consolidated statements of operations and comprehensive loss based on the function of the employees receiving awards. Any forfeitures are accounted for as they occur.

Income Taxes

As a result of the Organizational Transactions and the IPO, the Company holds an economic interest in Holdings LLC and consolidates its financial position and results. The remaining ownership of Holdings LLC not held by the Company is considered a noncontrolling interest. Holdings LLC is treated as a partnership for income tax reporting purposes. Its members, including the Company, are liable for federal, state, and local income taxes based on their share of Holdings LLC's taxable income. In addition, the Company is subject to U.S. federal, state, local, and foreign income taxes on the taxable income or loss of certain operating subsidiaries of Holdings LLC that are taxed at the entity level.

The tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of its annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The quarterly tax provision and estimate of the Company's annual effective tax rate are subject to variation due to several factors including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how the Company conducts business, and tax law developments.

Interest and penalties related to unrecognized tax benefits are recorded as income tax expense.

Tax Receivable Agreement

In connection with the Organizational Transactions, the Company entered into a TRA with Topco LLC, Vista Equity Partners and Onex whereby the Company agreed to pay 85% of the amount of certain tax benefits to such pre-IPO owners. Payments to be made under the TRA will vary depending on several factors, including applicable tax rates and the timing and amount of our future income.

The Company accounts for amounts payable under the TRA in accordance with ASC Topic 450, Contingencies. As such, subsequent changes in the fair value of the TRA liability between reporting periods are recognized in the consolidated statement of operations. See Note 17, Income Taxes, for additional information on the TRA.

Cost of Revenue

The Company includes costs directly related to revenue as a component of cost of revenue. Personnel costs associated with cost of revenue consist of salaries, benefits, bonuses, payroll taxes and stock-based compensation expense.

Subscriptions and support

Subscriptions and support cost of revenue consists of costs directly related to subscription services, including personnel costs related to operating data centers and customer support operations, hosting and data center related costs, third-party software licenses and allocated facilities and overhead costs.

Service

Service cost of revenue consists of personnel costs related to the delivery of the Company's service offerings, software, equipment, and information technology related expenses, third-party contractor costs, as well as travel and allocated facilities and overhead costs.

License and other

License and other cost of revenue consists primarily of personnel costs associated with delivering licenses, reseller arrangements, and allocated facilities and overhead costs.

Depreciation and amortization

Depreciation and amortization cost of revenue includes allocated depreciation of its computer and software equipment related to the Company's customer support operations, hosting and data center related costs and amortization of the Company's capitalized product development costs and technology intangible assets.

Operating Expenses

The Company's operating expenses consist of research and development, selling, general, and administrative expenses as well as acquisition costs. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, sales incentives, payroll taxes and stock-based compensation expense, as well as the related overhead costs to support the Company's staff. Other significant components of operating expenses include events and travel, professional fees, allocated facilities and overhead costs, general marketing and promotion costs, and bad debt expense.

Research and development

Research and development expenses consist primarily of personnel costs and the related overhead costs to support our staff, software and hardware costs, third-party professional fees, and allocated facilities and overhead costs.

Selling, general, and administrative

Selling, general, and administrative expenses consist primarily of personnel costs and the related overhead costs to support the Company's staff across the corporate functions of sales, executive, finance, human resources, information technology, internal operations and legal, as well as sales commissions, third-party professional fees, bad debt expense, marketing and promotional activities, travel, and allocated costs for facilities and overhead costs.

Acquisition costs

Acquisition costs relate primarily to transaction expenses incurred in relation to the Company's acquisitions.

Depreciation and amortization

Depreciation and amortization costs include allocated depreciation of the Company's property and equipment and amortization of customer relationship and trademark intangible assets.

Advertising Expense

Advertising costs are expensed as they are incurred. The Company incurred advertising costs of $1.7 million and $4.0 million for the three and nine months ended September 30, 2022 and $1.3 million and $2.3 million for the three and nine months ended September 30, 2021, respectively. Advertising costs are included within sales, general, and administrative expenses on the consolidated statements of operations and comprehensive loss.

Foreign Currencies

The functional currency of our foreign entities is the local currency. Monetary assets and liabilities and transactions denominated in currencies other than an entity's functional currency are remeasured into its functional currency using current exchange rates, whereas non-monetary assets and liabilities are remeasured using historical exchange rates. The gains and losses resulting from such remeasurements are classified within other expense (income) – net in the Company's consolidated statements of operations and comprehensive loss in the period of occurrence.

The assets and liabilities of our foreign entities are translated into the Company's reporting currency, U.S. dollars, at exchange rates in effect on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using the historical exchange rates. Adjustments resulting from translating a foreign entity's financial statements into U.S. dollars are included in accumulated other comprehensive loss as a separate component of stockholders' equity.

Foreign currency exchange gains and losses are recorded within other expense, net. For the three and nine months ended September 30, 2022, foreign currency transaction gains were $0.5 million and $1.0 million, respectively. For the three and nine months ended September 30, 2021, foreign currency transaction gains were $0.4 million and $0.2 million, respectively.

Comprehensive Loss

Comprehensive loss consists of two components, net loss and other comprehensive income (loss). Other comprehensive income (loss) refers to certain changes that are recorded as an element of stockholders'/members' equity but are excluded from net loss. The Company's other comprehensive income (loss) consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency. The Company has disclosed accumulated comprehensive income (loss) as a component of stockholders'/members' equity.

Segment Information

Operating segments are defined as components of an entity for which discrete financial information is available that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance. The Company's Chief Executive Officer is the Company's CODM. The CODM reviews financial information on a consolidated basis for purposes of making operating decisions, allocating resources and evaluating financial performance. As such, the Company has one operating and reportable segment. The Company does not have material long-lived assets in geographic areas outside of the United States.

Earnings (Loss) Per Share Attributable to Common Stockholders ("EPS")

Basic earnings (loss) per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of Class A common stock outstanding during each period. The Company does not consider the shares of Class B common stock to be participating securities as the holders of Class B of common stock do not have any right to receive dividends or distributions upon the Company's liquidation or winding up.

Diluted net income (loss) per share attributable to common stockholders is computed by giving effect to all potential shares of common stock, including shares issuable upon conversion of our LLC Units and unvested RSUs and restricted stock awards to the extent they are dilutive.

Prior to the IPO, Holdings LLC was a single member LLC and it did not have units or shares outstanding. The Company's members' equity was held solely by its parent entity. Accordingly, the inclusion of earnings per unit would not be relevant or provide a benefit to the users of the consolidated financial statements for the historical periods.

Since we have reported net losses in the periods presented, potential dilutive shares of common stock are not assumed to have been issued as their effect would have been antidilutive. Therefore, diluted net loss per share attributable to PowerSchool Holdings, Inc. is the same as basic net loss per share attributable to PowerSchool Holdings, Inc.

Non-Controlling Interest

The Organizational Transactions described in Note 1 were executed concurrently with the IPO. As such, the net effect of these transactions along with accumulated net parent investment balance as of the IPO date was allocated pro rata based on the underlying ownership of shares.

Further, due to the Company's majority economic interest in Holdings LLC and status as its sole manager, the Company consolidates the financial results of Holdings LLC and reports a non-controlling interest on its condensed consolidated statements of operations and comprehensive loss, representing the portion of net loss and comprehensive loss attributable to the holders of the minority interest in Holdings LLC subsequent to the IPO. This non-controlling interest is classified as permanent equity on the Company's condensed consolidated balance sheets.

3. BUSINESS COMBINATIONS

We completed two acquisitions in fiscal year 2021 and three acquisitions during the nine months ended September 30, 2022. The purchase price allocation for these acquisitions, discussed in detail below, reflects various fair value estimates and analyses, including certain tangible assets acquired and liabilities assumed, the valuation of intangible assets acquired, income taxes and goodwill, which are subject to change within the measurement period as preliminary valuations are finalized. Measurement period adjustments are recorded in the reporting period in which the estimates are finalized and adjustment amounts are determined. The fair value of the assets and liabilities acquired are based on valuations using the Level 3, unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The results of operations of these business combinations have been included in the Company's consolidated financial statements from their respective acquisition dates.

Fiscal 2022 Acquisitions

Kinvolved, Inc.

On February 1, 2022, the Company acquired all of the equity interests of Kinvolved, Inc. ("Kinvolved"). Kinvolved is a leading provider of K-12 communications, attendance and engagement solutions software. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Kinvolved was $23.3 million, which included $16.2 million of cash and additional contingent cash consideration, payable based on the achievement of certain performance conditions. The acquisition-date fair value of the contingent consideration was $7.1 million. Transaction costs of $1.2 million are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss. The Company has accounted for this acquisition as a business combination and recognized intangible assets of $4.5 million and net tangible assets of $0.2 million. The Company recorded $18.6 million of goodwill arising from the acquisition, none of which is expected to be deductible for tax purposes. The goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

Chalk.com Education ULC

On May 2, 2022, the Company acquired all of the equity interests of Chalk.com Education ULC ("Chalk"). Chalk is an integrated curriculum planning and analytics platform for K-12 schools. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Chalk was $13.5 million, which included $10.4 million of cash and additional contingent cash consideration payable based on the achievement of certain performance conditions. The acquisition-date fair value of the contingent consideration was $3.1 million. Transaction costs of $0.9 million are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss. The Company has accounted for this acquisition as a business combination and recognized intangible assets of $3.6 million and net tangible liabilities of $0.2 million. The Company recorded goodwill of $10.0 million arising from the acquisition,

all of which is expected to be deductible for U.S. income tax purposes. The goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

Headed2, LLC

On June 1, 2022, the Company acquired all of the equity interests of Headed2, LLC ("Headed2"). Headed2 is a career path planning platform that delivers state-level support for college, career, military, and life readiness to students of all ages by providing a more complete approach to researching and preparing for future success. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Headed2 was $5.8 million, which was paid in cash. Transaction costs of $0.5 million are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss. The Company has accounted for this acquisition as a business combination and recognized intangible assets of $2.3 million and net tangible assets of $0.2 million. The Company recorded goodwill of $3.3 million arising from the acquisition, all of which is expected to be deductible for U.S. income tax purposes. The goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

Fiscal 2021 Acquisitions

Hobsons, Inc.

On March 3, 2021, the Company acquired all of the equity interests of Hobsons, Inc. ("Hobsons"). Hobsons' businesses were comprised of Naviance and Intersect. Naviance is a college, career, and life readiness solution used by students across U.S. schools for assessing and developing students' interests and competencies in preparation for life after high school. Intersect is an innovative admissions solution connecting Naviance students to their best-fit higher education opportunities. The purpose of the acquisition was to enhance and expand the PowerSchool product offering.

The total purchase price for Hobsons was $318.9 million, which was paid in cash. Transaction costs of $4.9 million incurred for the year ended December 31, 2021 are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss.

The Company has accounted for this acquisition as a business combination. The consideration and the acquisition date fair values of the assets acquired and liabilities assumed are as follows (in thousands):

Consideration	$	318,861
Accounts receivable		8,058
Prepaid expenses and other assets		13,967
Property and equipment		670
Other assets		26
Intangible assets		127,400
Accounts payable		1,814
Accrued expenses		4,427
Deferred revenue		29,618
Deferred taxes		29,465
Goodwill	$	234,064

The Company recorded $234.1 million of goodwill, arising from the acquisition, none of which is expected to be deductible for tax purposes. The goodwill is a result of the growth expected by creating a fully comprehensive education technology portfolio for educators, students and parents as well as margin improvements resulting from market participant synergies and operating leverage as sales increase.

The Company believes it is not practicable to provide pro forma statements of operations of the combined business as if the acquisition had been completed at an earlier date as it would require significant estimates and assumptions without the use of hindsight that could be misleading. This is due to seller's lack of historical financial information sufficient to produce such pro forma statements given that the Company purchased specific businesses that were not segregated in the seller's financial records and for which separate carve-out financial statements were not readily available.

Kickboard, Inc.

On December 1, 2021, the Company acquired all of the equity interests of Kickboard, Inc. ("Kickboard"). Kickboard is a provider of behavioral and social emotional learning assessments, analytics and classroom solutions software applications for the K-12 education market. The purpose of the acquisition was to enhance and expand PowerSchool's product offering.

The total purchase price for Kickboard was $15.5 million, which was paid in cash. Transaction costs of $1.1 million incurred for the year ended December 31, 2021are recorded in acquisition costs in the consolidated statements of operations and comprehensive loss.

The Company has accounted for this acquisition as a business combination. The consideration and the acquisition date fair values of the assets acquired and liabilities assumed are as follows (in thousands):

Consideration	$	15,479
Cash		1,116
Accounts receivable		626
Prepaid expenses and other assets		357
Intangible assets		5,400
Deferred tax asset		1,824
Accounts payable		73
Accrued expenses		96
Deferred revenue		1,244
Goodwill	$	7,569

The Company recorded $7.6 million of goodwill arising from the acquisition of Kickboard, none of which is expected to be deductible for tax purposes. The goodwill is a result of the growth expected by creating a comprehensive education technology portfolio.

Neither the Hobsons nor the Kickboard acquisition had a material impact on the Company's consolidated financial statements (individually or in the aggregate during the 2021 fiscal period). Therefore, historical results of operations subsequent to the acquisition date and pro forma results of operations have not been presented.

4. 5. REVENUE

Disaggregation of Revenue

The following table depicts the disaggregation of revenue according to the Company's revenue streams. The Company believes this depicts the nature, amount, timing and uncertainty of revenue and cash flows consistent with how we evaluate our financial statements (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
SaaS	SaaS	$ 109,526	$ 97,290	$ 319,742	$ 267,942	SaaS	$ 113,964	$ 102,664
Professional services	Professional services	19,933	18,497	55,114	47,533	Professional services	16,233	16,063
Software maintenance	Software maintenance	27,569	26,982	82,128	81,184	Software maintenance	27,109	27,101
License and other	License and other	5,406	6,183	12,633	15,843	License and other	2,148	3,764
Total revenue	Total revenue	$ 162,434	$ 148,952	$ 469,617	$ 412,502	Total revenue	$ 159,454	$ 149,592

Revenue recognized for the three and nine month periods ended September 30, 2022 March 31, 2023 and 2021 2022 from performance obligations satisfied in the prior periods was immaterial.

Revenue by principal geographic areas based on where the customer is located was as follows (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
United States	United States	$ 150,626	$ 137,967	$ 434,194	$ 379,778	United States	$ 148,807	$ 138,462
Canada	Canada	9,260	8,992	27,243	26,660	Canada	8,178	8,744
Other	Other	2,548	1,993	8,180	6,064	Other	2,469	2,386
Total revenue	**Total revenue**	$ 162,434	$ 148,952	$ 469,617	$ 412,502	**Total revenue**	$ 159,454	$ 149,592

The Company had no customers accounting for more than 10% of total revenue for the periods presented.

Deferred Revenue

The changes in the deferred revenue balance were as follows (in thousands):

		September 30, 2022	December 31, 2021		March 31, 2023	December 31, 2022
Balance at beginning of period	Balance at beginning of period	$ 301,157	$ 235,190	Balance at beginning of period	$ 315,839	$ 301,157
Decrease from revenue recognized	Decrease from revenue recognized	(236,631)	(225,594)	Decrease from revenue recognized	(109,855)	(289,328)
Increase from acquisitions	Increase from acquisitions	1,586	26,952	Increase from acquisitions	—	1,586

Increase from current period net deferred revenue additions	Increase from current period net deferred revenue additions	302,604	264,609	Increase from current period net deferred revenue additions	36,168	302,424
Balance at end of period	Balance at end of period	$ 368,716	$301,157	Balance at end of period	$242,152	$315,839

As of September 30, 2022 March 31, 2023, the Company expects to recognize revenue on approximately 99% 97% of these remaining performance obligations over the next 12 months, with the balance recognized thereafter.

The estimated revenues from the remaining performance obligations do not include uncommitted contract amounts such as (i) amounts that are cancellable by the customer without significant penalty, (ii) future billings for time and material contracts, and (iii) amounts associated with optional renewal periods.

Contract Cost Assets

Contract cost assets are included in prepaid expenses and other current assets and other assets, respectively, on the consolidated balance sheets as follows (in thousands):

		September 30, 2022	December 31, 2021		March 31, 2023	December 31, 2022
Contract costs, current	Contract costs, current	$ 5,614	$ 4,835	Contract costs, current	$ 6,427	$ 6,103
Contract costs, noncurrent	Contract costs, noncurrent	22,187	18,454	Contract costs, noncurrent	24,242	23,843
Total contract costs	Total contract costs	$ 27,801	$ 23,289	Total contract costs	$ 30,669	$ 29,946

Amortization expense for contract cost assets was $1.3 million $1.5 million and $3.4 million $1.0 million for the three and nine months ended September 30, 2022 March 31, 2023 and $0.9 million and $2.4 million for the three and nine months ended September 30, 2021, 2022, respectively. There was no impairment of contract cost assets during the periods presented.

5. ACCOUNTS RECEIVABLE

Accounts receivable, net, is as follows (in thousands):

	September 30, 2022	December 31, 2021
Accounts receivable	$ 108,562	$ 53,367
Less allowance	(6,160)	(4,964)
Accounts receivable—net	$ 102,402	$ 48,403

The following tables presents the changes in the allowance for doubtful accounts (in thousands):

	September 30, 2022	December 31, 2021
Allowance for doubtful accounts, beginning balance	$ 4,964	$ 7,869
Additions to (removals from) allowance for doubtful accounts	1,515	(2,857)
Write-offs of bad debt expense	(319)	(48)
Allowance for doubtful accounts, ending balance	$ 6,160	$ 4,964

6. PROPERTY AND EQUIPMENT— EQUIPMENT - NET

Property and equipment by category are as follows (in thousands):

		September 30, 2022	December 31, 2021		March 31, 2023	December 31, 2022
Building		$ —	$ 7,519			
Land		—	294			
Computer and software	Computer and software	19,460	18,512	Computer and software	$ 16,396	$ 16,272
Furniture and fixtures	Furniture and fixtures	1,691	2,912	Furniture and fixtures	1,564	1,563

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Leasehold improvements	Leasehold improvements	2,792	3,963	Leasehold improvements	2,400	2,377
Property and equipment	Property and equipment	23,943	33,200	Property and equipment	20,360	20,212
Less accumulated depreciation		(17,150)	(17,524)			
Less: accumulated depreciation				Less: accumulated depreciation	(14,607)	(14,039)
Property and equipment—net	Property and equipment—net	$ 6,793	$ 15,676	Property and equipment—net	$ 5,753	$ 6,173

Depreciation expense was $1.1 million $0.9 million and $3.7 million $1.3 million for the three and nine months ended September 30, 2022 March 31, 2023 and $1.7 million and $5.0 million for the three and nine months ended September 30, 2021. See Note 13 for further information regarding the extinguishment of our Building and Land. 2022, respectively.

In June 2022, the Company vacated several smaller office locations prior to their respective contractual termination dates. As a result, a charge of $1.0 million related to the write-off of the furniture and leasehold improvements within these locations were recognized. See Note 12 for further information regarding the closure of these office locations.

7. CAPITALIZED PRODUCT DEVELOPMENT COSTS— COSTS - NET

Capitalized product development costs and related accumulated amortization consist of the following (in thousands):

		September 30, 2022	December 31, 2021		March 31, 2023	December 31, 2022
Gross capitalized product development costs	Gross capitalized product development costs	$ 143,771	$ 109,290	Gross capitalized product development costs	$ 163,209	$ 152,663
Less accumulated amortization	Less accumulated amortization	(45,433)	(28,679)	Less accumulated amortization	(59,000)	(51,802)
Capitalized product development costs—net	Capitalized product development costs—net	$ 98,338	$ 80,611	Capitalized product development costs—net	$ 104,209	$ 100,861

Amortization of capitalized product development costs, included in the cost of revenue section of the consolidated statements of operations and comprehensive loss, were $6.0 million $7.2 million and $16.9 million $5.3 million for the three and nine months ended September 30, 2022 March 31, 2023, and $4.0 million and $11.3 million for the three and nine months ended September 30, 2021. 2022, respectively.

8. GOODWILL

The changes in the carrying amounts of goodwill were as follows (in thousands):

Balance—December 31, 2021 2022	$2,454,692 2,487,007
Additions due to acquisitions	31,937 —
Other adjustments[1]	(206) 17
Balance—September 30, 2022 March 31, 2023	$2,486,423 2,487,024

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[1] Includes adjustments of acquisition-date fair value within the one-year measurement period, including a $0.3 million final settlement of working capital, which had no impact to earnings in any of the periods presented.

9. OTHER INTANGIBLE ASSETS—NET

Intangible assets are amortized using the straight-line method based on the expected useful lives of the assets. The carrying values of acquired amortizing intangible assets are as follows (in thousands):

		September 30, 2022	Weighted-Average Useful Life	December 31, 2021	Weighted-Average Useful Life		March 31, 2023	Weighted-Average Useful Life	December 31, 2022	Weighted-Average Useful Life
Intangible Assets—Gross	**Intangible Assets—Gross**					**Intangible Assets—Gross**				

Developed technology	Developed technology	$ 293,580	9 years	$ 285,400	8 years	Developed technology	$ 293,604	8 years	$ 293,599	8 years
Customer relationships	Customer relationships	742,600	14 years	740,100	14 years	Customer relationships	742,600	14 years	742,600	14 years
Trademarks	Trademarks	53,470	10 years	52,700	9 years	Trademarks	53,474	9 years	53,474	9 years
		$ 1,089,650		$ 1,078,200			$ 1,089,678		$ 1,089,673	
Accumulated Amortization	**Accumulated Amortization**					**Accumulated Amortization**				
Developed technology	Developed technology	$ (126,117)		$ (100,704)		Developed technology	$ (143,265)		$ (134,691)	
Customer relationships	Customer relationships	(196,306)		(155,012)		Customer relationships	(223,930)		(210,120)	
Trademarks	Trademarks	(21,422)		(17,575)		Trademarks	(24,010)		(22,715)	
		$ (343,845)		$ (273,291)			$ (391,205)		$ (367,526)	
Intangible Assets—Net	**Intangible Assets—Net**					**Intangible Assets—Net**				
Developed technology	Developed technology	$ 167,463		$ 184,696		Developed technology	$ 150,339		$ 158,908	
Customer relationships	Customer relationships	546,294		585,088		Customer relationships	518,670		532,480	
Trademarks	Trademarks	32,048		35,125		Trademarks	29,464		30,759	
		$ 745,805		$ 804,909			$ 698,473		$ 722,147	

Amortization of developed technology is recorded in cost of revenue, while the amortization of trademarks and customer relationships is included in selling, general, and administrative expense on the Company’s consolidated statements of operations and comprehensive loss.

The following table summarizes the classification of amortization expense of intangible assets (in thousands):

		Three Months Ended September 30,		**Nine Months Ended September 30,**			**Three Months Ended March 31,**	
		2022	**2021**	**2022**	**2021**		**2023**	**2022**
Cost of revenue	Cost of revenue	$ 8,571	$ 8,561	$ 25,416	$ 25,017	Cost of revenue	$ 8,574	$ 8,378
Selling, general, and administrative expense	Selling, general, and administrative expense	15,104	14,915	45,138	43,180	Selling, general, and administrative expense	15,105	14,970
Total amortization of acquired intangible assets	Total amortization of acquired intangible assets	$ 23,675	$ 23,476	$ 70,554	$ 68,197	Total amortization of acquired intangible assets	$ 23,679	$ 23,348

The estimated future amortization of intangible assets as of September 30, 2022 March 31, 2023, is as follows (in thousands):

Year Ending December 31,	**Year Ending December 31,**		**Year Ending December 31,**	
2022 (remaining three months)		$ 23,679		
2023		94,715		
2023 (remaining nine months)			2023 (remaining nine months)	$ 71,038
2024	2024	94,074	2024	94,077
2025	2025	93,885	2025	93,888
2026	2026	82,817	2026	82,820
2027			2027	66,539
Thereafter	Thereafter	356,635	Thereafter	290,111
Total	Total	$ 745,805	Total	$ 698,473

10. ACCRUED EXPENSES

The following table presents the detail of accrued expenses (in thousands):

		September 30, 2022	December 31, 2021		March 31, 2023	December 31, 2022
Accrued compensation	Accrued compensation	$ 35,368	$ 38,492	Accrued compensation	$ 24,294	$ 38,966
Accrued interest	Accrued interest	127	650	Accrued interest	9,495	9,094
Accrued taxes	Accrued taxes	5,750	2,131	Accrued taxes	2,270	2,130
Tax Receivable Agreement liability, current				Tax Receivable Agreement liability, current	28,287	1,862
Other accrued expenses	Other accrued expenses	32,010	29,894	Other accrued expenses	29,525	32,218
Total accrued expenses	Total accrued expenses	$ 73,255	$ 71,167	Total accrued expenses	$ 93,871	$ 84,270

Included within other accrued expenses is the contingent consideration liability related to the acquisitions acquisition of Kinvolved and Chalk. The fair value of the contingent consideration is determined using the Monte Carlo simulation. simulation and is recorded as selling, general, and administrative expenses within operating expenses in the consolidated statements of operations and comprehensive loss. The fair value is estimated quarterly and is based on unobservable inputs, including management estimates and assumptions about achieving future revenues and/or and the Company's share price, and is, therefore, classified as Level 3 in the fair value hierarchy. The outstanding balance of the contingent consideration as of September 30, 2022 March 31, 2023 is expected to be paid within a year.

The changes in the fair value of the contingent consideration liability is as follows (in thousands):

Balance—January 1, 2022	$ —
Acquisition date fair value	10,079
Payment	(1,392)
Fair value adjustments	(5,586) (4,886)
Balance—September 30, December 31, 2022	$ 3,101 3,801
Fair value adjustments	(450)
Balance—March 31, 2023	$ 3,351

11. LONG-TERM DEBT AND REVOLVING CREDIT AGREEMENT

First Lien Credit Agreement ("First Lien")

On August 1, 2018, In August 2018, the Company entered into a loan agreement with a consortium of lenders which provided $775.0 million of term loans. The First Lien was issued at also provides for a discount Revolving Credit Agreement, discussed in more detail below. The First Lien is repayable in quarterly payments of $1.9 million which was deducted from $1.9 million through July 31, 2025, with all remaining outstanding principal due on July 31, 2025, the carrying amount. The Company is amortizing the discount over the term using the effective interest method.

Debt issuance costs of $18.7 million were recorded as a reduction to the face amount maturity date of the First Lien. The principal amounts of the initial term loans are payable on the last business day of each March, June, September, and December commencing on March 31, 2019, in an amount equal to 0.25% of the amount outstanding on August 1, 2018, the closing date. The First Lien matures on July 31, 2025.

On September 16, 2022, the Company entered into Amendment No. 4 to the First Lien, which amended the First Lien to change the reference rate from LIBOR to the SOFR, as administered by the Federal Reserve Bank of New York, beginning on September 30, 2022.

As of September 30, 2022 March 31, 2023, the interest rate for the First Lien is the rate per annum equal to SOFR, the Secured Overnight Financing Rate ("SOFR"), plus the applicable margin. The applicable margin is initially 3.25% per annum with a 0.25% step down based on the First Lien Net Leverage Ratio. The interest rate for the First Lien as of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022 was 6.03% 7.68% and 3.10% 7.09%, respectively.

The First Lien is collateralized on a first lien basis by certain substantially all of the assets and property of the Company. Holdings LLC and its domestic subsidiaries.

Revolving Credit Agreement

On August 1, 2018, the Company entered into The First Lien provides for a Revolving Credit Agreement (as defined below) allowing the Company to borrow funds from time to time. On November 25, 2020, the Company amended its Revolving Credit Agreement to increase its borrowing capacity by $60.0 million to $180.0 million. In July On July 30, 2021, upon consummation of the IPO, 2021, the Revolving Credit Agreement was further amended and permitted the borrowing capacity increased by $109.0 million Company to borrow up to $289.0 million million. The Revolving Credit Agreement and the maturity date was extended to matures on May 2, 2025 from July 31, 2023. In connection with the increase of the borrowing capacity and the extension of the maturity date, the Company paid fees of $0.7 million, which was recorded as capitalized debt issuance cost and presented within other assets on the consolidated balance sheet. Pricing and other terms and conditions

The interest rate of the Revolving Credit Agreement remain unchanged.

Under the amended terms of the Revolving Credit Agreement, the Company was permitted to borrow up to $289.0 million as of September 30, 2022 and December 31, 2021, respectively. Issuance costs paid through September 30, 2022 (including those issued in connection with the increase in the borrowing capacity and the extension of the maturity date) were $3.4 million.

On September 16, 2022, the Company entered into Amendment No. 4 to the Revolving Credit Agreement, which amended the Revolving Credit Agreement to change the reference rate from LIBOR to the SOFR, as administered by the Federal Reserve Bank of New York, beginning on September 30, 2022.

As of September 30, 2022, the interest rate is equal to SOFR, plus the applicable margin. The applicable margin is initially 3.25% per annum with up to a 0.50% step down based on the First Lien Net Leverage Ratio. We are also required to pay a commitment fee on the unused portion of the Revolving Credit Agreement of 0.50% per annum with up to a 0.25% step down based on the First Lien Net Leverage Ratio, payable quarterly in arrears.

During the nine months ended September 30, 2022, we borrowed and repaid $70.0 million on the Revolving Credit Agreement. There was no outstanding balance on the Revolving Credit Agreement as of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022.

The Revolving Credit Agreement requires the Company to maintain a First Lien Net Leverage Ratio (as defined therein) of not more than 7.75 to 1.00 if the Company has an outstanding balance on the Revolving Credit Agreement of greater than 35% of the borrowing capacity (excluding certain letters of credit) at a quarter end. As of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022, the Company's outstanding balances under the Revolving Credit Agreement were less than 35% of the borrowing capacity.

The following table presents the outstanding long-term debt (in thousands):

	September 30, 2022		December 31, 2021	
Total outstanding principal—First Lien	$	745,938	$	751,750
Total outstanding principal		745,938		751,750
Less current portion of long-term debt		(7,750)		(7,750)
Less unamortized debt discount		(786)		(992)
Less unamortized debt issuance costs		(7,584)		(9,583)
Total long-term debt—net	$	729,818	$	733,425

	March 31, 2023		December 31, 2022	
Total outstanding principal—First Lien	$	742,063	$	744,000
Less: current portion of long-term debt		(7,750)		(7,750)
Less: unamortized debt discount		(647)		(715)
Less: unamortized debt issuance costs		(6,252)		(6,911)
Total long-term debt—net	$	727,414	$	728,624

Maturities on long-term debt outstanding as of September 30, 2022 March 31, 2023 are as follows (in thousands):

Year Ending December 31,	Year Ending December 31,			Year Ending December 31,		
2022 (remaining three months)		$	1,938			
2023			7,750			
2023 (remaining nine months)				2023 (remaining nine months)	$	5,813
2024	2024		7,750	2024		7,750
2025	2025		728,500	2025		728,500
Total	Total	$	745,938	Total	$	742,063

12. Leases

The Company leases its office and data center facilities under non-cancelable operating leases that expire at various times through 2026. The Company is also responsible for certain real estate taxes, utilities, and maintenance costs related to its office facilities. Rent expense was $1.1 million $1.0 million and $4.3 million $2.0 million for the three and nine months ended September 30, 2022 March 31, 2023 and $2.3 and $6.2 million for the three and nine months ended September 30, 2021, 2022, respectively.

In June 2022, the Company vacated several smaller office locations prior to their respective contractual lease termination date. As a result, $7.6 million of right-of-use assets associated with these properties were written-off. Additionally, the Company also incurred an additional $0.3 million of costs associated with closing these office locations. These costs were recorded as selling, general and administrative expenses within the operating expenses in the consolidated statements of operations and comprehensive loss.

Operating lease Lease costs for the three and nine months ended September 30, 2022 March 31, 2023 and 2022 are as follows (in thousands):

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Operating lease cost[1]	$ 1,138	$ 12,291
Short-term lease cost	49	149
Variable lease cost and other, net	346	1,006
Total lease cost	$ 1,533	$ 13,446
Cash paid for operating leases	$ 2,516	$ 7,136
ROU assets obtained in exchange for new lease liabilities	$ 1,830	$ 5,484

1 The nine months ended operating lease cost includes the write-off of right-of-use assets associated with the vacated properties.

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Operating lease cost	$ 954	$ 5,555
Short-term lease cost	17	52
Variable lease cost and other, net	374	291
Total lease cost	$ 1,345	$ 5,898
Cash paid for operating leases	$ 1,769	$ 2,344
ROU assets obtained in exchange for new lease liabilities	$ —	$ 16,342

Future minimum lease payments under non-cancelable operating lease agreements as of September 30, 2022 March 31, 2023 are as follows (in thousands):

Year Ending December 31,	
2022 (remaining three months)	$ 2,469
2023	5,994
2024	4,343
2025	2,164
2026	1,233
Thereafter	743
Total undiscounted cash flows	$ 16,946
Less imputed interest	1,286
Present value of lease liabilities	$ 15,660
Weighted average remaining term (years)	3.3
Weighted average discount rate	3.9 %

Prior to our adoption of the new lease standard (ASC 842), future minimum lease payments under non-cancelable operating lease agreements as of December 31, 2021 were as follows (in thousands):

Year Ending December 31,	
2023 (remaining nine months)	$ 3,820
2024	4,316
2025	2,135
2026	1,208
2027	747
Total undiscounted cash flows	$ 12,226
Less imputed interest	710
Present value of lease liabilities	$ 11,516
Weighted average remaining term (years)	2.9
Weighted average discount rate	4.0 %

Year Ending December 31,		
2022	$	8,683
2023		4,131
2024		2,651
2025		1,373
2026		410
Total	$	17,248

13. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

We have contractual obligations related to, among others, data centers, cloud hosting arrangements and other services we purchase as part of our normal operations. In certain cases, these arrangements require a minimum annual purchase commitment by us. As of September 30, 2022 March 31, 2023, the remaining aggregate minimum purchase commitment under these arrangements was approximately $47.8 million $221.2 million through 2026.

Sale-leaseback Transactions

In October 2019, the Company entered into a sale-leaseback arrangement for one of its facilities, under which the Company sold the property at below-market value, and subsequently leased back the property at a below-market rent. Due to the existence of a prohibited form of continuing involvement, this transaction did not qualify for sale-leaseback accounting and as a result has been accounted for as a financing transaction under the previous lease accounting standards. Under the financing method, until the related lease is terminated, the assets will remain on its balance sheets, and proceeds received from the sale are reported as financing obligations. As of December 31, 2021, the balance of the remaining financing obligations was $4.5 million.

On January 1, 2022, the arrangement qualified as an operating lease upon adoption of the new leasing standards of ASC 842. As a result, the financing obligation noted above and associated assets of $6.5 million were extinguished and a corresponding operating lease liability of $2.0 million and operating lease right-of-use asset of $2.6 million were recorded.2027.

Self-Insured Health Plan

The Company is generally self-insured for losses and liabilities related to health benefits. The estimated liability for incurred, but not reported, medical claims is $2.5 million $0.4 million and $1.2 million $2.2 million as of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022, respectively.

Indemnification

The Company enters into indemnification arrangements within customer contracts as part of the ordinary course of its business. Under the Company's standard contractual terms, these arrangements typically consist of the Company agreeing to indemnify, hold harmless and reimburse the indemnified customer(s) for losses suffered or incurred directly, in connection with any trade secret, copyright, patent, or other intellectual property infringement claim by any third-party with respect to the Company's technology. The term of these indemnification agreements is generally concurrent with the term of the contract, but in some cases, may survive the expiration or termination of the underlying contract. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made.

The Company carries Directors directors and Officers officers insurance policies pursuant to the Company's certificate of formation, bylaws, and applicable Delaware law.

Legal Proceedings

From time to time, the Company is involved in disputes, litigation, and other legal actions. On a quarterly basis, the Company evaluates developments in its legal matters that could affect the amount of liability that has been previously accrued, if any, or result in the Company accruing a liability, and the matters and related ranges of possible losses disclosed, and makes adjustments and changes to our disclosures as appropriate. Significant judgment is required to determine both (i) the likelihood of loss and (ii) the estimated amount of such loss related to such legal matters. Until the final resolution of such legal matters, there may be an exposure to loss, and such amounts could be material. For legal proceedings for which there is a reasonable possibility of loss (meaning those losses for which the likelihood is more than remote but less than probable), the Company has determined it does not have material exposure on an aggregate basis at this time.

14. STOCKHOLDERS' EQUITY AND NON-CONTROLLING INTEREST

Stockholders' Equity

The Company Company's amended and restated its certificate of incorporation effective July 27, 2021 to authorize authorizes (i) 50,000,000 shares of preferred stock, par value $0.0001 per share, (ii) 500,000,000 shares of Class A common stock, par value $0.0001 per share, and (iii) 300,000,000 shares of Class B common stock, par value $0.0001 per share. Holders of our Class A common stock and Class B common stock vote together as a single class on all matters presented to stockholders for their vote or approval, except as otherwise required by law. Each share of Class A common stock and Class B common stock entitles its holder to one vote on all matters presented to our stockholders generally.

As of September 30, 2022, March 31, 2023, the holders of our issued Class A common stock collectively heldrepresented approximately 80.0% 81.2% of the economic interest and voting power in the Company and holders of our issued Class B common stock collectively represented held approximately 18.8% of the economic interest and voting power in the Company. As of December 31, 2022, the Class B common stock collectively held approximately 20.0% of the economic interest and voting power in the Company.

Non-controlling interest

The weighted average non-controlling interest percentage used to calculate the net loss and other comprehensive loss attributable to the non-controlling interest holders in the three and nine-months months ended September 30, 2022 March 31, 2023 and 2022 was 20.1% 19.6% and 20.2%, respectively.

15. SHARE-BASED COMPENSATION

Prior to the IPO, Holdings LLC had historically maintained an equity incentive plans plan for purposes of retaining and incentivizing certain employees of the Company. This plan was replaced by the Company's 2021 Omnibus Incentive Plan ("2021 Plan"), approved on July 27, 2021 in connection with the IPO.

Pre-IPO equity incentive plan

Management Incentive Units (MIUs)

Holdings LLC provided for the grant of MIUs to key members of management. MIUs are designed as profits interests, which entitle a holder to receive distributions in excess of a specific participation threshold, subject to the provisions of the agreement with its parent entity. The participation threshold was set at the time of grant and typically reflects the fair value of Holdings LLC at the date of grant. MIUs granted consisted of a combination of time-based vesting MIUs, which vested over a four-year period, and performance-based vesting MIUs, which vested based on the equity value of Holdings LLC if a liquidity event were to occur. The performance condition would occur upon the date on which a certain equity return multiple would have been met, subject to the employee's continuous employment from the time of granting to the time of vesting. As the performance-based vesting condition was not deemed probable, no expense had been recorded related to the performance-based MIUs for the period prior to the IPO.

MIU activity for the year-to-date period through the consummation of the IPO on July 30, 2021 was as follows:

	Number of Underlying Units	Weighted-Average Grant-Date Fair Value
Outstanding—December 31, 2020	28,143,250	$ 1.25
Units canceled	(166,430)	$ 1.28
Outstanding—IPO (July 30, 2021)	27,976,820	$ 1.26
Vested—IPO (July 30, 2021)	10,830,525	$ 1.26

The Company used the Black-Scholes option-pricing model to determine the fair value of the MIUs. The determination of the fair value using the Black-Scholes option-pricing model was affected by the Company's estimated common unit price, as well as by assumptions regarding several complex and subjective variables. These variables included the Company's expected unit price volatility over the term of the MIU, expected dividend yield, risk-free interest rates, and expected term. There were no MIUs granted during the three or nine-month periods ended September 30, 2021.

All of the vested and unvested time-based MIUs were exchanged for unrestricted and restricted shares of Class A common stock as part of the Organizational Transactions in connection with the IPO. All of the performance-based MIUs remain outstanding post-IPO, however the vesting conditions were modified (see below for additional details).

Long-Term Incentive Plan ("LTIP")

Holdings LLC provided for an LTIP that granted incentives to key members of management. The incentives were payable in cash and vested only when a certain qualified liquidity event has occurred and a certain equity return multiple has been met, subject to the employee's continuous employment from the time of granting to the time of vesting. No compensation expense was recorded related to the LTIP for the period prior to the IPO as the performance based vesting provisions were not probable at any time during the period.

On September 28, 2021, the LTIP holders' rights to cash payments were cancelled and exchanged for RSUs (see below for additional details).

Modifications of pre-IPO incentive plans

MIUs

In connection with the Organizational Transactions described in Note 1, vested and unvested time-based MIUs in Holdings LLC were canceled in exchange for 1,208,770 unrestricted shares of Class A common stock and 657,661 restricted shares (RSAs) of Class A common stock in the Company, respectively. The unvested restricted shares, which are classified as equity awards, are subject to the same time-based vesting schedule as the original time-based vesting MIUs. The cancellation and exchange did not result in the recognition of incremental share-based compensation expense.

Additionally, the vesting conditions of existing performance-based vesting MIUs were modified to vest when either (i) a certain equity return multiple is achieved after Vista Equity Partners or Onex beneficially own less than 25% ownership, or (ii) if not vested prior thereto, on the 2-year anniversary of the IPO date of July 30, 2021 if a certain specified total equity return multiple is achieved based on the Company's market capitalization. The modification resulted in the recognition of incremental share-based compensation expense of $6.3 million on the modification date as the awards became probable of vesting upon modification.

LTIP

On September 28, 2021, the LTIP holders were granted a total of 528,618 RSUs in exchange for the cancellation of their rights to the cash payments under the pre-IPO LTIP. The RSUs vest over a two year service period starting July 30, 2021. There was no incremental share-based compensation expense from the modification of the LTIP. The share-based compensation expense recognized for the RSUs granted in exchange for the original LTIP rights was $1.3 million and $4.6 million for the three and nine-month periods ended September 30, 2022.

Post-IPO equity incentive plans

The 2021 Plan reserves 19,315,000 shares of the Company's Class A common stock and provides for the granting of stock options, stock appreciation rights, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), dividend equivalents, other share-based awards, other cash-based awards, substitute awards, and performance awards to eligible employees, consultants, and directors.

Market-share Units ("MSUs")

In the first quarter of fiscal 2023, the Company granted MSUs to certain executives. The target number of awards granted will be based on the relative growth of the Company's share price over a two- and three-year performance period beginning on the date of grant and ending on the second and third anniversary of the grant date. These awards are subject to continuous employment through each individual vesting period.

The fair value of the MSUs was determined using a Monte Carlo simulation approach with the following assumptions: a historical volatility of 58%, 0% dividend yield, and a risk-free interest rate of 3.7%. The historical volatility was determined based on the observed equity volatility for comparable companies. The dividend yield was 0% as the Company does not currently offer a dividend. The risk-free interest rate is based on the yield from the Treasury Constant Maturities consistent with a three-year term associated with the market condition of the awards. The fair value of the awards granted during the first quarter of 2023 is $12.6 million which is recognized on a straight-line basis over the performance periods. The share-based compensation expense of these awards was immaterial for the three months ended March 31, 2023.

MSU activity for the three-months ended March 31, 2023 is as follows:

	Market-Share Units	Weighted-Average Grant-Date Fair Value
Balance—December 31, 2022	—	—
Granted	474,846	$ 26.64
Vested	—	—
Canceled	—	—
Balance—March 31, 2023	474,846	$ 26.64

RSUs/RSAs

The RSUs granted under the 2021 Plan and RSAs vest upon the satisfaction of a service-based vesting condition, generally over a four-year period, with 25% vesting at the end of one year and the remainder quarterly thereafter.

RSU and RSA activity for the nine-months three-months ended September 30, 2022 March 31, 2023 is as follows:

		Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Weighted Average Grant Date Fair Value		Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Balance—December 31, 2021		6,269,077	$ 24.89	438,863	$ 9.56					
Balance—December 31, 2022						Balance—December 31, 2022	7,880,419	$ 20.52	54,516	$ 8.43
Granted	Granted	4,470,848	$ 16.72	—	$ —	Granted	2,827,669	$ 19.30	—	—
Vested	Vested	(1,533,694)	$ 25.08	(346,474)	$ 9.30	Vested	(1,051,193)	$ 19.23	(10,304)	$ 9.03
Canceled	Canceled	(947,942)	$ 21.36	(6,224)	$ 12.73	Canceled	(164,368)	$ 21.37	—	—
Balance—September 30, 2022		8,258,289	$ 20.84	86,165	$ 10.34					
Balance—March 31, 2023						Balance—March 31, 2023	9,492,527	$ 20.28	44,212	$ 8.28

The following table presents the classification of share-based compensation in the accompanying condensed consolidated statements of operations and comprehensive loss (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
Cost of revenue	Cost of revenue					Cost of revenue		
Subscriptions and support	Subscriptions and support	$ 1,352	$ 554	$ 3,629	$ 574	Subscriptions and support	$ 1,388	$ 1,034
Service	Service	557	770	2,803	912	Service	811	984
Research and development	Research and development	3,462	1,892	9,890	2,370	Research and development	3,729	2,870
Selling, general, and administrative	Selling, general, and administrative	7,119	7,503	21,778	9,599	Selling, general, and administrative	8,621	6,662
Total stock-based compensation	Total stock-based compensation	$ 12,490	$ 10,719	$ 38,100	$ 13,455	Total stock-based compensation	$ 14,549	$ 11,550

Share-based compensation capitalized as product development costs was $0.8 million and $2.3 million for the three and nine months ended September 30, 2022, $0.7 million and $0.7 million for the three and nine months ended September 30, 2021 March 31, 2023, and 2022, respectively.

As of September 30, 2022 March 31, 2023, the total future compensation cost related to unvested share awards is $160.4 million $195.5 million, which is expected to be recognized over a weighted-average period of 3.0 3.1 years.

16. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS (EPS)

The table below sets forth a calculation of basic EPS based on net loss attributable to PowerSchool Holdings, Inc. for the three and nine months ended September 30, 2022, divided by the basic weighted average number of Class A common stock outstanding for the corresponding periods. Diluted EPS of Class A common stock is computed by dividing net loss attributable to common stockholders by the weighted average number of EPS.

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net Loss	$ (14,813)	$ (14,120)
Less: net loss attributable to non-controlling interest	(2,960)	(2,007)
Net loss attributable to PowerSchool Holdings, Inc.	$ (11,853)	$ (12,113)
Denominator:		
Weighted average shares of Class A common stock - basic and diluted	160,506,571	158,112,296
Net loss attributable to PowerSchool Holdings, Inc. per share of Class A common stock - basic and diluted	$ (0.07)	$ (0.08)

As shares of Class A common stock outstanding adjusted to give effect to all potentially dilutive securities, using the treasury stock method.

The Company excluded the shares of our Class B common stock from the computation of basic and diluted EPS, as holders of Class B common stock do not have any rights to receive dividends or distributions upon the liquidation or winding up of the Company. Accordingly, are considered non-participating securities, separate presentation of EPS of Class B common stock under the two-class method has not been presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net Loss	$ (3,917)	$ (25,128)	$ (24,495)	$ (27,190)
Less: net loss attributable to the noncontrolling interest	(1,389)	(5,752)	(5,330)	(5,752)
Net Loss attributable to PowerSchool Holdings, Inc.	$ (2,528)	$ (19,376)	$ (19,165)	$ (21,438)
Denominator:				
Weighted average shares of Class A common stock outstanding - basic and diluted	158,812,536	156,962,167	158,387,266	156,962,167
Net loss attributable to the PowerSchool Holdings, Inc. per share of Class A common stock - basic and diluted	$ (0.02)	$ (0.12)	$ (0.12)	$ (0.14)

In addition, the following securities were not included in the computation of diluted shares outstanding for the three and nine months ended September 30, 2022 March 31, 2023 and 2022 because they were antidilutive, but could potentially dilute earnings (loss) per share in the future:

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
Unvested Restricted Shares and RSUs		8,151,595	6,797,302	8,151,595	6,797,302			
Unvested RSAs and RSUs						Unvested RSAs and RSUs	9,536,739	10,144,053
LLC Units	LLC Units	39,928,472	39,928,472	39,928,472	39,928,472	LLC Units	37,654,059	39,928,472
MSUs						MSUs	474,846	—
Total excluded from diluted EPS calculation	Total excluded from diluted EPS calculation	48,080,067	46,725,774	48,080,067	46,725,774	Total excluded from diluted EPS calculation	47,665,644	50,072,525

17. INCOME TAXES

The Company recorded an insignificant amount of income tax benefit and effective tax rate of 0.3% for the three months ended March 31, 2023 and income tax expense (benefit) of $(0.8) $4.5 million and $0.8 million for the three and nine months ended September 30, 2022, respectively, and $(2.7) million and $(20.0) million for the three and nine months ended September 30, 2021, respectively. The Company's an effective tax rate was 17.1% and (3.3) of (47.4)% for the three and nine months ended September 30, 2022, respectively, and 9.8% and 42.7% for the three and nine months ended September 30, 2021, respectively. March 31, 2022. The income tax expense (benefit) for the three and nine months ended September 30, 2022 March 31, 2023 was different than the U.S. federal statutory income tax rate of 21% primarily due to the loss allocated to the non-controlling interest non-deductible stock and nondeductible executive compensation the impact of remeasuring deferred taxes for a Pennsylvania tax law change, and adjustments to deferred tax expense relating to the business combination completed during the nine three month period. The income tax benefit for the three and nine months ended September 30, 2021 March 31, 2022 was different than the U.S. federal statutory income tax rate of 21% primarily due to a valuation allowance release as a result of the loss allocated to the noncontrolling interest, nondeductible executive compensation and an adjustment to deferred tax expense relating to business combination completed during the nine month period, and the pre-tax book income mix between taxable foreign corporate subsidiaries and Holdings LLC, which was treated as a partnership for federal income tax purposes. combinations.

As of September 30, 2022 March 31, 2023, the Company had gross unrecognized tax benefits of $1.7 $13.2 million, all of which, if recognized, would impact the Company's effective tax rate. The amount of interest and penalties accrued related to the Company's unrecognized tax benefits is not material to the consolidated financial statements in all periods presented.

Tax Receivable Agreement

In connection with the Organizational Transactions, the Company entered into a TRA with Topco LLC, Vista Equity Partners and Onex. The TRA provides for the payment by the Company to Topco LLC, Vista Equity Partners and Onex, collectively, of 85% of the amount of tax benefits, if any, that are realized, or in some circumstances are deemed to realize, as a result of (i) certain increases in the tax basis of assets of Holdings LLC and its subsidiaries resulting from purchases of LLC Units with the proceeds of the IPO or exchanges of LLC Units in the future or any prior transfers of interests in Holdings LLC, (ii) certain tax attributes of the Blocker Entities and of Holdings LLC and subsidiaries of Holdings LLC that existed prior to the IPO and (iii) certain other tax benefits related to our making payments under the TRA (collectively, the "Tax Attributes"). The payment obligations under the TRA are not conditioned upon any LLC Unit holder maintaining a continued ownership interest in us or Holdings LLC and the rights of Topco LLC under the TRA are assignable. The Company expects to benefit from the remaining 15% of the tax benefits, if any, that are actually realized.

During the three months ended March 31, 2023, the Company recorded an increase of $8.7 million to the TRA liability and a decrease of $7.5 million to the deferred tax liability due to the secondary offering. These changes resulted in a net noncash impact to additional paid-in capital of $1.3 million.

As of September 30, 2022 March 31, 2023, $4.1 $28.3 million of the TRA was classified as a current liability included within accrued expenses and $397.7 million $392.7 million was classified as non-current in the consolidated balance sheet.

18. RELATED-PARTY TRANSACTIONS

The Company has entered into arrangements with Vista Equity Partners for certain services, and the Vista Consulting Group for management consulting, systems implementation, and manpower support (collectively, "Vista" "Vista Consulting"). These services were provided on a time and material basis and were generally related to integration of the various companies acquired by the Company. Total costs of these related party services were $0.1 million de minimis for the

three and nine months ended September 30, 2022, and $0.3 million and $0.4 million for the three and nine months ended September 30, 2021, respectively. all periods presented. Following the IPO, we We may continue to engage Vista Consulting from time to time, subject to compliance with our related party transactions policy. The Company also entered into arrangements with Onex for general management services, acquisition advisory, and treasury services. Total costs of these related-party services were de minimis for all periods presented.

The Company also purchased services from entities that share common ownership with Vista and Onex. The cost was $0.8 million and $3.2 million for all other services purchased from entities with common ownership for For the three and nine months ended September 30, 2022 March 31, 2023, and $1.0 million 2022, the Company purchased $4.8 million and $1.7 million for the three and nine months ended September 30, 2021. $1.6 million of services from these entities. Substantially all of the expenses related to these Vista and Onex services are included in selling, general, and administrative expense in the consolidated statements of operations and comprehensive loss. Amounts due to entities that share common ownership were less than $0.1 million $0.2 million and $0.5 million as of September 30, 2022 March 31, 2023 and December 31, 2021 December 31, 2022, respectively, and are included in accounts payable payables and accrued liabilities in the consolidated balance sheet. There were no sales to or outstanding accounts receivable arising from this agreement during or as of the end of any of the periods presented.

On March 3, 2021, the The Company entered into has a strategic partnership with EAB Global, Inc. ("EAB"), a portfolio company of Vista, by executing pursuant to a Reseller Agreement (the "Agreement"). Pursuant to the Agreement, EAB will serve serves as, among other terms, the exclusive reseller of the Intersect product in the U.S. and Canada. The Agreement has a ten-year term and includes annual minimum revenue commitments from EAB. The commitment amount for the annual period was $33.7 $36.8 million, and will increase upon the anniversary of the Agreement. The Company may begin to revoke its exclusivity with EAB after the fourth year of the Agreement or terminate the relationship upon material breach of the contract. Under the terms of the Agreement, the Company pays a fee to EAB for selling products to third party customers on the Company's behalf. The Company recognized $3.5 million $2.3 million and $8.8 million $2.5 million in selling, general, and administrative expense and, to a lesser extent, cost of revenue, for fees owed to EAB under the Agreement for the three and nine months ended September 30, 2022 March 31, 2023 and $2.4 million 2022, respectively.

In February 2023, certain selling stockholders, which included Hardeep Gulati, the Company's Chief Executive Officer, Topco LLC, and $5.5 million for the three certain funds affiliated with Vista and nine months ended September 30, 2021.

On March 3, 2021, the Company entered into Onex, conducted a Transition Service Agreement ("TSA") with EAB for a period secondary offering of 18 months. Pursuant to the TSA, the Company provided certain administrative and other services including cloud hosting, business systems, general information technology, accounting, sales and marketing to support the standalone operation 8,700,000 shares of the Starfish solution, which was separately acquired by EAB. Company's Class A common stock. The Company invoiced EAB on a monthly basis for these agreed upon services. Additionally, did not receive any proceeds from the Company cross charged EAB for direct expenses incurred by us on EAB's behalf and collected cash from customers to be remitted to EAB. Amounts owed from and to EAB may be settled on a net basis due to the existing contractual right to offset within the agreement. The TSA ended in September 2022. As of September 30, 2022, there was no remaining receivable recorded in prepaid expenses and other current assets in the consolidated balance sheet.

On March 3, 2021 the Company entered into an agreement with EAB to provide Starfish employees access to the Company's office facilities for a period of one year ("Access and Use Agreement"). Under the terms sale of the Access Class A common stock by the selling stockholders, but bore the costs associated with the secondary offering (other than underwriting discounts and Use Agreement, EAB paid the Company a one-time upfront fee of $1.0 million commissions), which was recognized were approximately $1.4 million and were recorded as a credit to our rent expense which was amortized monthly over the term of the agreement in a selling, general, and administrative expense line item on our consolidated statement of operations. The Company recognized rent expense expenses in the amount consolidated statements of $0.3 million operations and $0.6 million for the three and nine months ended September 30, 2021 related to the upfront fee. As the agreement ended in March 2022, there was $0.2 million of rent expense recognized for the nine months ended September 30, 2022 but no associated rent expense recognized for the three months ended September 30, 2022. comprehensive loss.

19. EMPLOYEE BENEFIT PLANS

Defined Contribution Plan—The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code ("401(k) Plan") covering all full-time employees who meet certain eligibility requirements. Eligible employees may defer a percentage of their pretax compensation, up to the annual maximum allowed by the Internal Revenue Service. Under the 401(k) Plan, the Company matches a portion of the employee contributions up to a defined maximum. The Company made matching contributions of $2.6 million and $2.5 million for the three and nine months ended September 30, 2022 of $2.6 million March 31, 2023 and $7.6 million and $2.3 million and $6.6 million for the three and nine months ended September 30, 2021. 2022, respectively.

20. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the consolidated balance sheets date through November 8, 2022, the date at which the condensed consolidated financial statements were available to be issued.

On November 4, 2022, Severin Topco, LLC ("Topco LLC") executed an amendment of the outstanding management incentive units ("MIUs") held by certain executives. These amendments had an effect of modifying the awards' vesting condition. The Company is in the process of assessing the financial statement impact of the modification.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in Part I, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K and Part II, Item 1A, "Risk Factors" and in other parts of this Quarterly Report on Form 10-Q. Unless we state otherwise or the context otherwise requires, the terms "we," "us," "our," and "PowerSchool" and similar references refer: (1) on or following the consummation of the IPO and related organizational transactions, to PowerSchool Holdings, Inc. and its consolidated subsidiaries, including PowerSchool Holdings LLC (formerly known as Severin Holdings, LLC) ("Holdings LLC"), and (2) prior to the consummation of the IPO and the related organizational transactions to Holdings LLC and its consolidated subsidiaries.

Overview

We provide a comprehensive suite of solutions that includes the mission-critical system of record used by state Departments of Education, districts and schools, who leverage our solutions to deliver insights and analytics to improve education outcomes. As of September 30, 2022 March 31, 2023, we serve more than 15,000 customers, including over 90 of the 100 top districts by student enrollment in the U.S., have over 30 state-, and province-, or territory-wide contracts in North America, and sell solutions in over 90 countries globally. Our platform is embedded in school workflows and is used by educators, students, administrators and parents on a daily basis.

PowerSchool's cloud platform is the most comprehensive, integrated, enterprise-scale suite of solutions purpose-built for the K-12 market. Our cloud-based technology platform helps our customers efficiently manage state reporting and related compliance, special education, finance, HR, talent, registration, attendance, funding, learning, instruction, behavior, grading, college and career readiness, assessments and analytics in one unified platform. Through our integrated technology approach, we are positioned to streamline operations, aggregate disparate data sets, and develop insights using predictive modelling and machine learning. Our ability to transform information into actionable insights improves the efficiency of school operations, the quality of instruction delivered by teachers, and the pace of student growth, generating a profound effect on K-12 educational outcomes.

We have created a strong competitive moat by investing over the past 20 years to build, maintain and continuously update our K-12 regulatory compliance reporting capabilities that solve state-specific, funding-related regulatory pain points for our customers. This investment is currently supported by a team of approximately 150 individuals in our broader research and development organization of approximately 1,000 individuals as of September 30, 2022.

Building the PowerSchool Platform

Our focus and strategy on delivering a comprehensive, integrated platform led to years of coordinated efforts to build an expansive suite of core capabilities required by our customers. Starting as the first web-based Student Information System ("SIS"), we combined our deep domain expertise in K-12 education with over twenty years of innovation and disciplined acquisition activity to become the core K-12 software platform, with a full suite of cloud-based offerings across student information, enrollment, learning management, assessment, special education, finance, HR and talent management.

From 2015, through September 30, 2022 March 31, 2023, we completed 16 strategic acquisitions to thoughtfully build out our Unified Platform platform of K-12 software solutions, building upon years of leadership:

- Acquisition of Infosnap in 2015, adding a leading K-12 enrollment solution;
- Acquisition of Interactive Achievement in 2016, establishing our presence in K-12 student assessment and analytics;
- Acquisition of SRB in 2016, enhancing scale in K-12 SIS and Enterprise Resource Planning ("ERP") solutions in Canada;
- Acquisition of Sungard K-12 in 2017, adding a scaled K-12 ERP solution in the U.S.;
- Acquisition of PeopleAdmin in 2018, adding leading talent management and student assessment and analytics solutions;
- Acquisition of Schoology in 2019, adding the leading K-12 Learning Management System;
- Acquisition of Hoonuit in 2020, adding an advanced data management and analytics solution for K-12;
- Acquisition of Naviance and Intersect in 2021, adding the leading college and career readiness solution for K-12; and
- Eight other smaller acquisitions.leadership.

Our Business Model

We offer our software platform through a cloud-based, SaaS software-as-a-service ("SaaS") business model under contracts with annual price escalators, and we recognize subscription revenues ratably over annual subscription terms of the contracts. Our SaaS solutions include access to hosted software, software maintenance, product updates and upgrades, and technical and developer support. We sell our SaaS solutions through recurring fee arrangements where revenue is recognized on an annual basis following contract start date, which we refer to as recurring revenue. Our business model provides flexibility and optionality for our customers to purchase and deploy our software platform either through individual add-on solutions, or as a Unified Platform. unified platform. The majority of new bookings come from our SaaS offerings and are thus recurring in nature, with recurring revenue accounting for more than 84.4% and 85.6% 88.5% of our total revenue for the three and nine months ended September 30, 2022, respectively. March 31, 2023.

We generally price our SaaS and license agreements at individually negotiated rates with occasional discounts, typically for multi-solution sales or to help districts meet their budget and funding timing constraints. Contracts Such agreements are typically sold on a three-year basis with one-year rolling renewals and annual price escalators. We typically invoice our customers annually, in advance, for subscription fees and maintenance, while a portion of customers are billed semiannually, quarterly, or monthly. SaaS revenues are recognized over time to appropriately reflect progress towards full completion of our performance obligations.

To help customers go live with our software and achieve success, we offer professional services such as professional consultation, implementation, customization and training services as requested by our customers. Revenue from these services is primarily classified as non-recurring revenue, with a portion the exception of the revenue consisting of from recurring managed services, which is classified as recurring revenue. For our SaaS business, these services generally take less than one year to complete.

Key Factors Affecting Our Performance

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by our ability to:

Cross-Sell New Solutions to Existing Customers

Many of our customers begin their journey with us by using only a small portion of our overall platform. As customers begin to appreciate the benefits of an integrated software platform across student data, classroom learning, back-office functions and talent management, they increase the number of solutions they buy from us over time. Our future revenue growth is dependent upon our ability to expand our customers' use of our platform, and our go-to-market efforts are designed to drive cross-sell growth. Our ability to increase sales to existing customers will depend on a number of factors, including the level of satisfaction with our solutions, competition, pricing, economic conditions and spending by customers on our solutions. We have adopted a customer success strategy and implemented processes across our customer base to drive revenue retention and expansion, which combined with our cross-selling success has resulted in a Net Revenue Retention Rate (as defined below) of 108.7% and 105.6% 109.1% as of September 30, 2022 and 2021, respectively. March 31, 2023 compared to 106.7% as of March 31, 2022.

Attract New Customers in North America

We believe there is significant opportunity to increase market adoption of our Unified Platform platformed products by new customers. Our ability to attract new customers is dependent upon a number of factors including the features and pricing of our competitors' offerings, the effectiveness of our marketing efforts, the effectiveness of our channel partners in selling, the marketing and deploying of our software solutions, and the growth in demand of cloud-based technology solutions in K-12 education. We intend to expand our customer base by continuing to make significant and targeted investments in direct sales and marketing to attract new customers and to drive broader awareness of our software solutions.

Continue to Expand Into Complementary Adjacencies

From Since 2015, to September 30, 2022, we have acquired and successfully integrated 16 complementary businesses to enhance our software and technology capabilities. We have a demonstrated track record of driving growth from our acquired assets and delivering positive return on investment. Mergers & Acquisitions ("M&A is &A") are core to our strategy, and we intend to continue pursuing targeted acquisitions that further complement our portfolio of technology offerings or provide us access to new markets. This adjacency expansion strategy is complementary to our cross-selling strategy, as it both introduces acquired solutions to our existing customers and introduces a base of net new customers to whom we may sell our other solutions. Additionally, we intend to continue providing adjacent solutions by other means, which may include organic development and strategic partnerships. Our position as the leading system of record, engagement and intelligence provides us with a unique vantage point to identify the most critical needs of our customers and most innovative companies within the K-12 education ecosystem. We will continue to carefully evaluate acquisition, partnership, and development opportunities to assess whether they meet our strategic objectives and enhance our platform.

Sustain Innovation and Technology Leadership

Our success is dependent on our ability to sustain innovation and technology leadership to maintain our competitive advantage. We believe that we have built a highly differentiated Unified Platform platform that will position us to further extend the adoption of our platform and solutions. We intend to continue to invest in building additional solutions, features and functionality that expand our capabilities and facilitate the extension of our Unified Platform platform to new adjacencies. We also intend to continue to evaluate strategic acquisitions and investments in businesses and technologies to drive solutions and market expansion. Our future success is dependent on our ability to successfully develop, market and sell existing and new solutions to both new and existing customers.

Expand Internationally

We believe there is a significant opportunity to expand usage of our platform outside of North America. As of September 30, 2022 March 31, 2023, PowerSchool served customers in over 90 countries, primarily American international schools. We plan to make product, personnel, partnership, and acquisition-related investments to expand geographically. Although these investments may adversely affect our operating results in the near-term, we believe that they will contribute to our long-term growth.

Currency Fluctuations

Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the U.S., Canada and India. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. During 2022, the U.S. dollar significantly strengthened against the foreign currencies, including the Euro. The U.S. dollar has since trended weaker, and fluctuations in foreign currency exchange rates did not have a significant impact on our reported results in the first quarter of 2023.

High Interest Rates

As a result of increased federal funds interest rates, the interest rate applicable to our First Lien loan increased from 3.5% as of March 31, 2022 to 7.7% as of March 31, 2023. As a result, our net interest expense has increased from $7.0M as of March 31, 2022 to $14.0M as of March 31, 2023. If interest rates continue to increase our cost of debt may also continue to increase and we may have to divert available cash to the payment of interest.

Inflation and other Macroeconomic Events

Adverse macroeconomic conditions, including but not limited to high inflation and slower economic growth and fears of recession could impact our business and customer spending. Certain of our customers may also be negatively impacted by these events. Inflation reached record levels in 2022 and continues to be at high levels in 2023. While inflation may impact our net revenues and costs of revenues, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. However, there can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

Key Business Metrics

In addition to our GAAP financial information, we review a number of operating and financial metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

Annualized Recurring Revenue ("ARR")

ARR represents the annualized value of all recurring contracts as of the end of the period. ARR mitigates fluctuations due to seasonality, contract term, one-time discounts given to help customers meet their budgetary and cash flow needs and the sales mix for recurring and non-recurring revenue. ARR does not have any standardized meaning and is therefore unlikely to be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and deferred revenue and is not intended to be combined with or to replace either of those items. ARR is not a forecast, and the active contracts at the end of a reporting period used in calculating ARR may or may not be extended or renewed by our customers.

We closed the quarter ended September 30, 2022 March 31, 2023 with ARR of $585.4 million $612.3 million compared to $527.8 $556.7 million as of September 30, 2021, an increase of 10.9% year-over-year. March 31, 2022.

Net Revenue Retention Rate

We believe that our ability to retain and grow recurring revenues from our existing customers over time strengthens the stability and predictability of our revenue base and is reflective of the value we deliver to them through upselling and cross selling our solution portfolio. We assess our performance in this area using a metric we refer to as Net Revenue Retention Rate. For the purposes of calculating Net Revenue Retention Rate, we exclude from our calculation any changes in ARR attributable to Intersect customers, as this product is sold through our channel partnership with EAB and is pursuant to annual revenue minimums, therefore the business will not be managed based on our net revenue retention ("Net Revenue Retention"). We calculate our dollar-based Net Revenue Retention Rate as of the end of a reporting period as follows:

- *Denominator*. We measure ARR as of the last day of the prior year comparative reporting period.
- *Numerator*. We measure ARR from renewed and new sale opportunities booked as of the last day of the current reporting period from customers with associated ARR as of the last day of the prior year comparative reporting period.

The quotient obtained from this calculation is our dollar-based net revenue retention rate. Net Revenue Retention Rate. Our Net Revenue Retention Rate provides insight into the impact on current year recurring revenues of expanding adoption of our solutions by our existing customers during the current period. Our Net Revenue Retention is subject to adjustments for acquisitions, consolidations, spin-offs and other market activity.

We closed the twelve-month period ended September 30, 2022 March 31, 2023 with a Net Revenue Retention Rate of 108.7% 109.1% compared to Net Revenue Retention of 105.6% 106.7% for the twelve-month period ended September 30, 2021 March 31, 2022. The most significant drivers of changes in our Net Revenue Retention Rate each year have historically been our propensity to secure contract renewals with annual price escalators and sell new solutions or additional licenses to our existing customer base. Our use of Net Revenue Retention Rate has limitations as an analytical metric, and investors should not consider it in isolation. Net Revenue Retention Rate does not have any standardized meaning and is therefore unlikely to be comparable to similarly titled measures presented by other companies.

Components of Results of Operations

Revenues

We recognize revenue under Accounting Standard Codification Topic 606 ("ASC 606") and 340-40 ("ASC 340-40"). Under ASC 606, we recognize revenue when our customer obtains control of goods or services in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. See "Critical Accounting Estimates."

Subscriptions and Support. Subscriptions and support revenues consist primarily of fees from customers accessing our solutions. We expect subscriptions and support revenues to increase because of continued new and existing customer sales efforts and high net retention. Revenue is recognized ratably over the contract period as the services are provided.

Service. Service revenues consist primarily of fees related to new product implementations, customizations and customer training. We expect service revenues to increase because of continued growth Revenue is recognized at a point in new product sales, which result in additional implementation and training services. time when the services are rendered.

License and other. License and other revenues consist primarily of one-time perpetual license and partner royalty fees or reseller arrangements. We expect license and other revenues to fluctuate period over period, primarily due to the variability caused by the Revenue is recognized at a point in time nature of this revenue stream. when the customer is able to use and benefit from the software.

Cost of Revenue

Cost of revenue consists primarily of employee compensation costs for employees associated with supporting our subscription, support, success and professional services arrangements and certain third-party expenses. Employee compensation and related costs include cash compensation and benefits to employees, costs of third-party contractors and associated overhead costs. Third-party expenses consist of cloud infrastructure costs, third-party licensing costs, and other expenses directly associated with our customer support. We expect cost of revenues to increase in absolute dollars as we continue to hire personnel, to provide hosting services, technical support, customer success and consulting services to our growing customer base.

Operating Expenses

Research and development. Research and development expenses consist primarily of personnel costs. Research and development expenses also include costs associated with contractors and consultants, equipment and software to support our development and quality assurance teams and overhead expenses. We will continue to invest in innovation and offer our customers new solutions to enhance our existing platform.

Selling, general, and administrative. Selling, general, and administrative expenses consist primarily of employee compensation and benefits costs for corporate personnel, such as those in our executive, legal, human resource, facilities, accounting and finance and information technology departments. In addition, general and administrative expenses include third-party professional fees and principal stockholder-related costs, as well as all other supporting corporate expenses not allocated to other departments. We expect our selling, general, and administrative expenses to increase on an absolute dollar basis as our business grows. Also, following the completion of the IPO, we expect to incur additional general and administrative expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations and professional services.

Acquisition costs. Acquisition costs consist primarily of third-party professional fees incurred in conjunction with acquisitions.

Interest Expense, Net

Interest expense, net consists primarily of interest payments on our outstanding borrowings under our First Lien Second Lien, Incremental Facility, Bridge Loan and Revolving Credit Agreement.

Other Expense, Net

Other expense, net primarily consists of foreign currency losses.

Results of Operations

The following table sets forth our consolidated statement of operations and comprehensive loss for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Consolidated Statement of Operations and Comprehensive Loss:				
Revenue:				
Subscriptions and support	$ 137,095	$ 124,272	$ 401,870	$ 349,126
Service	19,933	18,497	55,114	47,533
License and other	5,406	6,183	12,633	15,843
Total revenue	162,434	148,952	469,617	412,502
Cost of Revenue:				
Subscriptions and support	39,009	35,138	114,303	97,802
Service	14,852	14,482	45,585	37,971
License and other	1,087	618	2,790	1,547
Depreciation and amortization	14,839	13,094	43,069	37,696
Total cost of revenue	69,787	63,332	205,747	175,016
Gross Profit	92,647	85,620	263,870	237,486
Operating Expenses:				
Research and development	27,821	24,400	80,528	64,874
Selling, general, and administrative	45,530	47,276	133,117	103,260
Acquisition costs	11	295	2,630	6,074
Depreciation and amortization	15,955	16,103	48,050	46,816
Total operating expenses	89,317	88,074	264,325	221,024
Income (loss) from operations	3,330	(2,454)	(455)	16,462
Interest expense—Net	11,158	12,857	26,923	51,416
Loss on extinguishment of debt	—	12,905	—	12,905
Other (expense) income—net	(3,100)	(403)	(3,677)	(634)
Loss before income taxes	(4,728)	(27,813)	(23,701)	(47,225)
Income tax expense (benefit)	(811)	(2,685)	794	(20,035)
Net loss	(3,917)	(25,128)	(24,495)	(27,190)
Less: Net loss attributable to non-controlling interest	(1,389)	(5,752)	(5,330)	(5,752)
Net loss attributable to PowerSchool Holdings, Inc.	(2,528)	(19,376)	(19,165)	(21,438)
Other comprehensive income (loss) —Foreign currency translation	(741)	(336)	(1,744)	(564)
Total other comprehensive income (loss)	(741)	(336)	(1,744)	(564)

Less: comprehensive income (loss) attributable to non-controlling interest	$ (149)	$ (11)	$ (350)	$ (57)
Comprehensive loss attributable to PowerSchool Holdings, Inc.	$ (3,120)	$ (19,701)	$ (20,559)	$ (21,945)

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Consolidated Statement of Operations and Comprehensive Loss:		
Revenue:		
Subscriptions and support	$ 141,073	$ 129,765
Service	16,233	16,063
License and other	2,148	3,764
Total revenue	159,454	149,592
Cost of revenue:		
Subscriptions and support	38,194	38,034
Service	14,323	14,996
License and other	951	986
Depreciation and amortization	16,021	13,961
Total cost of revenue	69,489	67,977
Gross profit	89,965	81,615
Operating expenses:		
Research and development	25,421	26,618
Selling, general, and administrative	49,558	40,102
Acquisition costs	—	1,575
Depreciation and amortization	15,771	15,958
Total operating expenses	90,750	84,253
Loss from operations	(785)	(2,638)
Interest expense - net	14,029	7,022
Other expenses (income) - net	44	(78)
Loss before income taxes	(14,858)	(9,582)
Income tax (benefit) expense	(45)	4,538
Net loss	(14,813)	(14,120)
Less: Net loss attributable to non-controlling interest	(2,960)	(2,007)
Net loss attributable to PowerSchool Holdings, Inc.	$ (11,853)	$ (12,113)
Other comprehensive income, net of taxes:		
Foreign currency translation	86	209
Change in unrealized gain on investments	3	—
Total other comprehensive income	89	209
Less: comprehensive income attributable to non-controlling interest	17	42
Comprehensive loss attributable to PowerSchool Holdings, Inc.	$ (11,781)	$ (11,946)

The following table sets forth our consolidated statement of operations and comprehensive loss expressed as a percentage of total revenue for the periods indicated:

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
		2022	2021	2022	2021		2023	2022
Consolidated Statement of Operations and Comprehensive Loss:	**Consolidated Statement of Operations and Comprehensive Loss:**					**Consolidated Statement of Operations and Comprehensive Loss:**		

Revenue:	Revenue:					Revenue:		
Subscriptions and support	Subscriptions and support	84 %	83 %	85 %	84 %	Subscriptions and support	88 %	87 %
Service	Service	13	12	12	12	Service	11	11
License and other	License and other	3	4	3	4	License and other	1	2
Total revenue	Total revenue	100	100	100	100	Total revenue	100	100
Cost of Revenue:								
Cost of revenue:						Cost of revenue:		
Subscriptions and support	Subscriptions and support	24	24	24	24	Subscriptions and support	24	25
Service	Service	9	10	10	9	Service	9	10
License and other	License and other	<1	<1	<1	<1	License and other	<1	<1
Depreciation and amortization	Depreciation and amortization	9	9	9	9	Depreciation and amortization	10	9
Total cost of revenue	Total cost of revenue	43	43	44	42	Total cost of revenue	44	45
Gross Profit		57	57	56	58			
Operating Expenses:								
Gross profit						Gross profit	56	55
Operating expenses:						Operating expenses:		
Research and development	Research and development	17	16	17	16	Research and development	16	18
Selling, general, and administrative	Selling, general, and administrative	28	32	28	25	Selling, general, and administrative	31	27
Acquisition costs	Acquisition costs	<1	<1	<1	1	Acquisition costs	—	1
Depreciation and amortization	Depreciation and amortization	10	11	10	11	Depreciation and amortization	10	11
Total operating expenses	Total operating expenses	55	59	56	54	Total operating expenses	57	56
Income (loss) from operations		2	(2)	(<1)	4			
Interest expense—Net		7	9	6	12			
Loss on extinguishment of debt		—	9	—	3			
Other (expense) income—net		(2)	(<1)	(<1)	(<1)			
Loss from operations						Loss from operations	(<1)	(2)
Interest expense - net						Interest expense - net	9	5
Other expenses (income) - net						Other expenses (income) - net	(<1)	(<1)
Loss before income taxes	Loss before income taxes	(3)	(19)	(5)	(11)	Loss before income taxes	(9)	(6)
Income tax expense (benefit)		(<1)	(2)	<1	(5)			
Income tax (benefit) expense						Income tax (benefit) expense	(<1)	3
Net loss	Net loss	(2)	(17)	(5)	(7)	Net loss	(9)	(9)
Less: Net loss attributable to non-controlling interest	Less: Net loss attributable to non-controlling interest	(<1)	(4)	(1)	(1)	Less: Net loss attributable to non-controlling interest	(2)	(1)

Net loss attributable to PowerSchool Holdings, Inc.	Net loss attributable to PowerSchool Holdings, Inc.	(2)	(13)	(4)	(5)	Net loss attributable to PowerSchool Holdings, Inc.	(7)	(8)
Other comprehensive income (loss) — Foreign currency translation		<1	(<1)	(<1)	(<1)			
Total other comprehensive income loss		<1	(<1)	(<1)	(<1)			
Less: comprehensive income (loss) attributable to non-controlling interest		<1	(<1)	(<1)	(<1)			
Other comprehensive income, net of taxes:						Other comprehensive income, net of taxes:		
Foreign currency translation						Foreign currency translation	<1	<1
Change in unrealized gain on investments						Change in unrealized gain on investments	<1	—
Total other comprehensive income						Total other comprehensive income	<1	<1
Less: comprehensive income attributable to non-controlling interest						Less: comprehensive income attributable to non-controlling interest	<1	<1
Comprehensive loss attributable to PowerSchool Holdings, Inc.	Comprehensive loss attributable to PowerSchool Holdings, Inc.	(2) %	(13)%	(4) %	(5) %	Comprehensive loss attributable to PowerSchool Holdings, Inc.	(7) %	(8) %

Discussion of Results of Operations

Revenues

		Three Months Ended September 30,				Nine Months Ended September 30,					Three Months Ended March 31,			
		2022	2021	$ Change	% Change	2022	2021	$ Change	% Change		2023	2022	$ Change	% Change
		(in thousands)				(in thousands)					(in thousands)			
Revenue:	Revenue:									Revenue:				
Subscriptions and support	Subscriptions and support	$ 137,095	$ 124,272	$ 12,823	10 %	$ 401,870	$ 349,126	$ 52,744	15 %	Subscriptions and support	$ 141,073	$ 129,765	$ 11,308	9 %
Service	Service	19,933	18,497	1,436	8 %	55,114	47,533	7,581	16 %	Service	16,233	16,063	170	1 %
License and other	License and other	5,406	6,183	(777)	(13) %	12,633	15,843	(3,210)	(20) %	License and other	2,148	3,764	(1,616)	(43) %
Total revenue	Total revenue	$ 162,434	$ 148,952	$ 13,482	9 %	$ 469,617	$ 412,502	$ 57,115	14 %	Total revenue	$ 159,454	$ 149,592	$ 9,862	7 %

The period-over-period increase in subscriptions and support revenue for the three and nine months ended September 30, 2022 March 31, 2023 was driven by renewals and increased sales of our solutions to existing new customers, and new customers. The period-over-period increase in service revenue for the three by cross-selling and nine months ended September 30, 2022 was driven by increased implementation and in-person PowerSchool University events related upselling to our solutions sold to existing and new customers. The period-over-period change in license and other revenue was driven primarily due to the variability caused by the point in time nature of this revenue stream; we expect this variability to continue in future quarters.

Total Cost of Revenue

		Three Months Ended September 30,				Nine Months Ended September 30,					Three Months Ended March 31,			
		2022	2021	$ Change	% Change	2022	2021	$ Change	% Change		2023	2022	$ Change	% Change

		(in thousands)				(in thousands)					(in thousands)			
Cost of Revenue:	**Cost of Revenue:**									**Cost of Revenue:**				
Subscriptions and support	Subscriptions and support	$ 39,009	$ 35,138	$ 3,871	11 %	$ 114,303	$ 97,802	$ 16,501	17 %	Subscriptions and support	$ 38,194	$ 38,034	$ 160	0 %
Service	Service	14,852	14,482	370	3 %	45,585	37,971	7,614	20 %	Service	14,323	14,996	(673)	(4) %
License and other	License and other	1,087	618	469	76 %	2,790	1,547	1,243	80 %	License and other	951	986	(35)	(4) %
Depreciation and amortization	Depreciation and amortization	14,839	13,094	1,745	13 %	43,069	37,696	5,373	14 %	Depreciation and amortization	16,021	13,961	2,060	15 %
Total cost of revenue	Total cost of revenue	$ 69,787	$ 63,332	$ 6,455	10 %	$ 205,747	$ 175,016	$ 30,731	18 %	Total cost of revenue	$ 69,489	$ 67,977	$ 1,512	2 %

The period-over-period increase in subscriptions and support cost of revenue for the three and nine months ended September 30, 2022 was primarily attributable to a $1.0 million and $5.6 million increase in personnel-related costs from increased staffing, $2.5 million and $5.9 million increase in cloud hosting usage and $0.9 million and $3.1 million increase from post-IPO stock-based compensation expense, respectively. The increase for the nine months ended September 30, 2022 was also driven by $2.4 million of higher royalty expense.

The period-over-period increase decrease in service cost of revenue for the three months ended September 30, 2022 was March 31, 2023 was primarily attributable to a $0.5 million decrease of $0.9 million in restructuring costs, partially offset by an increase of $0.3 million in PowerSchool University costs. The period-over-period increase in service cost of revenue for the nine months ended September 30, 2022 was primarily attributable to a $2.0 million increase in personnel staffing costs, $2.1 million increase in PowerSchool University costs, $1.9 million increase from post-IPO stock-based compensation expense, and $1.1 million increase in costs associated with migration projects.

The period-over-period increase in license and other cost of revenue for the three and nine months ended September 30, 2022 was driven by higher royalty costs from new royalty arrangements and higher student counts.

The increase in depreciation and amortization cost of revenue for the three months ended March 31, 2023 was due to additional amortization expense resulting from higher capitalized projects.

Operating Expenses

		Three Months Ended September 30,				Nine Months Ended September 30,					Three Months Ended March 31,			
		2022	2021	$ Change	% Change	2022	2021	$ Change	% Change		2023	2022	$ Change	% Change
		(in thousands)				(in thousands)					(in thousands)			
Operating expenses:	**Operating expenses:**									**Operating expenses:**				
Research and development	Research and development	$ 27,821	$ 24,400	$ 3,421	14 %	$ 80,528	$ 64,874	$ 15,654	24 %	Research and development	$ 25,421	$ 26,618	$ (1,197)	(4) %
Selling, general, and administrative	Selling, general, and administrative	45,530	47,276	(1,746)	(4) %	133,117	103,260	29,857	29 %	Selling, general, and administrative	49,558	40,102	9,456	24 %
Acquisition costs	Acquisition costs	11	295	(284)	(96) %	2,630	6,074	(3,444)	(57) %	Acquisition costs	—	1,575	(1,575)	(100) %
Depreciation and amortization	Depreciation and amortization	15,955	16,103	(148)	(1) %	48,050	46,816	1,234	3 %	Depreciation and amortization	15,771	15,958	(187)	(1) %
Total operating expenses	Total operating expenses	$ 89,317	$ 88,074	1,243	1 %	$ 264,325	$ 221,024	$ 43,301	20 %	Total operating expenses	$ 90,750	$ 84,253	6,497	8 %

Research and development. The period-over-period increase decrease in research and development expense for the three and nine months ended September 30, 2022 March 31, 2023 was primarily attributable to a $1.3 million decrease of $1.4 million in third party contractor costs and $2.1 million increase $0.6 million in acquisition-related costs, $2.5 million and $8.7 million increase in personnel-related expenses due to increased staffing and $1.8 million and $7.5 million increase from post-IPO stock-based compensation expense, outside services, partially offset by $2.5 million an increase of $0.9 million in personnel costs from headcount increase and $4.8 million of higher capitalized research and development expense, respectively. The period-over-period increase for the nine months ended was also driven by a $2.6 million increase in internal hosting costs. stock-based awards,

Selling, general, and administrative. The period-over-period decrease increase in selling, general and administrative expense for the three months ended September 30, 2022 March 31, 2023 was primarily attributable to an increase of $4.7 million in personnel costs from headcount increase and stock-based awards, $1.6 million in corporate and outside services, $1.5 million in marketing costs corresponding to current period in-person marketing events, $0.9 million in software and technology costs, offset by a $0.8 million decrease in operating lease expense associated with early lease terminations as well as various other cost efficiencies driven $0.9 million in rent due to closures of office facilities throughout the quarter. The period-over-period increase fiscal year 2022 and $0.8 million in insurance costs from lower premiums. Additionally, the selling, general and administrative expense expenses for the nine three months ended September 30, 2022 was primarily attributable to $8.9 million increase from restructuring related to early lease abandonment, $12.0 million increase from post-IPO stock-based compensation expense, $5.4 million increase in personnel-related expenses due to increased staffing and $3.5 million return March 31, 2023 also included $1.4 million of pre-COVID corporate travel and events. secondary offering expenses.

Acquisition costs. The period-over-period decrease in acquisition costs for the three and nine-month periods months ended September 30, 2022 was driven primarily by March 31, 2023 corresponds to the lower acquisition activities in the current periods. period.

Depreciation and amortization. The depreciation and amortization for the three months ended September 30, 2022 March 31, 2023 was consistent with the same period in the prior year. The period-over-period increase decrease in depreciation and amortization for the nine three months ended September 30, 2022 March 31, 2023 was driven by the higher acquisition-related intangible asset lower property and equipment balance.

Interest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	$ Change	% Change	2022	2021	$ Change	% Change
	(in thousands)				(in thousands)			
Interest Expense	$ 11,158	$ 12,857	$ (1,699)	(13)%	$ 26,923	$ 51,416	$ (24,493)	(48)%

	Three Months Ended March 31,			
	2023	2022	$ Change	% Change
	(in thousands)			
Interest expense - net	$ 14,029	$ 7,022	$ 7,007	100 %

The period-over-period decrease increase in interest expense for the three and nine months ended September 30, 2022 March 31, 2023 was primarily driven by the lower balance owed under our credit facilities resulting from the repayment of the outstanding principals of our Bridge Loan, Second Lien Term Loan and Incremental Facility subsequent to our IPO. This decrease was partially offset by the impact of higher interest rates for the three and nine months ended September 30, 2022. on our First Lien term loan.

Other Expenses (Income) - Net

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	$ Change	% Change	2022	2021	$ Change	% Change
	(in thousands)				(in thousands)			
Other Expenses (Income) - Net	$ (3,100)	$ (403)	$ (2,697)	669 %	$ (3,677)	$ (634)	$ (3,043)	480 %

	Three Months Ended March 31,			
	2023	2022	$ Change	% Change
	(in thousands)			
Other expenses (income) - net	$ 44	$ (78)	$ 122	(156)%

The period-over-period fluctuations in increase Other Expenses (Income) expenses (income) - Net for the three and nine months ended September 30, 2022 was primarily due to the $2.3 million gain upon remeasurement of our TRA liability due to a change in the Pennsylvania tax law net for the three months period ended September 30, 2022, as well as March 31, 2023 was attributable to the impact of the foreign currency fluctuations on during the remeasurement of foreign denominated cash and accounts receivable balances. periods.

Income Tax Expense (Benefit)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	$ Change	% Change	2022	2021	$ Change	% Change
	(in thousands)				(in thousands)			
Income tax expense (benefit)	$ (811)	$ (2,685)	$ 1,874	(70)%	$ 794	$ (20,035)	$ 20,829	(104)%

Prior to the Organizational Transactions, as described in Note 1 to our condensed consolidated financial statements, we were treated as a partnership for U.S. federal income tax purposes and not subject to federal income tax. Certain subsidiaries were considered corporations for U.S. federal income tax purposes and we recorded current and deferred taxes. Following the reorganization, the Company is subject to income tax on its share of taxable income or loss allocated from Holdings LLC and records income tax expense accordingly.

	Three Months Ended March 31,			
	2023	2022	$ Change	% Change
	(in thousands)			
Income tax (benefit) expense	$ (45)	$ 4,538	$ (4,583)	(101)%

The period-over-period change in income tax expense (benefit) for the three months ended September 30, 2022 March 31, 2023 was primarily due to a decrease to pre-tax book loss, stock-based compensation, and the impact of remeasuring deferred taxes for a change in Pennsylvania tax law.

The period-over-period change in income tax expense (benefit) for the nine months ended September 30, 2022 was primarily due to stock-based compensation, a write-off to deferred tax expense relating related to the business combination acquisition of Kinvolved, Inc. completed during the current period, and the impact of remeasuring deferred taxes for a change in Pennsylvania tax law. In the prior nine-month period, the income tax benefit was affected by a valuation allowance release relating to a business combination completed during the period. three months ended March 31, 2022.

Liquidity and Capital Resources

General

PowerSchool Holdings, Inc. is a holding company with no operations of our own and, as such, we depend on distributions by our current and future subsidiaries, including Holdings LLC, for cash to fund all of our operations and expenses. The terms of the agreements governing our senior secured credit facilities contain certain negative covenants prohibiting certain of our subsidiaries from making cash dividends or distributions to us or to Holdings LLC unless certain financial tests are met. We currently anticipate that such restrictions will not impact our ability to meet our cash obligations.

As of September 30, 2022 March 31, 2023, our principal sources of liquidity were cash and cash equivalents totaling $108.9 million $64.3 million, which was were held for working capital and general corporate purposes, as well as the available balance of our Revolving Credit Agreement, described below. in Note 11 to our condensed consolidated financial statements in this Quarterly Report on Form 10-Q. Our cash equivalents were comprised of bank deposits and money-market funds, which are generally held with large diverse global financial institutions worldwide with high investment-grade credit ratings or financial institutions that meet investment-grade ratings criteria, which we believe mitigates general credit risk.

In July 2021, we completed our IPO, pursuant risk and more specifically risk related to which we issued and sold 39,473,685 shares of Class A common stock and received $673.2 million in the IPO proceeds. On August 10, 2021, we issued an additional 5,447,581 shares of our Class A common stock and received $92.9 million in the proceeds upon exercise of the underwriters' option to purchase such additional shares. We used the net proceeds from the IPO and the exercise of the underwriters' option, along with our operating cash flows, to repay in full the outstanding principal balances of our Bridge Loan, Second Lien Term Loan and Incremental Facility, as well as the full outstanding balance under the Revolving Credit Agreement. recent banking sector events.

Our positive cash flows from operations in the ninethree months ended September 30, 2022 March 31, 2023 reflect the seasonality of our billing cycle, in which most of our customer billing and collections take place in the second half of our fiscal year. We believe our existing cash and cash equivalents, our Revolving Credit Agreement and cash provided by sales of our solutions and services will be sufficient to meet our working capital and capital expenditure needs beyond the next 12 twelve months. We also expect our operating cash flows to further improve as we increase our operational efficiency and experience economies of scale.

Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the timing of required tax distributions and TRA payments, the expansion of sales and marketing activities, the introduction of new and enhanced solutions and services offerings, and the continuing market acceptance of our solutions. In the future, we may enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights.

We may be required to seek additional equity or debt financing in the future. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies, this could reduce our ability to compete successfully and harm our results of operations.

A majority of our customers pay in advance for subscriptions, which is recorded as deferred revenue. Deferred revenue consists of the unearned portion of billed fees for our subscriptions, which is later recognized as revenue in accordance with our revenue recognition policy. As of September 30, 2022 March 31, 2023, we had deferred revenue of $368.7

million $242.2 million, of which $363.8 million $236.1 million was recorded as a current liability and is expected to be recorded as revenue in the next 12 twelve months, provided all other revenue recognition criteria have been met.

Credit Facilities

On August 1, 2018, we entered into a First Lien with lending institutions for term loan borrowings totaling $775.0 million million. and a Second Lien Credit Agreement for term loan borrowings totaling $365.0 million. The First Lien also provides provided for a Revolving Credit Agreement (the "Revolving Credit Agreement") of $289.0 million. Borrowings under the First Lien are guaranteed by Holdings LLC and certain of its subsidiaries as specified in the guaranty agreements, and are secured by a lien and security interest in substantially all of the assets of existing and future material domestic subsidiaries of Holdings LLC that are loan parties.

The First Lien became is repayable in quarterly payments of $1.9 million beginning March 31, 2019 and will remain repayable through July 31, 2025, with all remaining outstanding principal due on July 31, 2025.

Borrowings under the First Lien bear interest at the SOFR, as administered by the Federal Reserve Bank of New York, plus the initial margin of 3.25% per annum.

As of September 30, 2022 March 31, 2023, the interest rate on the First Lien was 6.03% 7.68%.

Please refer to Note 11 to our condensed consolidated financial statements for more information regarding the repayment of our outstanding debt.

Other Contractual Obligations

Our material cash requirements from other known contractual and other obligations primarily consist contractual obligations under operating leases for office space, data facilities, cloud hosting arrangements and other services we purchase as part of our normal operations.

See Note 13 13. Commitments and Contingencies of our the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Cash Flows

The following table presents a summary of our consolidated cash flows from operating, investing and financing activities for the periods presented:

	Nine Months Ended September 30, 2022	2021
	(in thousands)	
Net cash provided by operating activities	$ 106,782	$ 122,886
Net cash (used in) investing activities	(68,676)	(350,730)
Net cash (used in) provided by financing activities	(14,932)	266,638
Effect of foreign exchange rate on cash and cash equivalents	(782)	(515)
Net increase in cash and cash equivalents and restricted cash	$ 22,392	$ 38,279
Cash and cash equivalents and restricted cash at beginning of period	86,991	53,246
Cash and cash equivalents and restricted cash at end of period	$ 109,383	$ 91,525

	Three Months Ended March 31, 2023	2022
	(in thousands)	
Net cash used in operating activities	$ (60,027)	$ (64,543)
Net cash used in investing activities	(10,032)	(26,211)
Net cash (used in) provided by financing activities	(3,222)	27,767
Effect of foreign exchange rate changes on cash	73	92
Net decrease in cash, cash equivalents, and restricted cash	$ (73,208)	$ (62,895)
Cash, cash equivalents, and restricted cash—Beginning of period	137,981	86,991
Cash, cash equivalents, and restricted cash—End of period	$ 64,773	$ 24,096

Operating Activities

Net cash provided by used in operating activities of $106.8 million $60.0 million for the nine three months ended September 30, 2022 March 31, 2023 was primarily related to our net loss of $24.5 million $14.8 million, adjusted for non-cash charges of $133.4 million $48.0 million and net cash outflows of $2.2 million $93.2 million resulting from changes in our operating assets and liabilities, net of acquisitions. Non-cash charges primarily consisted of depreciation and amortization of $91.1 million, property, equipment and intangible assets of $31.8 million and share-based compensation expense of $38.1 million and $8.6 million from the write-off of right-of-use assets and property and equipment. Additionally, we recorded a $5.6 million reduction to the fair value of our acquisition-related contingent consideration liability. $14.5 million. The main drivers of net cash outflows from changes in operating assets and liabilities were increases in deferred revenue of $65.3 million $73.7 million and accounts receivable of $52.7 million $8.4 million due to the seasonality of our billing cycle.

Net cash provided by used in operating activities of $122.9 million $64.5 million for the nine three months ended September 30, 2021 March 31, 2022 was primarily related to our net loss of $27.2 million $14.1 million, adjusted for non-cash charges of $119.2 million $44.0 million and net cash outflows of $30.9 million $94.4 million resulting from change changes in our operating assets and liabilities, net of acquisitions. Non-cash charges primarily consisted of depreciation and amortization of $84.5 million $29.9 million and share-based compensation of $13.5 million and loss on extinguishment of debt of $12.9 million. $11.6 million. The main drivers of the net cash outflows from changes in operating assets and liabilities were increases in deferred revenue of $88.2 million $74.0 million and accounts receivable of $29.0 million $4.8 million due to the seasonality of our billing cycle, and in deferred taxes of $21.4 million. cycle.

Investing Activities

Net cash used in investing activities of $68.7 million $10.0 million for the nine three months ended September 30, March 31, 2023 was primarily related to our investment in capitalized product development costs of $9.7 million and purchases of property and equipment of $0.4 million.

Net cash used in investing activities of $26.2 million for the three months ended March 31, 2022 was primarily related to the net cash paid for our acquisition of Kinvolved Chalk and Headed2 (net of cash acquired) of $31.2 million, investment in capitalized product development costs of $33.3 million, purchases of property and equipment of $2.8 million and payment of a portion of our acquisition-related contingent consideration liability of $1.4 million.

Net cash used in investing activities of $350.7 million for the nine months ended September 30, 2021 was primarily related to the net cash paid for our acquisition of Hobsons of $319.2 million $15.5 million and our investment in capitalized product development costs of $28.3 million $8.9 million and purchases of property and equipment of $3.2 $1.8 million.

Financing Activities

Net cash used in financing activities of $14.9 million $3.2 million for the nine three months ended September 30, 2022 March 31, 2023 was primarily related to payment of taxes related to the net settlement of equity awards of $8.8 $1.3 million repayment of our Revolving Credit Agreement of $70.0 million, and scheduled repayment of our First Lien debt of $5.8 million, offset by proceeds from our Revolving Credit Agreement of $70.0 $1.9 million.

Net cash provided by financing activities of $266.6 million $27.8 million for the nine three months ended September 30, 2021 March 31, 2022 was primarily related to net proceeds from our IPO of $766.1 million, net proceeds from our Bridge Loan of $315.2

million and from our Revolving Credit Agreement of $55.0 million $30.0 million, offset by full the scheduled repayments of our Bridge Loan, Second Lien debt of $365.0 million, Incremental Facility of $68.8 million and First Lien debt of $5.8 million, as well $1.9 million.
as the outstanding balance of our revolving credit facility of $95.0 million. Additionally, we also paid deferred offering costs in connection with our IPO of $11.8 million and debt issuance costs of $2.8 million.

Impact of Inflation

While inflation may impact our net revenues and costs of revenues, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. However, there can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, including, but not limited to, losses arising out of the breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, in connection with the completion of our IPO, we entered into indemnification agreements with our directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon us to provide indemnification under such agreements and there are no claims that we are aware of that could have a material effect on our consolidated balance sheets, consolidated statements of operations and comprehensive loss, or consolidated statements of cash flows.

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the JOBS Act. Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation.

The JOBS Act also permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to "opt-in" to this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that comply with such new or revised accounting standards on a non-delayed basis.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities, as applicable, at the date of our consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. Management considers these accounting policies to be critical accounting policies. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. The critical accounting estimates, assumptions and judgments judgements that we believe to have the most significant impact on our consolidated financial statements are revenue recognition, accounts receivable, capitalized product development costs, goodwill and intangible assets, business combinations, management incentive unit-based share-based compensation, tax receivable agreement and income taxes. There have been no material changes to our critical accounting policies and estimates as described in our 2021 Annual Report on From 10-K. 10-K for the year ended December 31, 2022. Refer to "Note 2 —

Summary of Significant Accounting Policies" to the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more detailed information regarding our critical accounting policies.

Recent Accounting Pronouncements

For a description of our recently adopted accounting pronouncements and recently issued accounting standards not yet adopted, see Note 2 2. Summary of Significant Accounting Policies to our the condensed consolidated financial statements.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. The non-GAAP financial information is presented for analytical and supplemental informational purposes only, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

These non-GAAP financial measures have their limitations as an analytical tool, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, these non-GAAP financial measures should not be considered as a replacement for their respective comparable financial measures, as determined by GAAP, or as a measure of our profitability or liquidity. We compensate for these limitations by relying primarily on our GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Gross Profit

Adjusted Gross Profit is a supplemental measure of operating performance that is not made under GAAP and that does not represent, and should not be considered as, an alternative to gross profit, as determined in accordance with GAAP. We define Adjusted Gross Profit as gross profit, adjusted for depreciation, share-based compensation expense and the related employer payroll tax, restructuring and acquisition-related expenses, amortization of acquired intangible assets and capitalized product development costs. We use Adjusted Gross Profit to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Gross Profit is a useful measure to us and to our investors because it provides consistency and comparability with our past financial performance and between fiscal periods, as the metric generally eliminates the effects of the variability of depreciation, share-based compensation, restructuring expense, acquisition-related expenses, and amortization of acquired intangibles and capitalized product development costs from period to period, which may fluctuate for reasons unrelated to overall operating performance. We believe that the use of this measure enables us to more effectively evaluate our performance period-over-period and relative to our competitors.

Adjusted EBITDA

Adjusted EBITDA is a supplemental measure of operating performance that is not made under GAAP and that does not represent, and should not be considered as, an alternative to net loss, as determined by GAAP. We define Adjusted EBITDA as net loss adjusted for net interest expense, depreciation and amortization, provision for (benefit from) income tax, share-based compensation expense and the related employer payroll tax, management fees, restructuring expense, and acquisition-related expense. We use Adjusted EBITDA to understand and evaluate our core operating performance and trends and to develop short-term and long-term operating plans. We believe that Adjusted EBITDA facilitates comparison of our operating performance on a consistent basis between periods and, when viewed in combination with our results prepared in accordance with GAAP, helps provide a broader picture of factors and trends affecting our results of operations.

Free Cash Flow

Free Cash Flow is a supplemental measure of liquidity that is not made under GAAP and does not represent, and should not be considered as, an alternative to cash flow from operations, as determined by GAAP. We define Free Cash Flow as net cash provided by used in operating activities less cash used for purchases of property and equipment and capitalized product development costs. We believe that Free Cash Flow is a useful indicator of liquidity that provides information to management and investors about the amount of cash generated by our operations inclusive of that used for investments in property and equipment and capitalized product development costs.

Reconciliation of Gross profit to Adjusted gross profit

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
(in thousands, except percentages)	(in thousands, except percentages)	2022	2021	2022	2021	(in thousands, except percentages)	2023	2022
Gross profit	Gross profit	$ 92,647	$ 85,620	$ 263,870	$ 237,486	Gross profit	$ 89,965	$ 81,615
Depreciation	Depreciation	263	489	803	1,322	Depreciation	252	275
Share-based compensation(1)	Share-based compensation(1)	2,144	1,324	6,458	1,486	Share-based compensation(1)	2,458	2,167
Restructuring(2)	Restructuring(2)	1,223	905	3,325	2,385	Restructuring(2)	13	973
Acquisition-related expense(3)	Acquisition-related expense(3)	266	233	558	484	Acquisition-related expense(3)	87	200
Amortization	Amortization	14,576	12,604	42,266	36,374	Amortization	15,769	13,685
Adjusted Gross Profit	Adjusted Gross Profit	$ 111,119	$ 101,175	$ 317,280	$ 279,537	Adjusted Gross Profit	$ 108,544	$ 98,915
Gross Profit Margin(4)		57.0 %	57.5 %	56.2 %	57.6 %			
Adjusted Gross Profit Margin(5)		68.4 %	67.9 %	67.6 %	67.8 %			
% Gross Profit Margin(4)						% Gross Profit Margin(4)	56.4 %	54.6 %
% Adjusted Gross Profit Margin(5)						% Adjusted Gross Profit Margin(5)	68.1 %	66.1 %

(1) Refers to expenses flowing through gross profit associated with share-based compensation.
(2) Refers to expenses flowing through gross profit related to migration of customers from legacy to core products, and severance expense related to offshoring activities and executive departures.
(3) Refers to expenses flowing through gross profit incurred to execute and integrate acquisitions, including retention awards and severance for acquired employees.
(4) Represents gross profit as a percentage of revenue.
(5) Represents Adjusted Gross Profit as a percentage of revenue.

Reconciliation of Net Loss to Adjusted EBITDA

		Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended March 31,	
(in thousands)	(in thousands)	2022	2021	2022	2021	(in thousands)	2023	2022
Net loss	Net loss	$ (3,917)	$ (25,128)	$ (24,495)	$ (27,190)	Net loss	$ (14,813)	$ (14,120)
Add:	Add:					Add:		
Amortization	Amortization	29,680	27,530	87,409	79,562	Amortization	30,873	28,654
Depreciation	Depreciation	1,114	1,667	3,710	4,950	Depreciation	918	1,264
Net interest expense(1)		11,158	12,857	26,923	51,409			
Loss on extinguishment of debt		—	12,905	—	12,905			
Income tax expense (benefit)		(811)	(2,685)	794	(20,035)			
Interest expense - net(1)						Interest expense - net(1)	14,029	7,022
Income tax (benefit) expense						Income tax (benefit) expense	(45)	4,538
Share-based compensation	Share-based compensation	13,222	10,719	37,859	13,455	Share-based compensation	15,481	12,395
Management fees(2)	Management fees(2)	85	424	262	615	Management fees(2)	63	84
Restructuring(3)	Restructuring(3)	1,523	839	11,706	3,576	Restructuring(3)	1,366	145
Acquisition-related expense(4)	Acquisition-related expense(4)	2,535	923	1,769	8,662	Acquisition-related expense(4)	1,534	2,628
Other expense (income) due to tax rate change(5)		(2,342)	—	(2,342)	—			

Adjusted EBITDA	Adjusted EBITDA	$ 52,247	$ 40,051	$ 143,595	$ 127,909	Adjusted EBITDA	$ 49,406	$ 42,610
Net loss margin		(2.4) %	(16.9) %	(5.2) %	(6.6) %			
Net loss margin(5)						Net loss margin(5)	(9.3) %	(9.4) %
Adjusted EBITDA margin(6)	Adjusted EBITDA margin(6)	32.2 %	26.9 %	30.6 %	31.0 %	Adjusted EBITDA margin(6)	31.0 %	28.5 %

(1) Interest expense, net of interest income.
(2) Refers to expense associated with collaboration with our principal stockholders and their internal consulting groups.

(3) Refers to costs incurred related to migration of customers from legacy to core products, remaining lease obligations for abandoned facilities, severance expense related to offshoring activities, facility closures, and executive departures, and event cancellation fees related to COVID-19. departures.
(4) Refers to direct transaction and debt-related fees reflected in our acquisition costs line item of our income statement and incremental acquisition-related costs that are incurred to perform diligence, execute and integrate acquisitions, including retention awards and severance for acquired employees, and other transaction and integration expenses. Also, refers to the fair value adjustments recorded to the contingent consideration liability related to the acquisitions of Kinvolved and Chalk. These incremental costs are embedded in our research and development, selling, general, and administrative and cost of revenue line items.
(5) Refers to impact Represents net loss as a percentage of the remeasurement of the tax receivable agreement liability due to a change in Pennsylvania statutory income tax rate. revenue.
(6) Represents Adjusted EBITDA as a percentage of revenue.

Reconciliation of Net Cash Provided by Used in Operating Activities to Free Cash Flow

		Three Months Ended September 30,		**Nine Months Ended September 30,**			**Three Months Ended March 31,**	
(in thousands)	(in thousands)	**2022**	**2021**	**2022**	**2021**	(in thousands)	**2023**	**2022**
Net cash provided by operating activities		$ 187,103	$ 173,076	$ 106,782	$ 122,886			
Net cash used in operating activities						Net cash used in operating activities	$ (60,027)	$ (64,543)
Purchases of property and equipment	Purchases of property and equipment	(643)	(308)	(2,844)	(3,222)	Purchases of property and equipment	(356)	(1,761)
Capitalized product development costs	Capitalized product development costs	(12,358)	(9,141)	(33,285)	(28,278)	Capitalized product development costs	(9,676)	(8,920)
Free Cash Flow	Free Cash Flow	$ 174,102	$ 163,627	$ 70,653	$ 91,386	Free Cash Flow	$ (70,059)	$ (75,224)

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “can have,” “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- the impact on our operations and financial condition from the effects economic uncertainty, including high inflation, high interest rates, foreign currency exchange volatility, concerns of economic slowdown or recession, instability of the current COVID-19 pandemic; banking system, and reduced government spending or suspension of investment in new or enhanced projects;
- our history of cumulative losses and expectation that we will not be profitable for the foreseeable future;
- risks associated with failing to continue our recent growth rates;
- the competitiveness of the market in which we operate;
- risks and uncertainties associated with potential acquisitions and divestitures;
- our ability to retain, hire and integrate skilled personnel including our senior management team;
- our ability to develop, introduce and market new and enhanced versions of our solutions to meet customer needs and expectations;
- our ability to scale our business and manage our expenses;

- the impact of adverse general and industry-specific economic and market conditions;
- risks to our revenue from changes in the spending policies or budget priorities for government funding of K-12 schools;
- risks related to the procurement process and budget decision by government entities;
- our ability to correctly estimate market opportunity and forecast market growth;
- our ability to successfully develop new solutions or materially enhance current solutions through our research and development efforts;
- risks caused by delays in upturns or downturns being reflected in our financial position and results of operations;
- the length and variability of our sales cycles;
- risks related to negotiating leverage and the demands of our large customers;
- our ability to change our pricing models, if necessary to compete successfully;
- our ability to acquire new accounts and successfully retain existing accounts;
- our ability to maintain, enhance and protect our brand;
- the impact of any catastrophic events or geopolitical, economic and market conditions, including disruptions in European economies a result of the war in Ukraine; events;
- the seasonality of our sales and customer growth;
- the effects of interruptions or delays in services provided by our data centers or other third parties;
- risks associated with lawsuits by third parties for alleged infringement, misappropriation or other violation of their intellectual property and proprietary rights;
- our ability to obtain, maintain, protect and enforce intellectual property protection for our current and future solutions;
- the impact of potential information technology or data security breaches or other cyber-attacks or other disruptions;
- the risks associated with indemnity provisions in some of our agreements;
- the risks related to our use of open source software in certain of our solutions;
- the impact of interruptions or performance problems associated with our technology or infrastructure;
- the impact of real or perceived errors, failures or bugs in our solutions;
- risks related to incorrect or improper use of our solutions or our failure to properly train customers on how to utilize our solutions;
- our ability to offer high-quality support;
- our ability to predict and respond to rapidly evolving technological trends and our customers' changing needs;
- the fact that our activities are and will continue to be subject to extensive government regulation;
- our ability to comply with HIPAA; the Health Insurance Portability and Accountability Act of 1996 and other privacy laws and regulations;
- risks related to changes in tax laws;
- the impact of export and import control laws and regulations;
- risks relating to non-compliance with anti-corruption, anti-bribery and similar laws;
- risks related to future litigation;
- changes in privacy laws and regulations applicable to our business;
- our ability to comply with legal requirements, contractual obligations and industry standards relating to security, data protection and privacy;
- risks to our reputation and of liability from a failure to comply with a variety of complex procurement rules and regulation;
- our reliance on third-party software and intellectual property licenses;
- our ability to develop and maintain proper and effective internal control over financial reporting;
- our management team's limited experience managing a public company;
- the impact of variation in our quarterly operating results on the trading price of our stock; and
- other factors disclosed in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other SEC filings and public communications. You should evaluate all forward-looking statements made in this Quarterly Report on Form 10-Q in the context of these risks and uncertainties.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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 a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

Foreign Currency Exchange Risk

The functional currencies of our foreign subsidiaries are the respective local currencies. Most of our sales are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the U.S., Canada and India. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments. During the nine three months ended September 30, 2022 March 31, 2023, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our consolidated financial statements.

Interest Rate Risk

As of September 30, 2022 March 31, 2023, our primary market risk exposure is changing interest rates. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. The First Lien and Revolving Credit Agreement carried interest at SOFR, as administered by the Federal Reserve Bank of New York, plus the applicable margin. The applicable margin is initially 3.25% per annum with a 0.25% step down based on the First Lien Net Leverage Ratio in the case of the First Lien including the Revolving Credit Agreement.

In the prior year, with the proceeds of the IPO and cash from operations, we repaid in full the Second Lien Credit Agreement, the Incremental Facility and the Bridge Loan, as well as all of the outstanding balance under the Revolving Credit Agreement.

On September 30, 2022 March 31, 2023, we had an outstanding debt balance of $745.9 million $742.1 million related to our First Lien. Based on the amount outstanding, a 100-basis point increase or decrease in market interest rates over a twelve-month period would result in a change to interest expense of approximately $7.5 million $7.4 million associated with our First Lien Credit Agreement.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of September 30, 2022 March 31, 2023. Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2022 March 31, 2023.

Changes to our Internal Controls over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended September 30, 2022 March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, the Company is involved in disputes, litigation, and other legal actions. On a quarterly basis, the Company evaluates developments in its legal matters that could affect the amount of liability that has been previously accrued, if any, or result in the Company accruing a liability, and the matters and related ranges of possible losses disclosed, and makes adjustments and changes to our disclosures as appropriate. Significant judgment is required to determine both (i) the likelihood of loss and (ii) the estimated amount of such loss related to such legal matters. Until the final resolution of such legal matters, there may be an exposure to loss, and such amounts could be material. For legal proceedings for which there is a reasonable possibility of loss (meaning those losses for which the likelihood is more than remote but less than probable), the Company has determined it does not have material exposure on an aggregate basis at this time.

Item 1A. Risk Factors

There have been no material changes with respect to the risk factors disclosed in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2022.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 4, 2022, Severin Topco, LLC ("Topco LLC") approved an amendment of the outstanding management incentive units ("MIUs") held by Hardeep S. Gulati, Chief Executive Officer, and Eric R. Shander, Chief Financial Officer. Pursuant to the amendment, the outstanding MIUs held by Messrs. Gulati and Shander will vest on any date on which the price of the Company's Class A common stock equals or exceeds $25.00 (determined based on a 90-day volume weighted average price of the Class A common stock as of such date). Any outstanding MIUs that have not vested by the earlier to occur of (x) the consummation of a Sale of the Company (as defined in the Amended and Restated limited Liability Company Agreement of Topco LLC) or (y) the date on which either Vista or Onex cease to own 25% of the equity securities of the Company or Topco LLC (as applicable) that they held as of the consummation of the Company's initial public offering, will be forfeited and cancelled for no consideration as of such date. None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of PowerSchool Holdings, Inc., dated July 27, 2021 (incorporated by reference to Exhibit 3.2 of PowerSchool Holdings, Inc.'s Current Report on Form 8-K filed on July 30, 2021).
3.2	Amended and Restated Bylaws of PowerSchool Holdings, Inc., dated July 27, 2021 (incorporated by reference to Exhibit 3.4 of PowerSchool Holdings, Inc.'s Current Report on Form 8-K filed on July 30, 2021).
10.1	Amendment No. 4 to the First Lien Credit Form of Market Share Award Agreement dated as of September 16, 2022, by and among PowerSchool Holdings LLC (f/k/a Severin Holdings, LLC), Severin Acquisition, LLC, certain of its subsidiaries, and the Lenders party thereto (incorporated by reference to Exhibit 10.1 of PowerSchool Holdings, Inc.'s Current Report on Form 8-K filed on September 21, 2022).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Extension Definition
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q, are deemed furnished and not filed with the SEC.

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.

PowerSchool Holdings, Inc.

Date: November 8, 2022 May 5, 2023

By:	/s/ Eric Shander
Name:	Eric Shander
Title:	President & Chief Financial Officer
	(Principal Financial Officer)

Exhibit 10.1

POWERSCHOOL HOLDINGS, INC.
MSU Award notice

Pursuant to the terms and conditions of the PowerSchool Holdings, Inc. 2021 Omnibus Incentive Plan, as amended from time to time (the "Plan"), PowerSchool Holdings, Inc., a Delaware corporation (the "Company"), hereby grants to the individual listed below ("you" or the "Participant") an award of Market Share Units ("MSUs") set forth below. This award of MSUs (this "Award") is subject to the terms and conditions set forth herein and in the Market Share Unit Agreement attached hereto as Exhibit A (the "Agreement") and the Plan, each of which is incorporated herein by reference. Capitalized terms used herein without definition have the meanings ascribed to such terms in the Plan.

Type of Award:	Other Share-Based Award under Article X of the Plan.
Participant:	
Grant Date:	
Vesting Commencement Date:	
Number of MSUs:	

By your signature below, you agree to be bound by the terms and conditions of the Plan, the Agreement, and this Market Share Unit Award Notice (this "Grant Notice"). You acknowledge that you have reviewed the Agreement, the Plan, and this Grant Notice in their entirety and fully understand all provisions of the Agreement, the Plan, and this Grant Notice. You hereby agree to accept as binding, conclusive, and final all decisions or interpretations of the Committee regarding any questions or determinations that arise under the Agreement, the Plan, or this Grant Notice. This Grant Notice may be executed in one or more counterparts (including portable document format (.pdf) and facsimile counterparts), each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Grant Notice as of the date first written above.

POWERSCHOOL HOLDINGS, INC.

By: image.jpg
Name: Hardeep Gulati
Title: Chief Executive Officer

[*Signature Page to Market Share Unit Award Notice*]

EXHIBIT A

POWERSCHOOL HOLDINGS, INC.
MSU Award Agreement

THIS MSU AWARD AGREEMENT (this "Agreement") is entered into by and between the Company and the Participant as of the Grant Date set forth in the Grant Notice to which this Agreement is attached. Capitalized terms used herein without definition have the meanings ascribed to such terms in the Plan.

WHEREAS, the Plan provides for the grant of Other Share-Based Awards;

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its members to grant the Participant an Other Share-Based Award in the form of Market Share Units ("MSUs") on the terms and subject to the conditions set forth in this Agreement and the Plan; and

WHEREAS, this Award represents in value based on a per Share price of (the "Base Price").

NOW THEREFORE, for and in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, for themselves and their successors and assigns, hereby agree as follows:

1. Grant of MSUs.

a. Grant. The Company hereby grants to the Participant the number of MSUs set forth in the Grant Notice on the terms and conditions set forth in the Grant Notice, this Agreement, and the Plan.

b. Incorporation by Reference. The provisions of the Plan are incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan.

2. Vesting. The MSUs shall be subject to both time and performance vesting based on the Payout Factor (as defined below). The MSUs shall vest as follows: (a) 50% of the MSUs shall vest on the second anniversary of the Vesting Commencement Date, and (b) 50% of the MSUs shall vest on the third anniversary of the Vesting Commencement Date, subject, in each case, to the Participant not incurring a Separation from Service prior to the applicable vesting date. The actual number of Shares to be granted to the Participant in connection with the vesting of applicable MSUs will be determined on each vesting date by multiplying the number of MSUs that time-vested on such vesting date by the applicable Payout Factor. The "Payout Factor" is defined to be the quotient calculated by dividing (i) the average Fair Market Value of the Company's Common Stock during the ten trading days immediately preceding the applicable vesting date by (ii) the Fair Market Value of the Company's Common Stock on the Vesting Commencement Date; provided that (x) the Payout Factor shall equal zero if such quotient is less than 0.65; (y)

the Payout Factor shall equal 2.00 if such quotient equals or exceeds 2.00; and (z) the Payout Factor shall be rounded to the nearest hundredth (two places after the decimal).

3. Settlement. The Company shall issue the Share(s) (if any) to the Participant for each MSU that becomes vested hereunder within 30 days following the date on which such MSU becomes vested.

4. Forfeiture. If, prior to the settlement of the MSUs as set forth in Section 3, (a) the Participant incurs a Separation from Service for any reason, (b) the Participant materially breaches this Agreement, or (c) the Participant fails to meet the tax withholding obligations described in Section 7, the Participant shall immediately and automatically forfeit all of the Participant's rights in respect of the MSUs.

5. Change in Control. In the event of a Change of Control, other than a Change of Control associated with the ownership of VEP Group LLC and its affiliated investment entities (collectively, "Vista") and Onex Partners Manager LP and its affiliated entities (collectively, "Onex") falling below 50% cumulative ownership but Vista and Onex collectively retaining a minority ownership stake in the Company, if: (1) Participant is terminated without Cause by the Company or the successor corporation or a parent or subsidiary of such successor corporation of the Company (the "Successor Corporation") within twelve (12) months following consummation of the Change of Control transaction; or (2) Executive terminates his or her employment or consulting relationship with the Company or the Successor Corporation, each as applicable, for Good Reason (as such term is defined in Participant's employment agreement with the Company) within twelve (12) months following consummation of the transaction, then the MSUs or any cancelled, assumed, or substituted Other Share-based Awards held by Participant in lieu of the MSUs at the time of Executive's termination shall become fully accelerated and fully vested immediately prior to the effective date of termination, and notwithstanding anything to the contrary in Section 2, the Payout Factor for such MSUs shall be 1.00.

6. Rights as Stockholder; Dividend Equivalents. Until such time as the MSUs have been settled pursuant to Section 3, the Participant shall have no rights as a stockholder, including, without limitation, any right to dividends or other distributions or any right to vote. Notwithstanding the foregoing, if the Company declares any cash dividend the record date of which occurs while the MSUs are outstanding, the Participant shall be credited a dividend equivalent in an amount equal to the dividend that would have been paid on

the Shares underlying the MSUs calculated at a Payout Factor of 1.00, had such Shares been outstanding on such record date. Any such dividend equivalents shall be subject to the same vesting conditions applicable to the underlying MSU with respect to which they accrue, and shall, if the underlying MSU vests, be paid no later than 10 days following the applicable vesting date.

7. Taxes. The Company shall have the power and the right to deduct or withhold, or require the Participant to remit to the Company, an amount sufficient to satisfy any federal, state, local, and foreign taxes of any kind that the Company, in its sole discretion, deems necessary to be withheld or remitted to comply with the Code and/or any other applicable law, rule, or regulation with respect to the MSUs and, if the Participant fails to

do so, the Company may refuse to issue or transfer any Shares otherwise required to be issued pursuant to this Agreement.

8. Non-Transferability. The MSUs may not, at any time prior to being settled, be assigned, alienated, pledged, attached, sold, or otherwise transferred or encumbered by the Participant, other than by will or by the laws of descent and distribution. Any such purported assignment, alienation, pledge, attachment, sale, transfer, or encumbrance shall be void and unenforceable against the Company.

9. Miscellaneous.

a. Clawback. All awards, amounts, and benefits received or outstanding under the Plan will be subject to clawback, cancellation, recoupment, rescission, payback, reduction, or other similar action in accordance with the terms of any Company clawback or similar policy or any Applicable Law related to such actions, as may be in effect from time to time. The Participant acknowledges and expressly agrees to the Company's application, implementation, and enforcement of any applicable Company clawback or similar policy that may apply to the Participant, whether adopted before or after the Grant Date (including the forfeiture, clawback, and detrimental conduct terms contained in Section 13.22 of the Plan as of the Grant Date (and any successor terms)), and any term of Applicable Law relating to clawback, cancellation, recoupment, rescission, payback, or reduction of compensation, and the Company may take such actions as may be necessary to effectuate any such policy or Applicable Law, without further consideration or action.

b. Compliance with Laws. The grant of MSUs and the issuance of Shares hereunder shall be subject to, and shall comply with, any applicable requirements of any foreign and U.S. federal and state securities laws, rules, and regulations (including, without limitation, the provisions of the Securities Act, the Exchange Act, and in each case any respective rules and regulations promulgated thereunder) and any other law, rule, regulation, or exchange requirement applicable thereto.

c. Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns, and of the Participant and the beneficiaries, executors, administrators, and heirs of the Participant.

d. No Waiver; Amendment. No waiver of any right hereunder by any party shall operate as a waiver of any other right, or as a waiver of the same right with respect to any subsequent occasion for its exercise, or as a waiver of any right to damages. No waiver by any party of any breach of this Agreement shall be held to constitute a waiver of any other breach or a waiver of the continuation of the same breach. This Agreement may be amended at any time by the Committee, except that no amendment may, without the Participant's consent, materially impair the Participant's rights under the Award.

e. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

f. No Right to Service. Nothing contained in this Agreement shall be construed as giving the Participant any right to be retained, in any position, as an employee, consultant, or director of the Company or its subsidiaries or shall interfere with or restrict in any way the right of the Company or its subsidiaries to remove, terminate, or discharge the Participant at any time for any reason whatsoever.

g. Unfunded Plan. The award of MSUs is unfunded and the Participant shall be considered an unsecured creditor of the Company with respect to the Company's obligations, if any, to issue Shares pursuant to this Agreement. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between the Participant and the Company or any other person.

h. Entire Agreement. This Agreement, the Grant Notice, and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations, and negotiations with respect thereto.

i. Bound by the Plan. By signing this Agreement, the Participant acknowledges that the Participant has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan. In the event of any conflict between the Plan and this Agreement, this Agreement shall control.

j. Governing Law. The Participant acknowledges and expressly agrees to the governing law terms of Section 13.9 of the Plan (and any successor terms) and the jurisdiction and waiver of jury trial terms of Section 13.10 of the Plan (and any successor terms).

k. Business Days. If any time period for giving notice or taking action hereunder expires on a day that is a Saturday, Sunday, or holiday in the state in which the Company's principal executive office is located, the time period shall be automatically extended to the business day immediately following such Saturday, Sunday, or holiday.

l. Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

m. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

n. Section 409A of the Code. It is intended that the MSUs granted pursuant to this Agreement and the provisions of this Agreement be exempt from or comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and all provisions of this Agreement shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A of the Code.

* * * *

Exhibit 31.1

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Hardeep Gulati, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PowerSchool Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and c) 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 8, 2022 May 5, 2023

/s/ Hardeep Gulati

Hardeep Gulati
Director and Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Eric Shander, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PowerSchool Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and c) 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 8, 2022 May 5, 2023

/s/ Eric Shander

Eric Shander
President & Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer and Chief Financial Officer

Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of PowerSchool Holdings, Inc. (the "Company") for the period ended September 30, 2022 March 31, 2023, as filed with the U.S. Securities and Exchange Commission (the "Report"), the undersigned, the Chief Executive Officer and the Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; 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 8, 2022 May 5, 2023

/s/ Hardeep Gulati

Hardeep Gulati
Director and Chief Executive Officer

Date: November 8, 2022 May 5, 2023

/s/ Eric Shander

Eric Shander
President & Chief Financial Officer

DISCLAIMER

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