
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 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: 001-31666

First Advantage Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**1 Concourse Parkway NE, Suite 200
Atlanta, GA**

(Address of principal executive offices)

84-3884690

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

30328

(Zip Code)

Registrant's telephone number, including area code: (888) 314-9761

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	FA	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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

As of November 6, 2023, the registrant had 145,120,007 shares of common stock, \$0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

First Advantage Corporation
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share amounts)	September 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 164,874	\$ 391,655
Restricted cash	133	141
Short-term investments	2,167	1,956
Accounts receivable (net of allowance for doubtful accounts of \$1,571 and \$1,348 at September 30, 2023 and December 31, 2022, respectively)	156,912	143,811
Prepaid expenses and other current assets	19,335	25,407
Income tax receivable	5,893	3,225
Total current assets	349,314	566,195
Property and equipment, net	89,673	113,529
Goodwill	820,970	793,080
Trade name, net	65,690	71,162
Customer lists, net	291,559	326,014
Deferred tax asset, net	3,188	2,422
Other assets	9,053	13,423
TOTAL ASSETS	<u>\$ 1,629,447</u>	<u>\$ 1,885,825</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 55,954	\$ 54,947
Accrued compensation	15,954	22,702
Accrued liabilities	16,502	16,400
Current portion of operating lease liability	4,733	4,957
Income tax payable	480	724
Deferred revenues	1,159	1,056
Total current liabilities	94,782	100,786
Long-term debt (net of deferred financing costs of \$6,712 and \$8,075 at September 30, 2023 and December 31, 2022, respectively)	558,012	556,649
Deferred tax liability, net	82,215	90,556
Operating lease liability, less current portion	3,847	7,879
Other liabilities	2,591	3,337
Total liabilities	741,447	759,207
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY		
Common stock - \$0.001 par value; 1,000,000,000 shares authorized, 145,217,657 and 148,732,603 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	145	149
Additional paid-in-capital	972,063	1,176,163
Accumulated deficit	(61,354)	(27,363)
Accumulated other comprehensive loss	(22,854)	(22,331)
Total equity	888,000	1,126,618
TOTAL LIABILITIES AND EQUITY	<u>\$ 1,629,447</u>	<u>\$ 1,885,825</u>

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

First Advantage Corporation
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

<i>(in thousands, except share and per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
REVENUES	\$ 200,364	\$ 205,986	\$ 561,199	\$ 597,428
OPERATING EXPENSES:				
Cost of services (exclusive of depreciation and amortization below)	101,410	104,300	285,468	301,023
Product and technology expense	13,107	13,250	38,374	39,969
Selling, general, and administrative expense	30,217	28,034	88,881	87,715
Depreciation and amortization	32,419	34,744	96,341	103,185
Total operating expenses	177,153	180,328	509,064	531,892
INCOME FROM OPERATIONS	23,211	25,658	52,135	65,536
OTHER EXPENSE, NET:				
Interest expense, net	7,557	1,740	20,125	4,002
Total other expense, net	7,557	1,740	20,125	4,002
INCOME BEFORE PROVISION FOR INCOME TAXES	15,654	23,918	32,010	61,534
Provision for income taxes	4,881	6,709	9,530	17,076
NET INCOME	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458
Foreign currency translation loss	(1,610)	(10,253)	(523)	(23,089)
COMPREHENSIVE INCOME	\$ 9,163	\$ 6,956	\$ 21,957	\$ 21,369
NET INCOME	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458
Basic net income per share	\$ 0.08	\$ 0.11	\$ 0.16	\$ 0.29
Diluted net income per share	\$ 0.07	\$ 0.11	\$ 0.15	\$ 0.29
Weighted average number of shares outstanding - basic	143,231,707	150,930,340	144,392,463	150,740,418
Weighted average number of shares outstanding - diluted	144,733,357	152,357,307	146,392,996	152,375,112

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

First Advantage Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 22,480	\$ 44,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,341	103,185
Amortization of deferred financing costs	1,362	1,347
Bad debt expense (recovery)	134	(6)
Deferred taxes	(8,723)	5,536
Share-based compensation	10,449	5,824
Loss on foreign currency exchange rates	26	115
Loss on disposal of fixed assets and impairment of ROU assets	1,724	197
Change in fair value of interest rate swaps	(2,201)	(11,376)
Changes in operating assets and liabilities:		
Accounts receivable	(12,162)	3,063
Prepaid expenses and other assets	8,661	700
Accounts payable	531	165
Accrued compensation and accrued liabilities	(8,389)	(9,337)
Deferred revenues	87	(116)
Operating lease liabilities	(1,134)	(773)
Other liabilities	(198)	1,055
Income taxes receivable and payable, net	(2,908)	(1,195)
Net cash provided by operating activities	106,080	142,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(41,122)	(19,044)
Purchases of property and equipment	(1,798)	(6,034)
Capitalized software development costs	(18,781)	(16,320)
Other investing activities	(231)	872
Net cash used in investing activities	(61,932)	(40,526)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(217,683)	—
Share repurchases	(55,917)	(2,248)
Payments on finance lease obligations	(97)	(673)
Payments on deferred purchase agreements	(703)	(704)
Proceeds from issuance of common stock under share-based compensation plans	4,089	3,090
Net settlement of share-based compensation plan awards	(254)	(292)
Net cash used in financing activities	(270,565)	(827)
Effect of exchange rate on cash, cash equivalents, and restricted cash	(372)	(3,879)
(Decrease) increase in cash, cash equivalents, and restricted cash	(226,789)	97,610
Cash, cash equivalents, and restricted cash at beginning of period	391,796	292,790
Cash, cash equivalents, and restricted cash at end of period	\$ 165,007	\$ 390,400
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds received	\$ 21,006	\$ 11,321
Cash paid for interest	\$ 33,787	\$ 17,640
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired on account	\$ 25	\$ 105
Excise taxes on share repurchases incurred but not paid	\$ 558	\$ —
Dividends declared but not paid	\$ 701	\$ —

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

First Advantage Corporation
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

<i>(in thousands)</i>	Common Stock	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE – December 31, 2022	\$ 149	\$ 1,176,163	\$ (27,363)	\$ (22,331)	\$ 1,126,618
Share-based compensation	—	2,058	—	—	2,058
Repurchases of common stock	(2)	—	(25,515)	—	(25,517)
Proceeds from issuance of common stock under share-based compensation plans	0	1,399	—	—	1,399
Common stock withheld for tax obligations on restricted stock unit and option settlement	0	(25)	—	—	(25)
Foreign currency translation	—	—	—	869	869
Net income	—	—	1,925	—	1,925
BALANCE – March 31, 2023	\$ 147	\$ 1,179,595	\$ (50,953)	\$ (21,462)	\$ 1,107,327
Share-based compensation	—	3,601	—	—	3,601
Repurchases of common stock	(2)	—	(27,337)	—	(27,339)
Proceeds from issuance of common stock under share-based compensation plans	0	705	—	—	705
Common stock withheld for tax obligations on restricted stock unit and option settlement	0	(186)	—	—	(186)
Foreign currency translation	—	—	—	218	218
Net income	—	—	9,782	—	9,782
BALANCE – June 30, 2023	\$ 145	\$ 1,183,715	\$ (68,508)	\$ (21,244)	\$ 1,094,108
Share-based compensation	—	4,790	—	—	4,790
Repurchases of common stock	0	—	(3,619)	—	(3,619)
Cash dividends declared, \$1.50 per share	—	(218,384)	—	—	(218,384)
Proceeds from issuance of common stock under share-based compensation plans	0	1,985	—	—	1,985
Common stock withheld for tax obligations on restricted stock unit and option settlement	0	(43)	—	—	(43)
Foreign currency translation	—	—	—	(1,610)	(1,610)
Net income	—	—	10,773	—	10,773
BALANCE – September 30, 2023	<u>\$ 145</u>	<u>\$ 972,063</u>	<u>\$ (61,354)</u>	<u>\$ (22,854)</u>	<u>\$ 888,000</u>

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

First Advantage Corporation
Condensed Consolidated Statements of Changes in Stockholders' Equity (Continued)
(Unaudited)

<i>(in thousands)</i>	Common Stock	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE – December 31, 2021	\$ 153	\$ 1,165,163	\$ (31,441)	\$ (1,637)	\$ 1,132,238
Share-based compensation	—	1,859	—	—	1,859
Proceeds from issuance of common stock under share-based compensation plans	0	547	—	—	547
Foreign currency translation	—	—	—	(1,517)	(1,517)
Net income	—	—	13,013	—	13,013
BALANCE – March 31, 2022	\$ 153	\$ 1,167,569	\$ (18,428)	\$ (3,154)	\$ 1,146,140
Share-based compensation	—	1,943	—	—	1,943
Proceeds from issuance of common stock under share-based compensation plans	0	723	—	—	723
Common stock withheld for tax obligations on restricted stock unit and option settlement	—	(98)	—	—	(98)
Foreign currency translation	—	—	—	(11,319)	(11,319)
Net income	—	—	14,236	—	14,236
BALANCE – June 30, 2022	\$ 153	\$ 1,170,137	\$ (4,192)	\$ (14,473)	\$ 1,151,625
Share-based compensation	—	2,022	—	—	2,022
Repurchases of common stock	0	—	(2,248)	—	(2,248)
Proceeds from issuance of common stock under share-based compensation plans	0	1,820	—	—	1,820
Common stock withheld for tax obligations on restricted stock unit and option settlement	0	(192)	—	—	(192)
Foreign currency translation	—	—	—	(10,253)	(10,253)
Net income	—	—	17,209	—	17,209
BALANCE – September 30, 2022	<u>\$ 153</u>	<u>\$ 1,173,787</u>	<u>\$ 10,769</u>	<u>\$ (24,726)</u>	<u>\$ 1,159,983</u>

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

First Advantage Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Organization, Nature of Business, and Basis of Presentation

First Advantage Corporation, a Delaware corporation, was formed on November 15, 2019. Hereafter, First Advantage Corporation and its subsidiaries will collectively be referred to as the "Company".

The Company derives its revenues from a variety of background check and compliance services performed across all phases of the workforce lifecycle from pre-onboarding services to post-onboarding and ongoing monitoring services, covering employees, contractors, contingent workers, tenants, and drivers. We generally classify our service offerings into three categories: pre-onboarding, post-onboarding, and adjacent products.

Pre-onboarding services are comprised of an extensive array of products and solutions that customers typically utilize to enhance their evaluation process and support compliance from the time a job or other application is submitted to a successful applicant's onboarding date. This includes searches such as criminal background checks, drug / health screenings, extended workforce screening, biometrics and identity checks, education / workforce verification, driver records and compliance, healthcare credentials, and executive screening.

Post-onboarding services are comprised of continuous monitoring and re-screening solutions which are important tools to help keep their end customers, workforces, and other stakeholders safer, more productive, and more compliant. Our post-monitoring solutions include criminal records, healthcare sanctions, motor vehicle records, social media, and global sanctions screening continuously or at regular intervals selected by our customers.

Adjacent products include products that complement our pre-onboarding and post-onboarding products and solutions. This includes fleet / vehicle compliance, hiring tax credits and incentives, resident / tenant screening, employment eligibility, and investigative research.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company includes the results of operations of acquired companies prospectively from the date of acquisition.

The condensed consolidated financial statements included herein are unaudited, but in the opinion of management, such financial statements include all adjustments, consisting of normal recurring adjustments, necessary to summarize fairly the Company's financial position, results of operations, and cash flows for the interim periods presented. The interim results reported in these condensed consolidated financial statements should not be taken as indicative of results that may be expected for future interim periods or the full year. For a more comprehensive understanding of the Company and its condensed consolidated financial statements, these interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

The Company has historically experienced seasonality with respect to certain customer industries as a result of fluctuations in hiring volumes and other economic activities. Generally, the Company's highest revenues have historically occurred between October and November of each year, driven by many customers' pre-holiday season hiring initiatives.

Use of Estimates — The preparation of the condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Changes in these estimates and assumptions may have a material impact on the condensed consolidated financial statements and accompanying notes.

Significant estimates, judgments, and assumptions, include, but are not limited to, the determination of the fair value and useful lives of assets acquired and liabilities assumed through business combinations, revenue recognition, capitalized software, and income tax liabilities and assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Note 2. Summary of Significant Accounting Policies

Fair Value of Financial Instruments — Certain financial assets and liabilities are reported at fair value in the accompanying consolidated balance sheets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*. ASC 820 establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 — Significant inputs to the valuation model are unobservable (supported by little or no market activities). These inputs may be used with internally developed methodologies that reflect the Company's best estimate of fair value from a market participant.

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The carrying amounts of cash and cash equivalents, short-term investments, receivables, and accounts payable approximate fair value due to the short-term maturities of these financial instruments (Level 1). The fair values and carrying values of the Company's long-term debt are disclosed in Note 6.

The following table presents information about the Company's financial assets and liabilities that are measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy as of September 30, 2023 (in thousands):

	Level 1	Level 2	Level 3
Assets			
Interest rate collars	\$ —	\$ 4,917	\$ —
Interest rate swap	\$ —	\$ 982	\$ —

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Other intangible assets are subject to nonrecurring fair value measurement as the result of business acquisitions. The fair values of these assets were estimated using the present value of expected future cash flows through unobservable inputs (Level 3).

Business Combinations — The Company records business combinations using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Under the acquisition method of accounting, identifiable assets acquired and liabilities assumed are recorded at their acquisition-date fair values. The excess of the purchase price over the estimated fair value is recorded as goodwill. Changes in the estimated fair values of net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed one year from the date of acquisition, will adjust the amount of the purchase price allocable to goodwill. Measurement period adjustments are reflected in the period in which they occur.

In valuing the trade names, customer lists, and software developed for internal use, the Company utilizes variations of the income approach, which relies on historical financial and qualitative information, as well as assumptions and estimates for projected financial information. The Company considers the income approach the most appropriate valuation technique because the inherent value of these assets is their ability to generate current and future income. Projected financial information is subject to risk if estimates are incorrect. The most significant estimate relates to projected revenues and profitability. If the projected revenues and profitability used in the valuation calculations are not met, then the asset could be impaired.

Impairment of Long-Lived Assets — The Company regularly evaluates whether events and circumstances have occurred that indicate the carrying amount of property and equipment, ROU assets, and finite-life intangible assets may not be recoverable or that indicate useful lives warrant revision. The Company determined that triggering events occurred for certain leases exited during the nine months ended September 30, 2023 which required an impairment review of certain ROU assets. Based on the results of the analysis, the Company recorded non-cash impairment charges of \$1.8 million related to office space exited during the nine months ended September 30, 2023. Write down of abandoned property and equipment no longer in use was \$0.3 million for the nine months ended September 30, 2023.

Concentrations of Credit Risk — Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Cash is deposited with major financial institutions and, at times, such balances with each financial institution may be in excess of insured limits. The Company has not experienced, and does not anticipate, any losses with respect to its cash deposits. Accounts receivable represent credit granted to customers for services provided. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Company had one customer which represented approximately 11% of its consolidated revenues during both the three and nine months ended September 30, 2023. The Company had one customer which represented approximately 10% of its consolidated revenues during the three months ended September 30, 2022. The Company did not have any customers which represented 10% or more of consolidated revenues during the nine months ended September 30, 2022. Additionally, the Company did not have any customers which represented 10% or more of consolidated accounts receivable, net for any period presented.

Foreign Currency — The functional currency of all of the Company's foreign subsidiaries is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenues and expense accounts using average exchange rates prevailing during the fiscal year. Adjustments resulting from the translation of foreign currency financial statements are accumulated net of tax in a separate component of equity. Currency translation loss included in accumulated other comprehensive income (loss) was approximately \$(1.6) million and \$(10.3) million for the three months ended September 30, 2023 and 2022, respectively. Currency translation loss included in accumulated other comprehensive income (loss) was approximately \$(0.5) million and \$(23.1) million for the nine months ended September 30, 2023 and 2022, respectively.

Gains or losses resulting from foreign currency transactions are included in the accompanying condensed consolidated statements of operations and comprehensive income, except for those relating to intercompany transactions of a long-term investment nature, which are captured in a separate component of equity as accumulated other comprehensive income (loss). Currency transaction income included in the accompanying condensed consolidated statements of operations and comprehensive income was approximately \$0.1 million and \$1.1 million for the three months ended September 30, 2023 and 2022, respectively. Currency transaction (loss) income included in the accompanying condensed consolidated statements of operations and comprehensive income was approximately \$(0.2) million and \$2.4 million for the nine months ended September 30, 2023 and 2022, respectively.

Recent Accounting Pronouncements — There were no accounting pronouncements issued during the nine months ended September 30, 2023 that are expected to have a material impact on the condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements — In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, *Revenue from Contracts with Customers*. Prior to the issuance of this guidance, contract assets and contract liabilities were recognized by the acquirer at fair value on the acquisition date. This guidance is effective for annual reporting periods beginning after December 15, 2022 including interim periods therein. Adoption of this standard on January 1, 2023 did not have a material impact on the condensed consolidated financial statements. However, if the Company acquires material customer contracts in the future, this standard will impact the accounting for those arrangements which may have a material effect on future results.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and in January 2021 issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*. These ASUs provide temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Inter-bank Offered Rate ("LIBOR"), to alternate reference rates, such as the Secured Overnight Financing Rate ("SOFR"). These standards were effective upon issuance and allowed application to contract changes as early as January 1, 2020. Adoption of this standard in June 2023 did not have a material impact on the condensed consolidated financial statements.

Note 3. Acquisitions

On September 1, 2023, the Company acquired 100% of the equity interest of a digital identity solutions company headquartered in New York, for \$41.0 million. The acquired company operates under the trade name Infinite ID. The acquisition expands the Company's network and portfolio of identity solutions in the United States. The acquired company was determined to constitute a business and the Company was deemed to be the acquirer under ASC 805. As a result, the Company has recorded the related purchase accounting as of September 1, 2023.

The allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as of the acquisition date. The following table summarizes the consideration paid and the amounts recognized for the assets acquired and liabilities assumed (in thousands):

Consideration		
Cash purchase price	\$	41,000
Other transaction adjustments		122
Total fair value of consideration transferred	\$	41,122
Current assets	\$	1,368
Property and equipment, including software developed for internal use		5,959
Customer lists		6,500
Other assets		236
Total liabilities		(1,041)
Total identifiable net assets	\$	13,022
Goodwill	\$	28,100

Goodwill recognized is not expected to be deductible for tax purposes. Results of operation have been included in the condensed consolidated financial statements of the Company's Americas segment since the date of acquisition.

As of the date these condensed consolidated financial statements were issued, the purchase accounting related to this acquisition was incomplete as the valuation of certain working capital balances, intangible assets, deferred taxes, and certain customary transaction adjustments were not yet finalized. The Company has reflected the provisional amounts in these condensed consolidated financial statements. As such, the above balances may be adjusted in a future period as the valuation is finalized and these adjustments may be material to the condensed consolidated financial statements.

Note 4. Property and Equipment, net

Property and equipment, net as of September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Furniture and equipment	\$ 26,494	\$ 23,422
Capitalized software for internal use, acquired by business combination	232,505	227,405
Capitalized software for internal use, developed internally or otherwise purchased	79,544	60,187
Leasehold improvements	2,422	2,957
Total property and equipment	340,965	313,971
Less: accumulated depreciation and amortization	(251,292)	(200,442)
Property and equipment, net	\$ 89,673	\$ 113,529

Depreciation and amortization expense of property and equipment was approximately \$16.9 million and \$17.7 million for the three months ended September 30, 2023 and 2022, respectively. Depreciation and amortization expense of property and equipment was approximately \$50.0 million and \$51.9 million for the nine months ended September 30, 2023 and 2022, respectively.

Note 5. Goodwill, Trade Name, and Customer Lists

The changes in the carrying amount of goodwill for the nine months ended September 30, 2023 by reportable segment were as follows (in thousands):

	Americas	International	Total
Balance – December 31, 2022	\$ 677,171	\$ 115,909	\$ 793,080
Acquisition	28,100	—	28,100
Foreign currency translation	87	(297)	(210)
Balance – September 30, 2023	<u>\$ 705,358</u>	<u>\$ 115,612</u>	<u>\$ 820,970</u>

The following summarizes the gross carrying value and accumulated amortization for the Company's trade name and customer lists as of September 30, 2023 and December 31, 2022 (in thousands):

	September 30, 2023			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life (in years)
Trade name	\$ 93,880	\$ (28,190)	\$ 65,690	20 years
Customer lists	522,063	(230,504)	291,559	13-14 years
Total	<u>\$ 615,943</u>	<u>\$ (258,694)</u>	<u>\$ 357,249</u>	

	December 31, 2022			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life (in years)
Trade name	\$ 93,959	\$ (22,797)	\$ 71,162	20 years
Customer lists	515,762	(189,748)	326,014	13-14 years
Total	<u>\$ 609,721</u>	<u>\$ (212,545)</u>	<u>\$ 397,176</u>	

Amortization expense of trade name and customer lists was approximately \$15.5 million and \$17.0 million for the three months ended September 30, 2023 and 2022, respectively. Amortization expense of trade name and customer lists was approximately \$46.3 million and \$51.3 million for the nine months ended September 30, 2023 and 2022, respectively. Trade name and customer lists are amortized on an accelerated basis based upon their estimated useful life.

Note 6. Long-term Debt

The fair value of the Company's long-term debt obligation approximated its book value as of September 30, 2023 and December 31, 2022 and consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
First Lien Credit Facility	\$ 564,724	\$ 564,724
Less: Deferred financing costs	(6,712)	(8,075)
Long-term debt, net	<u>\$ 558,012</u>	<u>\$ 556,649</u>

The Company is a party to a First Lien Credit Agreement with its banking group ("Credit Agreement"), which provides for a term loan of \$766.6 million due January 31, 2027 carrying an interest rate of 2.75% to 3.00%, based on the first lien ratio, plus LIBOR ("First Lien Credit Facility") and a \$100.0 million revolving credit facility due July 31, 2026 ("Revolver"). In June 2023, the Credit Agreement was amended to transition the reference rate from LIBOR to SOFR (the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York), with the addition of an applicable margin. The Credit Agreement is collateralized by substantially all assets and capital stock owned by direct and indirect domestic subsidiaries and are governed by certain restrictive covenants including limitations on indebtedness, liens, and other corporate actions such as investments and acquisitions. In the event the Company's outstanding indebtedness under the Revolver exceeds 35% of the aggregate principal amount of the revolving commitments then in effect, it is required to maintain a consolidated first lien leverage ratio no greater than 7.75 to 1.00. As of September 30, 2023, there were no outstanding borrowings under the Revolver and \$564.7 million outstanding under the First Lien Credit Facility. As the Company had no outstanding amounts under the Revolver, it was not subject to the consolidated first lien leverage ratio covenant. The Company was compliant with all other covenants under the agreement as of September 30, 2023.

Note 7. Derivatives

To reduce exposure to variability in expected future cash outflows on variable rate debt attributable to the changes in one-month LIBOR, the Company has historically entered into interest rate derivative instruments to economically offset a portion of this risk and may do so in the future. In June 2023, the Company transitioned the reference rate for its interest rate derivative agreements from one-month LIBOR to one-month SOFR.

As of September 30, 2023, the Company had the following outstanding derivatives that were not designated as a hedge in qualifying hedging relationships:

Product	Effective Date	Maturity Date	Notional	Rate
Interest rate collars ^(a)	June 30, 2023	February 29, 2024	\$300.0 million	0.48% floor/1.47% cap
Interest rate swap ^(b)	June 30, 2023	February 28, 2026	\$100.0 million	4.32%

(a)In conjunction with the June 2023 transition of the reference rate from LIBOR to SOFR, the cap rate was reduced from 1.50% to 1.47%.

(b)In conjunction with the June 2023 transition of the reference rate from LIBOR to SOFR, the fixed rate was reduced from 4.36% to 4.32%.

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements; however, the Company has not elected to apply hedge accounting for these instruments.

The following is a summary of location and fair value of the financial positions recorded related to the derivative instruments (in thousands):

Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	
		As of September 30, 2023	As of December 31, 2022
Interest rate collars	Prepaid expenses and other current assets	\$ 4,917	\$ 11,570
Interest rate swap	Prepaid expenses and other current assets	\$ 982	\$ —

The following is a summary of location and amount of gains recorded related to the derivative instruments (in thousands):

Derivatives not designated as hedging instruments	Income Statement Location	Gain		Three Months Ended September 30,		Nine Months Ended September 30,	
				2023	2022	2023	2022
		Interest expense, net	\$ 109	\$ 3,998	\$ 878	\$ 11,376	\$ —
Interest rate swap	Interest expense, net	\$ 857	\$ —	\$ 1,323	\$ —	\$ —	\$ —

Note 8. Income Taxes

The Company's income tax expense and balance sheet accounts reflect the results of the Company and its subsidiaries.

For the three and nine months ended September 30, 2023, the Company estimated the annual effective tax rate based on projected income for the full year and recorded a quarterly tax provision in accordance with the annual effective tax rate and adjusted for discrete tax items in the period.

The effective income tax rate for the three and nine months ended September 30, 2023 was 31.2% and 29.8%, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2023 was higher than the U.S. federal statutory rate of 21% primarily due to the Global Intangible Low-Taxed Income ("GILTI") inclusion, nondeductible share-based compensation, and U.S. state income taxes.

The effective income tax rate for the three and nine months ended September 30, 2022 was 28.1% and 27.8%, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2022 was higher than the U.S. federal statutory rate of 21% primarily due to the GILTI inclusion, nondeductible share-based compensation, and U.S. state income taxes.

Note 9. Revenues

Substantially all of the Company's revenues are recognized at a point in time when the orders are completed and the completed reports are reported, or otherwise made available. For revenues delivered over time, the output method is utilized to measure the value to the customer based on the transfer to date of the services promised, with no rights of return once consumed. In these cases, revenues on transactional contracts with a defined price but an undefined quantity is recognized utilizing the right to invoice expedient resulting in revenues being recognized when the service is provided and becomes billable. Additionally, under this practical expedient, the Company is not required to estimate the transaction price.

The Company considers negotiated and anticipated incentives and estimated adjustments, including historical collections experience, when recording revenues.

The Company's contracts with customers generally include standard commercial payment terms acceptable in each region, and do not include any financing components. The Company does not have any significant obligations for refunds, warranties, or similar obligations. The Company records revenues net of sales taxes.

Contract balances are generated when the revenues recognized in a given period varies from billing. A contract asset is created when the Company performs a service for a customer and recognizes more revenues than what has been billed. The contract asset balance was \$7.0 million and \$6.5 million as of September 30, 2023 and December 31, 2022, respectively, and is included in accounts receivable, net in the accompanying condensed consolidated balance sheets.

A contract liability is created when the Company transfers a good or service to a customer and recognizes less than what has been billed. The Company recognizes these contract liabilities as deferred revenues when the Company has an obligation to perform services for a customer in the future and has already received consideration from the customer. The contract liability balance was \$1.2 million and \$1.1 million as of September 30, 2023 and December 31, 2022, respectively, and is included in deferred revenues in the accompanying condensed consolidated balance sheets. An immaterial amount of revenues was recognized in the current period related to the beginning balance of deferred revenues.

For additional disclosures about the disaggregation of our revenues see Note 15, "Reportable Segments."

Note 10. Share-based Compensation

Share-based compensation expense is recognized in cost of services, product and technology expense, and selling, general, and administrative expense, in the accompanying condensed consolidated statements of operations and comprehensive income as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Share-based compensation expense				
Cost of services	\$ 330	\$ 292	\$ 918	\$ 842
Product and technology expense	640	402	1,665	918
Selling, general, and administrative expense	3,820	1,328	7,866	4,064
Total share-based compensation expense	\$ 4,790	\$ 2,022	\$ 10,449	\$ 5,824

Prior to the IPO, all share-based awards were issued by Fastball Holdco, L.P., the Company's previous parent company, under individual grant agreements and the partnership agreement of such parent company (collectively the "2020 Equity Plan"). In connection with the IPO, the Company adopted the 2021 Omnibus Incentive Plan (as amended by the First Amendment, dated as of May 10, 2023, the "2021 Equity Plan").

In May 2023, the Company's Board of Directors approved a modification of the vesting terms of outstanding unvested and unearned performance-based options, restricted stock units, and restricted stock (collectively, "Performance Awards") previously issued under its equity plans. The modification, effective May 10, 2023, allowed for unvested and unearned Performance Awards outstanding as of the date of the modification, to vest based on time on the fourth, fifth, and sixth anniversaries of the relevant vesting commencement date, as set forth in each grant agreement (the "Vesting Commencement Date"), while preserving the eligibility to vest upon the Company's investors receiving a targeted money-on-money return, subject to continued service. As of the modification date, unrecognized pre-tax non-cash compensation expense related to the Performance Awards, after accounting for the modification, was \$28.8 million. The Company expects to recognize pre-tax non-cash compensation expense related to the modification of Performance Awards prospectively from the date of modification, on a straight-line basis, over a weighted average period of 1.9 years.

The fair value of the modified restricted stock units and restricted stock was estimated using the closing stock price on the date of modification. The fair value of the modified stock options was estimated on the date of modification using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Options
Expected stock price volatility	37.43%
Risk-free interest rate	% 3.40
Expected term (in years)	4.67
Fair-value of the underlying unit	\$ 12.61

In connection with the Company's declared dividend in August 2023, the exercise price of outstanding stock option awards and stock purchases under the Company's employee stock purchase plan ("ESPP") was reduced by \$1.50, in accordance with the non-discretionary anti-dilution provisions of the equity and stock purchase plans. Historical exercise prices noted in the below tables have not been adjusted.

2020 Equity Plan

Awards issued under the 2020 Equity Plan consist of options. No awards were issued under the plan during the nine months ended September 30, 2023.

A summary of the stock option activity for the nine months ended September 30, 2023 is as follows:

		Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
December 31, 2022	Grants outstanding	2,843,342	\$ 6.66		
	Grants exercised	(357,772)	\$ 6.13		
	Grants cancelled/forfeited	(533,715)	\$ 6.68		
September 30, 2023	Grants outstanding	1,951,855	\$ 5.15	6.4 Years	\$16.9 million
September 30, 2023	Grants vested	539,767	\$ 5.12	6.2 Years	\$4.7 million
September 30, 2023	Grants unvested	1,412,088	\$ 5.16		

2021 Equity Plan

The 2021 Equity Plan is intended to provide a means through which to attract and retain key personnel and to provide a means whereby our directors, officers, employees, consultants, and advisors can acquire and maintain an equity interest in us, or be paid incentive compensation, including incentive compensation measured by reference to the value of our common stock, thereby strengthening their commitment to our welfare and aligning their interests with those of our stockholders. The 2021 Equity Plan provides for the grant of awards of stock options, stock appreciation rights, restricted shares, restricted stock units, and other equity-based or cash-based awards as determined by the Company's Compensation Committee. The 2021 Equity Plan initially had a total of 17,525,000 shares of common stock reserved. The number of reserved shares automatically increases on the first day of each calendar year commencing on January 1, 2022 and ending on January 1, 2030, in an amount equal to the lesser of (x) 2.5% of the total number of shares of common stock outstanding on the last day of the immediately preceding calendar year and (y) a number of shares as determined by the Board of Directors. As of September 30, 2023, 16,873,494 shares were available for issuance under the 2021 Equity Plan.

Stock Options

A summary of the stock option activity for the nine months ended September 30, 2023 is as follows:

		Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
December 31, 2022	Grants outstanding	4,311,662	\$ 15.24		
	Grants issued	384,994	\$ 11.96		
	Grants cancelled/forfeited	(87,038)	\$ 15.54		
September 30, 2023	Grants outstanding	<u>4,609,618</u>	\$ 13.57	8.0 Years	\$2.1 million
September 30, 2023	Grants vested	<u>1,548,685</u>	\$ 13.64	7.9 Years	\$0.5 million
September 30, 2023	Grants unvested	<u>3,060,933</u>	\$ 13.53		

The fair value for stock options granted for the nine months ended September 30, 2023 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Options
Expected stock price volatility	35.48%
Risk-free interest rate	3.64%
Expected term (in years)	6.25
Fair-value of the underlying unit	\$ 11.96

Restricted Stock Units

A summary of the restricted stock units ("RSU") activity for the nine months ended September 30, 2023 is as follows:

		Shares	Weighted Average Grant Date Fair Value
December 31, 2022	Nonvested RSUs	472,332	\$ 16.00
	Granted	152,346	\$ 13.31
	Vested	(113,441)	\$ 14.76
	Forfeited	(27,208)	\$ 16.00
September 30, 2023	Nonvested RSUs	<u>484,029</u>	\$ 15.45

Restricted Stock

A summary of the restricted stock activity for the nine months ended September 30, 2023 is as follows:

		Shares	Weighted Average Grant Date Fair Value
December 31, 2022	Nonvested restricted stock	2,281,300	\$ 3.85
	Vested	(326,670)	\$ 3.85
September 30, 2023	Nonvested restricted stock	<u>1,954,630</u>	\$ 8.50

As of September 30, 2023, the Company had approximately \$41.1 million of unrecognized pre-tax non-cash compensation expense, comprised of approximately \$15.7 million related to restricted stock, \$6.2 million related to RSUs, and approximately \$19.2 million related to stock options, which the Company expects to recognize over a weighted average period of 1.4 years.

2021 Employee Stock Purchase Plan

The Company adopted the First Advantage Corporation 2021 Employee Stock Purchase Plan ("ESPP") that allows eligible employees to voluntarily make after-tax contributions of up to 15% of such employee's cash compensation to acquire Company stock during designated offering periods. During each offering period, there is one six-month purchase period. During the holding period, ESPP purchased shares are not eligible for sale or broker transfer. The Company recorded an associated expense of approximately \$0.2 million and \$0.1 million for the three months ended September 30, 2023 and 2022, respectively. The Company recorded an associated expense of approximately \$0.7 million and \$0.3 million for the nine months ended September 30, 2023 and 2022, respectively.

Note 11. Equity

Preferred Stock

As of September 30, 2023 and December 31, 2022, 250,000,000 shares of Preferred Stock were authorized, and no Preferred Stock was issued or outstanding.

Share Repurchase Program

On August 2, 2022, the Company's Board of Directors authorized the repurchase of up to \$50.0 million of the Company's common stock over the 12-month period ending August 2, 2023 (the "Repurchase Program"). On November 8, 2022, the Company's Board of Directors authorized an increase to the total available amount under its Repurchase Program to \$150.0 million and extended the program through December 31, 2023. On February 28, 2023, the Company's Board of Directors authorized an increase to the total available amount under its Repurchase Program to \$200.0 million. On September 14, 2023, the Company announced that its Board of Directors approved a one-year extension of its share repurchase authorization, extending the previously authorized \$200.0 million program through December 31, 2024.

Stock repurchases may be effected through open market repurchases at prevailing market prices, including through the use of block trades and trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, privately-negotiated transactions, through other transactions in accordance with applicable securities laws, or a combination of these methods on such terms and in such amounts as the Company deems appropriate and will be funded from available capital. The Company is not obligated to repurchase any specific number of shares, and the timing, manner, value, and actual number of shares repurchased will depend on a variety of factors, including the Company's stock price and liquidity requirements, other business considerations and general market and economic conditions. No shares will be purchased from SLP Fastball Aggregator, L.P. and its affiliates. The Company may discontinue or modify purchases without notice at any time.

A summary of the stock repurchase activity under the Repurchase Program, is summarized as follows (in thousands, except share and per share amounts):

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Shares repurchased	244,782	4,140,519
Average price per share	\$ 14.63	\$ 13.50
Costs recorded to accumulated deficit		
Total repurchase costs	\$ 3,577	\$ 55,829
Additional associated costs	42	642
Total costs recorded to accumulated deficit	<u>\$ 3,619</u>	<u>\$ 56,471</u>

As of September 30, 2023, the remaining authorized value of shares available to be repurchased under this program was approximately \$83.6 million.

Repurchased shares of common stock are retired. The par value of repurchased shares is deducted from common stock and the excess repurchase price over par value is reflected as a reduction to accumulated deficit. Additional associated costs include the related brokerage commissions and excise taxes on share repurchases.

Dividend

On August 8, 2023, the Company's Board of Directors declared a one-time special cash dividend of \$1.50 per share to stockholders of record at the close of business on August 21, 2023. An aggregate cash dividend of \$217.7 million was paid on August 31, 2023. Dividends accrued for unvested RSUs are contingent and payable upon vesting of the underlying award. The Company recorded liabilities of \$0.3 million and \$0.4 million in accrued liabilities and other liabilities, respectively, in the accompanying condensed consolidated balance sheets as of September 30, 2023.

Note 12. Commitments and Contingencies

There have been no material changes to the Company's contractual obligations as compared to December 31, 2022.

The Company is involved in litigation from time to time in the ordinary course of business. At times, the Company, given the nature of its background screening business, could become subject to lawsuits, or potential class action lawsuits, in multiple jurisdictions, related to claims brought primarily by consumers or individuals who were the subject of its screening services.

For all pending matters, the Company believes it has meritorious defenses and intends to defend vigorously or otherwise seek indemnification from other parties as appropriate. However, the Company has recorded a liability of \$4.6 million and \$4.4 million at September 30, 2023 and December 31, 2022, respectively, for matters that it believes a loss is both probable and estimable. This is included in accrued liabilities in the accompanying condensed consolidated balance sheets.

The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time when it is both probable that a loss has been incurred and the amount of the loss is reasonably estimable.

Note 13. Related Party Transactions

The Company had no material related party transactions.

Note 14. Net Income Per Share

Basic weighted-average shares outstanding excludes nonvested restricted stock. Diluted weighted average shares outstanding is similar to basic weighted-average shares outstanding, except that the weighted-average number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common share had been issued, including the dilutive impact of nonvested restricted stock. Basic and diluted net income per share was calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic net income per share	\$ 0.08	\$ 0.11	\$ 0.16	\$ 0.29
Diluted net income per share	\$ 0.07	\$ 0.11	\$ 0.15	\$ 0.29
Numerator:				
Net income (in thousands)	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458
Denominator:				
Weighted average number of shares outstanding - basic	143,231,707	150,930,340	144,392,463	150,740,418
Add stock options to purchase shares and restricted stock units	1,501,650	1,426,967	2,000,533	1,634,694
Weighted average number of shares outstanding - diluted	<u>144,733,357</u>	<u>152,357,307</u>	<u>146,392,996</u>	<u>152,375,112</u>

For the three months ended September 30, 2023 and 2022, 4,739,037 and 2,918,315 stock options and RSUs were excluded from the calculation of diluted net income per share, respectively, because their effects were anti-dilutive. For the nine months ended September 30, 2023 and 2022, 4,754,689 and 2,614,866 stock options and RSUs were excluded from the calculation of diluted net income per share, respectively, because their effects were anti-dilutive.

Note 15. Reportable Segments

We have two reportable segments, Americas and International. Our chief operating decision maker ("CODM") uses the profit measure of Adjusted EBITDA, on both a consolidated and a segment basis, to allocate resources and assess performance of our businesses. We use Adjusted EBITDA as our profit measure because it eliminates the impact of certain items that we do not consider indicative of operating performance, which is useful to compare operating results between periods. Our Board of Directors and executive management team also use Adjusted EBITDA as a compensation measure for both segment and corporate management under our incentive compensation plans. Adjusted EBITDA is also a measure frequently used by securities analysts, investors, and other interested parties in their evaluation of the operating performance of companies similar to ours.

We define Adjusted EBITDA as net income before interest, taxes, depreciation, and amortization, and as further adjusted for loss on extinguishment of debt, share-based compensation, transaction and acquisition-related charges, integration and restructuring charges, and other non-cash charges. We exclude the impact of share-based compensation because it is a non-cash expense and we believe that excluding this item provides meaningful supplemental information regarding performance and ongoing cash generation potential. We exclude loss on extinguishment of debt, transaction and acquisition related charges, integration and restructuring charges, and other charges because such expenses are episodic in nature and have no direct correlation to the cost of operating our business on an ongoing basis.

The segment financial information below aligns with how we report information to our CODM to assess operating performance and how the Company manages the business. Corporate costs are generally allocated to the segments based upon estimated revenue levels and other assumptions that management considers reasonable. The CODM does not review the Company's assets by segment; therefore, such information is not presented. The accounting policies of the segments are the same as described in Note 2, "Summary of Significant Accounting Policies" and Note 9, "Revenues."

The following is a description of our two reportable segments:

Americas. This segment performs a variety of background check and compliance services across all phases of the workforce lifecycle from pre-onboarding services to post-onboarding and ongoing monitoring services, covering employees, contractors, contingent workers, tenants, and drivers. We generally classify our service offerings into three categories: pre-onboarding, post-onboarding, and adjacent products. We deliver our solutions across multiple vertical industries in the United States, Canada, and Latin America markets.

International. The International segment provides services similar to our Americas segment in regions outside of the Americas. We primarily deliver our solutions across multiple vertical industries in the Europe, India, and Asia Pacific markets.

A reconciliation of Segment Adjusted EBITDA to net income for the three and nine months ended September 30, 2023 and 2022 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Adjusted EBITDA				
Americas	\$ 60,188	\$ 57,205	\$ 157,168	\$ 156,978
International	4,603	6,983	12,154	21,644
Total	\$ 64,791	\$ 64,188	\$ 169,322	\$ 178,622
Adjustments to reconcile to net income:				
Interest expense, net	7,557	1,740	20,125	4,002
Provision for income taxes	4,881	6,709	9,530	17,076
Depreciation and amortization	32,419	34,744	96,341	103,185
Share-based compensation	4,790	2,022	10,449	5,824
Transaction and acquisition-related charges ^(a)	1,571	1,908	3,832	4,585
Integration, restructuring, and other charges ^(b)	2,800	(144)	6,565	(508)
Net income	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458

(a)Represents charges incurred related to acquisitions and similar transactions, primarily consisting of change in control-related costs, professional service fees, and other third-party costs. Also includes incremental professional service fees incurred related to the initial public offering and subsequent one-time compliance efforts. The three and nine months ended September 30, 2023 and 2022 include a transaction bonus expense related to one of the Company's 2021 acquisitions.

(b)Represents charges from organizational restructuring and integration activities, non-cash, and other charges primarily related to nonrecurring legal exposures, foreign currency (gains) losses, and (gains) losses on the sale of assets.

Geographic Information

The Company bases revenues by geographic region in which the revenues and invoicing are recorded. Other than the United States, no single country accounted for 10% or more of our total revenues during these periods.

The following summarizes revenues by geographical region (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Americas	\$ 176,046	\$ 176,091	\$ 490,784	\$ 506,770
International	25,805	31,628	74,766	96,413
Eliminations	(1,487)	(1,733)	(4,351)	(5,755)
Total revenues	<u>\$ 200,364</u>	<u>\$ 205,986</u>	<u>\$ 561,199</u>	<u>\$ 597,428</u>

The following table sets forth net long-lived assets by geographic area (in thousands):

	September 30, 2023	December 31, 2022
Long-lived assets, net		
United States, country of domicile	\$ 1,104,924	\$ 1,134,201
All other countries	169,062	180,258
Total long-lived assets, net	<u>\$ 1,273,986</u>	<u>\$ 1,314,459</u>

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

The following discussion and analysis of First Advantage Corporation's financial condition and results of operations is provided as a supplement to the condensed consolidated financial statements for the three and nine months ended September 30, 2023, and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2022, our "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, our operations and financial performance. Forward-looking statements include all statements that are not historical facts. These forward-looking statements relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. In some cases, you can identify these forward-looking statements by the use of words such as "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "future," "will," "seek," "foreseeable," the negative version of these words, or similar terms and phrases.

These forward-looking statements are subject to various risks, uncertainties, assumptions, or changes in circumstances that are difficult to predict or quantify. Such risks and uncertainties include, but are not limited to, the following: negative changes in external events beyond our control, including our customers' onboarding volumes, economic drivers which are sensitive to macroeconomic cycles, such as interest rate volatility and inflation, geopolitical unrest, uncertainty in financial markets (including as a result of recent events affecting financial institutions), and the COVID-19 pandemic; our operations in a highly regulated industry and the fact that we are subject to numerous and evolving laws and regulations, including with respect to personal data, data security, and artificial intelligence; inability to identify and successfully implement our growth strategies on a timely basis or at all; potential harm to our business, brand, and reputation as a result of security breaches, cyber-attacks, or the mishandling of personal data; operating in a penetrated and competitive market; our reliance on third-party data providers; due to the sensitive and privacy-driven nature of our products and solutions, we could face liability and legal or regulatory proceedings, which could be costly and time-consuming to defend and may not be fully covered by insurance; our international business exposes us to a number of risks; real or perceived errors, failures, or bugs in our products could adversely affect our business, results of operations, financial condition, and growth prospects; our ability to identify attractive targets or successfully complete such transactions; the timing, manner and volume of repurchases of common stock pursuant to our share repurchase program; failure to comply with anti-corruption laws and regulations; disruptions at our Global Operating Center and other operating centers; our contracts with our customers, which do not guarantee exclusivity or contracted volumes; disruptions, outages, or other errors with our technology and network infrastructure, including our data centers, servers, and third-party cloud and internet providers and our migration to the cloud; the continued integration of our platforms and solutions with human resource providers such as applicant tracking systems and human capital management systems as well as our relationships with such human resource providers; risks relating to public opinion, which may be magnified by incidents or adverse publicity concerning our industry or operations; our reliance on third-party vendors to carry out certain portions of our operations; our dependence on the service of our key executive and other employees, and our ability to find and retain qualified employees; our ability to obtain, maintain, protect and enforce our intellectual property and other proprietary information; our ability to maintain, protect, and enforce the confidentiality of our trade secrets; the use of open-source software in our applications; the indemnification provisions in our contracts with our customers and third-party data suppliers; seasonality in our operations from quarter to quarter; our indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations; Silver Lake's control of us and the potential conflict of its interest with ours or those of our stockholders; and changing interpretations of tax laws.

For additional information on these and other factors that could cause First Advantage's actual results to differ materially from expected results, please see our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (the "SEC"), as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. The forward-looking statements included in this Quarterly Report on Form 10-Q speak only as of the date of this Form 10-Q, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise, except as required by law.

Glossary of Selected Terminology

The following terms are used in this Form 10-Q, unless otherwise noted or indicated by the context:

- “Americas” in regards to our business, means the United States, Canada, and Latin America;
- “Enterprise customers” means our customers who contribute \$500,000 or more to our revenues in a calendar year;
- “First Advantage,” the “Company,” “we,” “us,” and “our” mean the business of First Advantage Corporation and its subsidiaries;
- “International” in regards to our business, means all geographical regions outside of the United States, Canada, and Latin America;
- “Revenues attributable to the Company’s acquisitions” means revenues recognized in the first year following each acquisition; and
- “Silver Lake” means Silver Lake Group, L.L.C., together with its affiliates, successors, and assignees.

Certain monetary amounts, percentages, and other figures included in this Quarterly Report on Form 10-Q have been subject to rounding adjustments. Percentage amounts included in this Quarterly Report on Form 10-Q have not in all cases been calculated on the basis of such rounded figures, but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this Quarterly Report on Form 10-Q may vary from those obtained by performing the same calculations using the figures in our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Certain other amounts that appear in this Quarterly Report on Form 10-Q may not sum due to rounding.

Website and Social Media Disclosure

We use our websites (<https://fadv.com/> and <https://investors.fadv.com/>) to distribute company information. We make available free of charge a variety of information for investors, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file that material with or furnish it to the Securities and Exchange Commission (“SEC”). The information we post on our websites may be deemed material. Accordingly, investors should monitor our websites, in addition to following our press releases, filings with the SEC, and public conference calls and webcasts. In addition, you may opt in to automatically receive email alerts and other information about First Advantage when you enroll your email address by visiting the “Email Alerts” section of our investor website at <https://investors.fadv.com/>. The contents of our websites and social media channels are not, however, a part of this Quarterly Report on Form 10-Q.

Overview

First Advantage is a leading global provider of employment background screening and verification solutions. We deliver innovative services and insights that help our customers manage risk and hire the best talent. Enabled by our proprietary technology, our products help companies protect their brands and provide safer environments for their customers and their most important resources: employees, contractors, contingent workers, tenants, and drivers.

Our comprehensive product suite includes criminal background checks, drug / health screening, extended workforce screening, biometrics and identity, education / work verifications, resident screening, fleet / driver compliance, executive screening, data analytics, continuous monitoring, social media monitoring, and hiring tax incentives. We derive a substantial majority of our revenues from pre-onboarding screening and perform screens in over 200 countries and territories, enabling us to serve as a one-stop-shop provider to both multinational companies and growth companies. Our approximately 33,000 customers are global enterprises, mid-sized companies, and small companies, and our products and solutions are used by personnel in recruiting, human resources, risk, compliance, vendor management, safety, and/or security.

Our products are sold both individually and packaged. The First Advantage platform offers flexibility for customers to specify which products to include in their screening package, such as Social Security numbers, criminal records, education and work verifications, sex offender registry, and global sanctions. Generally, our customers order a background screening package or selected combination of screens related to a single individual before they onboard that individual. The type and mix of products and solutions we sell to a customer vary by customer size, their screening requirements, and industry vertical. Therefore, order volumes are not comparable across both customers and periods. Pricing can also vary considerably by customer depending on the product mix in their screening packages, order volumes, screening requirements and preferences, pass-through and third-party out of pocket costs, and bundling of products.

We enter into contracts with our customers that are typically three years in length. These contracts set forth the general terms and pricing of our products and solutions but generally do not include minimum order volumes or committed order volumes. Accordingly, contracts do not provide guarantees of future revenues. Due to our contract terms and the nature of the background screening industry, we determined our contract terms for ASC 606 purposes are less than one year. We typically bill our customers at the end of each month and recognize revenues as completed orders are reported or otherwise made available to our customers. Over 92% of the criminal searches performed in the United States in 2022 were completed the same day they were submitted.

We generated revenues of \$200.4 million for the three months ended September 30, 2023, as compared to \$206.0 million for the three months ended September 30, 2022 and generated revenues of \$561.2 million for the nine months ended September 30, 2023, as compared to \$597.4 million for the nine months ended September 30, 2022. Approximately 87% of our revenues for the nine months ended September 30, 2023 was generated in the Americas, predominantly in the United States, while the remaining 13% was generated in our International segment. Other than the United States, no single country accounted for 10% or more of our total revenues for the three and nine months ended September 30, 2023. Please refer to "Results of Operations" for further details.

Segments

We manage our business and report our financial results in two reportable segments, Americas and International:

•**Americas.** This segment performs a variety of background check and compliance services across all phases of the workforce lifecycle from pre-onboarding services to post-onboarding and ongoing monitoring services, covering employees, contractors, contingent workers, tenants, and drivers. We generally classify our service offerings into three categories: pre-onboarding, post-onboarding, and adjacent products. We deliver our solutions across multiple vertical industries in the United States, Canada, and Latin America markets.

•**International.** The International segment provides services similar to our Americas segment in regions outside of the Americas. We primarily deliver our solutions across multiple vertical industries in the Europe, India, and Asia Pacific markets.

Seasonality

We experience seasonality with respect to certain industries due to fluctuations in hiring volumes and other economic activity. For example, pre-onboarding revenues generated from our customers in the retail and transportation industries are historically highest during the months of October and November, leading up to the holiday season and lowest at the beginning of the new year, following the holiday season. Certain customers across various industries also historically ramp up their hiring throughout the second quarter of the year as winter concludes, commercial activity tied to outdoor activities increases, and the school year ends, giving rise to student and graduate hiring. In addition, apartment rental activity and associated screening activity typically decline in the fourth quarter heading into the holiday season. We expect that further growth in e-commerce, the continued digital transformation of the economy, and other economic forces may impact future seasonality, but we are unable to predict these potential shifts and how our business may be impacted.

Recent Developments

M&A

On September 1, 2023, the Company acquired 100% of the equity interest of a U.S.-based digital identity solutions company. The acquired company operates under the trade name Infinite ID. The acquisition expands the Company's network and portfolio of identity solutions in the United States. The results of this company, which are not material, have been included in our Americas segment from the date of the acquisition.

Current Economic Conditions

Macroeconomic factors, including inflation, increased interest rates, instability in the global banking system, the prolonged COVID-19 pandemic, global supply chain constraints, and global economic and geopolitical developments, have negatively impacted significant portions of the global economy, and created volatility in the financial markets.

While our overall productivity has not been materially adversely impacted, we have experienced, and may continue to experience, the lengthening of certain sales cycles. If the economic uncertainty is sustained or increases, we may experience a negative impact on new business, customer renewals and demand levels, sales and marketing efforts, revenues growth rates, customer deployments, customer collections, product development, or other financial metrics. Any of these factors could harm our business, financial condition, and operating results.

Despite the continuing uncertainty associated with these events, we are confident in the long-term overall health of our business, the strength of our product offerings, and our ability to continue to execute on our strategy and help our customers hire smarter and onboard faster. Our ability to deliver innovative products and solutions that enhance workplace safety and address compliance risks has contributed to the durability of our financial results. For additional information, see our "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Recently Issued Accounting Standards

See Note 2 to the condensed consolidated financial statements for disclosure of the impact that recent accounting pronouncements may have on the condensed consolidated financial statements.

Components of our Results of Operations

Revenues

The Company derives revenues from a variety of background screening and adjacent products that cover all phases of the workforce lifecycle from pre-onboarding screening services to post-onboarding and ongoing monitoring services, covering employees, contractors, contingent workers, tenants, and drivers. We generally classify our products and solutions into three major categories: pre-onboarding, post-onboarding, and adjacent products, each of which is enabled by our technology, proprietary internal databases, and data analytics capabilities. Pre-onboarding products, which comprise the substantial majority of our revenues, span an extensive array of products that customers typically utilize to enhance their applicant evaluation process and ensure compliance with their workforce onboarding criteria from the time an application is submitted to an applicant's successful onboarding. Post-onboarding products are comprised of continuous monitoring, re-screening, and other solutions to help our customers keep their end customers, workforces, and other stakeholders safer, more productive, and more compliant. Adjacent products include products that complement our pre-onboarding and post-onboarding solutions such as fleet / vehicle compliance, hiring tax credits and incentives, resident / tenant screening, employment eligibility, and investigative research.

Our suite of products is available individually or through packaged solutions that can be configured and tailored according to our customers' needs. We typically bill our customers at the end of each month and recognize revenues after completed orders are reported or otherwise made available to our customers, with a substantial majority of our customers' orders completed the same day they are submitted. We recognize revenues for other products over time as the customer simultaneously receives and consumes the benefits of the products and solutions delivered.

Operating Expenses

We incur the following expenses related to our cost of revenues and operating expenses:

• **Cost of Services (exclusive of depreciation and amortization below):** Consists of amounts paid to third parties for access to government records, other third-party data and services, and our internal processing fulfillment and customer care functions. In addition, cost of services includes expenses from our drug screening lab and collection site network as well as our court runner network. Third-party cost of services are largely variable in nature and are typically invoiced to our customers as direct pass-through costs. Cost of services also includes our salaries and benefits expense for personnel involved in the processing and fulfillment of our screening products and solutions, as well as our customer care organization and robotics process automation implementation team. Other costs included in cost of services relate to allocations of certain overhead costs for our revenue-generating products and solutions, primarily consisting of certain facility costs and administrative services allocated by headcount or another related metric. We do not allocate depreciation and amortization to cost of services.

• **Product and Technology Expense:** Consists of salaries and benefits of personnel involved in the maintenance of our technology and its integrations and APIs, product marketing, management of our network and infrastructure capabilities, and maintenance of our information security and business continuity functions. A portion of the personnel costs are related to the development of new products and features that are primarily developed through agile methodologies. These costs are partially capitalized, and therefore, are partially reflected as amortization expense within the depreciation and amortization cost line item. Product and technology expense also includes third-party costs related to our cloud computing services, software licensing and maintenance, telecommunications, and other data processing functions. We do not allocate depreciation and amortization to product and technology expense.

• **Selling, General, and Administrative Expense:** Consists of sales, customer success, marketing, and general and administrative expenses. Sales, customer success, and marketing expenses consist primarily of employee compensation such as salaries, bonuses, sales commissions, share-based compensation, and other employee benefits for our verticalized sales and customer success teams. General and administrative expenses include travel expenses and various corporate functions including finance, human resources, legal, and other administrative roles, in addition to certain professional service fees and expenses incurred in connection with our IPO and now as a public company. We expect our selling, general, and administrative expenses to increase in the short-term, primarily as a result of additional public company related reporting and compliance costs. Over the long-term, we expect our selling, general, and administrative expenses to decrease as a percentage of revenues as we leverage our past investments. We do not allocate depreciation and amortization to selling, general, and administrative expenses.

• **Depreciation and Amortization:** Property and equipment consisting mainly of capitalized software costs, furniture, hardware, and leasehold improvements are depreciated or amortized and reflected as operating expenses. We also amortize the capitalized costs of finite-life intangible assets acquired in connection with business combinations.

We have a flexible cost structure that allows our business to adjust quickly to the impacts of macroeconomic events and scale to meet the needs of large new customers. Operating expenses are influenced by the amount of revenues, customer mix, and product mix that contribute to our revenues for any given period. As revenues grow, we would generally expect cost of services to grow in a similar fashion, albeit influenced by the effects of automation, productivity, and other efficiency initiatives as well as customer and product mix shifts and third-party pass-through costs. We regularly review expenses and investments in the context of revenues growth and any shifts we see in the business in order to align with our overall financial objectives. While we expect internal operating expenses to increase in absolute dollars to support our continued growth, we believe that, in the long term, operating expenses will decline gradually as a percentage of total revenues in the future as our business grows and our operating efficiency and automation initiatives continue to advance.

Other Expense, Net

Our other expense, net consists of the following:

• **Interest Expense, Net:** Relates primarily to our debt service costs, the interest-related unrealized gains and losses of our interest rate derivative instruments and, to a lesser extent, the interest on our capital lease obligations and the amortization of deferred financing costs. Additionally, interest expense, net includes interest income earnings on our cash and cash equivalent balances held in interest-bearing accounts. We also earn interest income on our short-term investments which are fixed-time deposits having a maturity date within twelve months.

Provision for Income Taxes

Provision for income taxes consists of domestic and foreign corporate income taxes related to earnings from our sale of services, with statutory tax rates that differ by jurisdiction. Our effective tax rate may be affected by many other factors including changes in tax laws, regulations or rates, new interpretations of existing laws or regulations, shifts in the allocation of income earned throughout the world, and changes in overall levels of income before tax.

Results of Operations

The information contained below should be read in conjunction with our accompanying historical condensed consolidated financial statements and the related notes.

Comparison of Results of Operations for the three and nine months ended September 30, 2023 compared to the three and nine months ended September 30, 2022

(in thousands, except percentages)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues	\$ 200,364	\$ 205,986	\$ 561,199	\$ 597,428
Operating Expenses:				
Cost of services (exclusive of depreciation and amortization below)	101,410	104,300	285,468	301,023
Product and technology expense	13,107	13,250	38,374	39,969
Selling, general, and administrative expense	30,217	28,034	88,881	87,715
Depreciation and amortization	32,419	34,744	96,341	103,185
Total operating expenses	177,153	180,328	509,064	531,892
Income from operations	23,211	25,658	52,135	65,536
Other Expense, Net:				
Interest expense, net	7,557	1,740	20,125	4,002
Total other expense, net	7,557	1,740	20,125	4,002
Income before provision for income taxes	15,654	23,918	32,010	61,534
Provision for income taxes	4,881	6,709	9,530	17,076
Net income	<u>\$ 10,773</u>	<u>\$ 17,209</u>	<u>\$ 22,480</u>	<u>\$ 44,458</u>
Net income margin	5.4 %	8.4 %	4.0 %	7.4 %

Revenues

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Americas	\$ 176,046	\$ 176,091	\$ 490,784	\$ 506,770
International	25,805	31,628	74,766	96,413
Eliminations	(1,487)	(1,733)	(4,351)	(5,755)
Total revenues	<u>\$ 200,364</u>	<u>\$ 205,986</u>	<u>\$ 561,199</u>	<u>\$ 597,428</u>

Revenues were \$200.4 million for the three months ended September 30, 2023, compared to \$206.0 million for the three months ended September 30, 2022. Revenues for the three months ended September 30, 2023 decreased by \$5.6 million, or 2.7%, compared to the three months ended September 30, 2022.

The decrease in revenues was primarily due to:

- a net decrease of \$16.2 million, or 7.9%, in existing customer revenues primarily driven by reduced demand from customers more impacted by macroeconomic events, the elevated levels of growth experienced in 2022 due to the post-pandemic recovery that did not sustain into 2023, and the impact of lost accounts. In the Americas segment, certain industry verticals were impacted by reduced hiring activity resulting in lower revenues. In the International segment, declines were more significantly experienced in the India and APAC markets, while the European market has remained more resilient. Together, these decreases were partially offset by ongoing contribution from upselling and cross-selling to existing customers, contributing \$7.7 million, or 3.8%, of additional revenues, and increased revenues from certain existing customers not impacted by the macroeconomic declines.

The decrease in revenues was offset by:

- increased revenues of \$9.8 million, or 4.7%, primarily attributable to new customers in our Americas segment; and
- revenues of \$0.8 million, or 0.4%, attributable to the Infinite ID acquisition in the Americas segment.

Revenues were \$561.2 million for the nine months ended September 30, 2023, compared to \$597.4 million for the nine months ended September 30, 2022. Revenues for the nine months ended September 30, 2023 decreased by \$36.2 million, or 6.1%, compared to the nine months ended September 30, 2022.

The decrease in revenues was primarily due to:

- a net decrease of \$63.8 million, or 10.7%, in existing customer revenues primarily driven by reduced demand from customers more impacted by macroeconomic events, the elevated levels of growth experienced in 2022 due to the post-pandemic recovery that did not sustain into 2023, and the impact of lost accounts. In the Americas segment, certain industry verticals were impacted by reduced hiring activity resulting in lower revenues. In the International segment, declines were more significantly experienced in the India and APAC markets. Together, these decreases were partially offset by ongoing strength in upselling and cross-selling to existing customers, contributing \$24.1 million, or 4.0%, of additional revenues, and increased revenues from certain existing customers not impacted by the macroeconomic declines.

The decrease in revenues was offset by:

- increased revenues of \$26.8 million, or 4.5%, primarily attributable to new customers in our Americas segment; and
- revenues of \$0.8 million, or 0.1%, attributable to the Infinite ID acquisition in the Americas segment.

Pricing remained relatively stable across the 2023 periods.

Cost of Services

(in thousands, except percentages)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues	\$ 200,364	\$ 205,986	\$ 561,199	\$ 597,428
Cost of services	101,410	104,300	285,468	301,023
Cost of services as a % of revenue	50.6%	50.6%	50.9%	50.4%

Cost of services was \$101.4 million for the three months ended September 30, 2023, compared to \$104.3 million for the three months ended September 30, 2022. Cost of services for the three months ended September 30, 2023 decreased by \$2.9 million, or 2.8%, compared to the three months ended September 30, 2022.

The decrease in cost of services was primarily due to a \$3.7 million decrease in personnel expenses in our operations and customer care functions as a result of cost savings actions taken by the Company, lower order volumes (particularly in the International segment), and productivity efficiencies from the implementation of additional automation programs.

The decrease in cost of services was offset by increased variable third-party data expenses of \$1.2 million in the Americas segment as a result of variation in customer ordering mix.

Cost of services as a percentage of revenues was 50.6% for the three months ended September 30, 2023, consistent with the three months ended September 30, 2022.

Cost of services was \$285.5 million for the nine months ended September 30, 2023, compared to \$301.0 million for the nine months ended September 30, 2022. Cost of services for the nine months ended September 30, 2023 decreased by \$15.6 million, or 5.2%, compared to the nine months ended September 30, 2022.

The decrease in cost of services was primarily due to:

- a \$11.5 million decrease in personnel expenses in our operations and customer care functions as a result of cost savings actions taken by the Company, as well as productivity efficiencies from the implementation of additional automation programs; and
- a decrease in variable third-party data expenses of \$4.6 million as a result of continued automation, decreased revenues, and variation in customer ordering mix.

The decrease in cost of services was partially offset by foreign currency exchange losses of \$1.3 million due to the impact of foreign exchange rate volatility.

Cost of services as a percentage of revenues was 50.9% for the nine months ended September 30, 2023, compared to 50.4% for the nine months ended September 30, 2022. The cost of services percentage of revenues for the nine months ended September 30, 2023 was impacted by increases in certain third-party data costs due to variation in customer ordering mix. This increase was partially offset by cost savings from the Company's continued implementation of automation and other process efficiencies, as well as certain cost savings actions taken by the Company.

Product and Technology Expense

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Product and technology expense	\$ 13,107	\$ 13,250	\$ 38,374	\$ 39,969

Product and technology expense was \$13.1 million for the three months ended September 30, 2023, compared to \$13.3 million for the three months ended September 30, 2022. Product and technology expense for the three months ended September 30, 2023 decreased by a nominal amount compared to the three months ended September 30, 2022.

Product and technology expense was \$38.4 million for the nine months ended September 30, 2023, compared to \$40.0 million for the nine months ended September 30, 2022. Product and technology expense for the nine months ended September 30, 2023 decreased by \$1.6 million, or 4.0%, compared to the nine months ended September 30, 2022.

The decrease in product and technology expense was primarily due to a \$2.8 million decrease in personnel expenses primarily due to decreases in incentive compensation, partially offset by increased share-based compensation expense.

The decrease in product and technology expense was partially offset by a \$1.9 million increase in software licensing related expenses.

Selling, General, and Administrative Expense

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Selling, general, and administrative expense	\$ 30,217	\$ 28,034	\$ 88,881	\$ 87,715

Selling, general, and administrative expense was \$30.2 million for the three months ended September 30, 2023, compared to \$28.0 million for the three months ended September 30, 2022. Selling, general, and administrative expense for the three months ended September 30, 2023 increased by \$2.2 million, or 7.8%, compared to the three months ended September 30, 2022.

Selling, general, and administrative expense increased primarily due to a \$2.5 million increase in share-based compensation expense primarily as a result of a modification to the vesting terms of outstanding unvested and unearned performance-based equity awards in May 2023.

Selling, general, and administrative expense was \$88.9 million for the nine months ended September 30, 2023, compared to \$87.7 million for the nine months ended September 30, 2022. Selling, general, and administrative expense for the nine months ended September 30, 2023 increased by \$1.2 million, or 1.3%, compared to the nine months ended September 30, 2022.

Selling, general, and administrative expense increased primarily due to:

- a \$3.8 million increase in share-based compensation expense primarily as a result of a modification to the vesting terms of outstanding unvested and unearned performance-based equity awards in May 2023;
- a \$2.1 million increase in expenses related to litigation in the ordinary course of business;
- a \$1.8 million increase in expenses related to the impairment of certain operating lease assets resulting from office space exited during the year; and
- foreign currency exchange losses of \$1.3 million due to the impact of foreign exchange rate volatility.

The increase in selling, general, and administrative expense was partially offset by:

- a \$3.9 million decrease in commissions and bonus expenses due to lower performance against internal targets;
- a \$1.7 million decrease in personnel expenses as well as certain other cost savings actions taken by the Company; and
- a number of other corporate expenses that decreased primarily as a result of cost savings actions taken by the Company.

Depreciation and Amortization

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Depreciation and amortization	\$ 32,419	\$ 34,744	\$ 96,341	\$ 103,185

Depreciation and amortization was \$32.4 million for the three months ended September 30, 2023, compared to \$34.7 million for the three months ended September 30, 2022. Depreciation and amortization for the three months ended September 30, 2023 decreased by \$2.3 million, or 6.7%, compared to the three months ended September 30, 2022. This decrease was partially offset by increases in depreciation related to assets placed in service during the three months ended September 30, 2023.

Depreciation and amortization was \$96.3 million for the nine months ended September 30, 2023, compared to \$103.2 million for the nine months ended September 30, 2022. Depreciation and amortization for the nine months ended September 30, 2023 decreased by \$6.8 million, or 6.6%, compared to the nine months ended September 30, 2022. This decrease was partially offset by increases in depreciation related to assets placed in service during the nine months ended September 30, 2023.

Interest Expense, Net

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest expense, net	\$ 7,557	\$ 1,740	\$ 20,125	\$ 4,002

Interest expense, net was \$7.6 million for the three months ended September 30, 2023, compared to \$1.7 million for the three months ended September 30, 2022. Interest expense, net for the three months ended September 30, 2023 increased by \$5.8 million, compared to the three months ended September 30, 2022.

The increase in interest expense was primarily attributable to higher interest expense on the First Lien Credit Facility as a result of increasing interest rates. Increases in interest expense were offset by interest income of \$3.6 million earned on cash held within interest bearing accounts and \$1.0 million of unrealized gains on the Company's interest rate collar and swap.

Interest expense, net was \$20.1 million for the nine months ended September 30, 2023, compared to \$4.0 million for the nine months ended September 30, 2022. Interest expense, net for the nine months ended September 30, 2023 increased by \$16.1 million, compared to the nine months ended September 30, 2022.

The increase in interest expense was primarily attributable to higher interest expense on the First Lien Credit Facility as a result of increasing interest rates. Increases in interest expense were offset by interest income of \$11.8 million earned on cash held within interest bearing accounts and \$2.2 million of unrealized gains on the Company's interest rate collar and swap.

Provision for Income Taxes

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Provision for income taxes	\$ 4,881	\$ 6,709	\$ 9,530	\$ 17,076

Our provision for income taxes was \$4.9 million for the three months ended September 30, 2023, compared to \$6.7 million for the three months ended September 30, 2022. Our provision for income taxes for the three months ended September 30, 2023 decreased by \$1.8 million, compared to the three months ended September 30, 2022.

The decrease in our provision for income taxes was primarily due to the decrease of income before income taxes during the three months ended September 30, 2023, as compared to the three months ended September 30, 2022.

Our provision for income taxes was \$9.5 million for the nine months ended September 30, 2023, compared to \$17.1 million for the nine months ended September 30, 2022. Our provision for income taxes for the nine months ended September 30, 2023 decreased by \$7.5 million, compared to the nine months ended September 30, 2022.

The decrease in our provision for income taxes was primarily due to the decrease of income before income taxes during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

Net Income and Net Income Margin

(in thousands, except percentages)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458
Net income margin	5.4%	8.4%	4.0%	7.4%

Net income was \$10.8 million for the three months ended September 30, 2023, compared to \$17.2 million for the three months ended September 30, 2022. Net income for the three months ended September 30, 2023 decreased by \$6.4 million compared to the three months ended September 30, 2022.

Net income margin was 5.4% for the three months ended September 30, 2023 compared to 8.4% for the three months ended September 30, 2022, as reduced demand from customers more impacted by macroeconomic events contributed to lower revenues and profitability.

Net income was \$22.5 million for the nine months ended September 30, 2023, compared to \$44.5 million for the nine months ended September 30, 2022. Net income for the nine months ended September 30, 2023 decreased by \$22.0 million compared to the nine months ended September 30, 2022.

Net income margin was 4.0% for the nine months ended September 30, 2023 compared to 7.4% for the nine months ended September 30, 2022, as reduced demand from customers more impacted by macroeconomic events contributed to lower revenues and profitability, particularly as the Company cycled over the growth experienced in 2022 due to the post-pandemic recovery.

Key Operating and Financial Metrics

In addition to our results determined in accordance with GAAP, we believe certain measures are useful in evaluating our operating performance. Management believes these non-GAAP measures are useful to investors in highlighting trends in our operating performance, while other measures can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which we operate, and capital investments. Management uses Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, and Adjusted Diluted Earnings Per Share to supplement GAAP measures of performance in the evaluation of the effectiveness of our business strategies, to make budgeting decisions, to establish discretionary annual incentive compensation, and to compare our performance against that of other peer companies using similar measures. Management supplements GAAP results with non-GAAP financial measures to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone.

The presentations of these measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Because not all companies use identical calculations, the presentations of these measures may not be comparable to other similarly titled measures of other companies and can differ significantly from company to company. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP.

Adjusted EBITDA and Adjusted EBITDA Margin

Management believes that Adjusted EBITDA is a strong indicator of our overall operating performance and is useful to management and investors as a measure of comparative operating performance from period to period. We define Adjusted EBITDA as net income before interest, taxes, depreciation, and amortization, and as further adjusted for loss on extinguishment of debt, share-based compensation, transaction and acquisition-related charges, integration and restructuring charges, and other non-cash charges. We exclude the impact of share-based compensation because it is a non-cash expense and we believe that excluding this item provides meaningful supplemental information regarding performance and ongoing cash generation potential. We exclude loss on extinguishment of debt, transaction and acquisition related charges, integration and restructuring charges, and other charges because such expenses are episodic in nature and have no direct correlation to the cost of operating our business on an ongoing basis.

Adjusted EBITDA was \$64.8 million for the three months ended September 30, 2023 and represented an Adjusted EBITDA Margin of 32.3%. Adjusted EBITDA was \$64.2 million for the three months ended September 30, 2022 and represented an Adjusted EBITDA Margin of 31.2%. Adjusted EBITDA for the three months ended September 30, 2023 increased by \$0.6 million, or 0.9%, compared to the three months ended September 30, 2022.

Adjusted EBITDA was \$169.3 million for the nine months ended September 30, 2023 and represented an Adjusted EBITDA Margin of 30.2%. Adjusted EBITDA was \$178.6 million for the nine months ended September 30, 2022 and represented an Adjusted EBITDA Margin of 29.9%. Adjusted EBITDA for the nine months ended September 30, 2023 decreased by \$9.3 million, or 5.2%, compared to the nine months ended September 30, 2022.

Adjusted EBITDA declined during the nine months ended September 30, 2023, as macroeconomic events impacted our revenues attributed to existing customers. Decreases were further impacted by the effects of changes in foreign currencies. These decreases were partially offset by increased revenues from certain existing and new customers, including ongoing strength in upselling and cross-selling, cost structure benefits due to increased automation, operational efficiencies, and certain other cost savings actions taken by the Company in late 2022 and 2023.

The following table presents a reconciliation of Adjusted EBITDA for the periods presented.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458
Interest expense, net	7,557	1,740	20,125	4,002
Provision for income taxes	4,881	6,709	9,530	17,076
Depreciation and amortization	32,419	34,744	96,341	103,185
Share-based compensation	4,790	2,022	10,449	5,824
Transaction and acquisition-related charges ^(a)	1,571	1,908	3,832	4,585
Integration, restructuring, and other charges ^(b)	2,800	(144)	6,565	(508)
Adjusted EBITDA	\$ 64,791	\$ 64,188	\$ 169,322	\$ 178,622

(a)Represents charges incurred related to acquisitions and similar transactions, primarily consisting of change in control-related costs, professional service fees, and other third-party costs. Also includes incremental professional service fees incurred related to the initial public offering and subsequent one-time compliance efforts. The three and nine months ended September 30, 2023 and 2022 include a transaction bonus expense related to one of the Company's 2021 acquisitions.

(b)Represents charges from organizational restructuring and integration activities, non-cash, and other charges primarily related to nonrecurring legal exposures, foreign currency (gains) losses, and (gains) losses on the sale of assets.

We define Adjusted EBITDA Margin as Adjusted EBITDA divided by total revenues. The following table presents the calculation of Adjusted EBITDA Margin for the periods presented.

<i>(in thousands, except percentages)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Adjusted EBITDA	\$ 64,791	\$ 64,188	\$ 169,322	\$ 178,622
Revenues	200,364	205,986	561,199	597,428
Adjusted EBITDA Margin	32.3%	31.2%	30.2%	29.9%

The following table presents a calculation of Adjusted EBITDA by segment for the periods presented. See Note 15, "Reportable Segments" to the condensed consolidated financial statements for a reconciliation of Adjusted EBITDA for the periods presented by segment.

<i>(in thousands, except percentages)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Adjusted EBITDA ⁽¹⁾ :				
Americas	\$ 60,188	\$ 57,205	\$ 157,168	\$ 156,978
International	4,603	6,983	12,154	21,644
Adjusted EBITDA	\$ 64,791	\$ 64,188	\$ 169,322	\$ 178,622
Revenues				
Americas	\$ 176,046	\$ 176,091	\$ 490,784	\$ 506,770
International	25,805	31,628	74,766	96,413
Less: intersegment eliminations	(1,487)	(1,733)	(4,351)	(5,755)
Total revenues	<u>\$ 200,364</u>	<u>\$ 205,986</u>	<u>\$ 561,199</u>	<u>\$ 597,428</u>
Adjusted EBITDA Margin				
Americas	34.2%	32.5%	32.0%	31.0%
International	17.8%	22.1%	16.3%	22.4%
Adjusted EBITDA Margin	32.3%	31.2%	30.2%	29.9%

(1)See the reconciliation of net income to Adjusted EBITDA above. Segment Adjusted EBITDA margins are calculated using segment gross revenues and segment Adjusted EBITDA. Consolidated Adjusted EBITDA margin is calculated using consolidated revenues and consolidated Adjusted EBITDA.

Adjusted Net Income and Adjusted Diluted Earnings Per Share

Similar to Adjusted EBITDA, management believes that Adjusted Net Income and Adjusted Diluted Earnings Per Share are strong indicators of our overall operating performance and are useful to our management and investors as measures of comparative operating performance from period to period. We define Adjusted Net Income for a particular period as net income before taxes adjusted for debt-related costs, acquisition-related depreciation and amortization, share-based compensation, transaction and acquisition related charges, integration and restructuring charges, and other non-cash charges, to which we then apply the related effective tax rate. We define Adjusted Diluted Earnings Per Share as Adjusted Net Income divided by adjusted weighted average number of shares outstanding—diluted.

Adjusted Net Income was \$40.0 million for the three months ended September 30, 2023, consistent with the three months ended September 30, 2022.

Adjusted Diluted Earnings Per Share was \$0.28 for the three months ended September 30, 2023 increased by \$0.02, or 7.7% compared to the three months ended September 30, 2022.

Adjusted Net Income was \$103.2 million for the nine months ended September 30, 2023, compared to \$111.5 million for the nine months ended September 30, 2022. Adjusted Net Income for the nine months ended September 30, 2023 decreased by \$8.3 million, or 7.4%, compared to the nine months ended September 30, 2022.

Adjusted Diluted Earnings Per Share was \$0.71 for the nine months ended September 30, 2023 decreased by \$0.02, or 2.7% compared to the nine months ended September 30, 2022.

Adjusted Net Income and Adjusted Diluted Earnings Per Share declined during the nine months ended September 30, 2023, as reduced demand from customers more impacted by macroeconomic events contributed to lower revenues and profitability. Adjusted Net Income and Adjusted Diluted Earnings Per Share were further impacted by changes in acquisition-related depreciation and amortization and changes in our capital structure that are captured in interest expense. Gains or losses and actual cash payments and receipts on the Company's interest rate swaps impact the comparability of Adjusted Net Income and Adjusted Diluted Earnings Per Share across historical periods. Adjusted Diluted Earnings Per Share is further impacted by shares repurchased under the Company's share Repurchase Program.

The following table presents a reconciliation of Adjusted Net Income for the periods presented.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 10,773	\$ 17,209	\$ 22,480	\$ 44,458
Provision for income taxes	4,881	6,709	9,530	17,076
Income before provision for income taxes	15,654	23,918	32,010	61,534
Debt-related charges ^(a)	2,532	(3,545)	7,033	(10,029)
Acquisition-related depreciation and amortization ^(b)	25,660	28,927	76,615	87,071
Share-based compensation	4,790	2,022	10,449	5,824
Transaction and acquisition-related charges ^(c)	1,571	1,908	3,832	4,585
Integration, restructuring, and other charges ^(d)	2,800	(144)	6,565	(508)
Adjusted Net Income before income tax effect	53,007	53,086	136,504	148,477
Less: Income tax effect ^(e)	12,972	13,083	33,279	36,971
Adjusted Net Income	\$ 40,035	\$ 40,003	\$ 103,225	\$ 111,506

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Diluted net income per share (GAAP)	\$ 0.07	\$ 0.11	\$ 0.15	\$ 0.29
<i>Adjusted Net Income adjustments per share</i>				
Income taxes	0.03	0.04	0.07	0.11
Debt-related charges ^(a)	0.02	(0.02)	0.05	(0.07)
Acquisition-related depreciation and amortization ^(b)	0.18	0.19	0.52	0.57
Share-based compensation	0.03	0.01	0.07	0.04
Transaction and acquisition related charges ^(c)	0.01	0.01	0.03	0.03
Integration, restructuring, and other charges ^(d)	0.02	(0.00)	0.04	(0.00)
Adjusted income taxes ^(e)	(0.09)	(0.09)	(0.23)	(0.24)
Adjusted Diluted Earnings Per Share (Non-GAAP)	\$ 0.28	\$ 0.26	\$ 0.71	\$ 0.73

Weighted average number of shares outstanding used in computation of Adjusted Diluted Earnings Per Share:

Weighted average number of shares outstanding—diluted (GAAP and Non-GAAP)	144,733,357	152,357,307	146,392,996	152,375,112
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(a)Represents non-cash interest expense related to the amortization of debt issuance costs for the Company's First Lien Credit Facility (as defined below). Beginning in 2022, this adjustment also includes the impact of the change in fair value of interest rate swaps. This adjustment, which represents the difference between the fair value gains or losses and actual cash payments and receipts on the interest rate swaps, was added as a result of the increased interest rate volatility observed in 2022.

(b)Represents the depreciation and amortization expense related to intangible assets and developed technology assets recorded due to the application of ASC 805, *Business Combinations*. As a result, the purchase accounting related depreciation and amortization expense will recur in future periods until the related assets are fully depreciated or amortized, and the related purchase accounting assets may contribute to revenue generation.

(c)Represents charges incurred related to acquisitions and similar transactions, primarily consisting of change in control-related costs, professional service fees, and other third-party costs. Also includes incremental professional service fees incurred related to the initial public offering and subsequent one-time compliance efforts. The three and nine months ended September 30, 2023 and 2022 include a transaction bonus expense related to one of the Company's 2021 acquisitions.

(d)Represents charges from organizational restructuring and integration activities, non-cash, and other charges primarily related to nonrecurring legal exposures, foreign currency (gains) losses, and (gains) losses on the sale of assets.

(e)Effective tax rates of approximately 24.5% and 24.4% have been used to compute Adjusted Net Income and Adjusted Diluted Earnings Per Share for the three and nine months ended September 30, 2023, respectively. Effective tax rates of approximately 24.6% and 24.9% have been used to compute Adjusted Net Income and Adjusted Diluted Earnings Per Share for the three and nine months ended September 30, 2022, respectively. As of December 31, 2022, we had net operating loss carryforwards of approximately \$11.0 million for federal income tax purposes available to reduce future income subject to income taxes. As a result, the amount of actual cash taxes we may pay for federal income taxes differs significantly from the effective income tax rate computed in accordance with GAAP and from the normalized rates shown above.

Liquidity and Capital Resources

Liquidity

The Company's primary liquidity requirements are for working capital, continued investments in software development and other capital expenditures, and other strategic investments. In the second quarter of 2023, the Company fully utilized its remaining U.S. Federal income tax net operating loss carryforwards. As a result, income taxes will become a material use of funds, depending on our future profitability and future tax rates. The Company's liquidity needs are met primarily through existing balance sheet cash, cash flows from operations, as well as funds available under our revolving credit facility and proceeds from our term loan borrowings. Our cash flows from operations include cash received from customers, less cash costs to provide services to our customers, which includes general and administrative costs and interest payments.

As of September 30, 2023, we had \$164.9 million in cash and cash equivalents and \$100.0 million available under our revolving credit facility. As of September 30, 2023, we had \$564.7 million of total debt outstanding. We believe our cash on hand, together with amounts available under our revolving credit facility, and cash provided by operating activities are and will continue to be adequate to meet our operational and business needs in the next twelve months. To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds. In the event that we need access to additional cash, we may not be able to access the credit markets on commercially acceptable terms or at all. Our ability to fund future operating expenses and capital expenditures and our ability to meet future debt service obligations or refinance our indebtedness will depend on our future operating performance, which will be affected by general economic, financial, and other factors that may be beyond our control, including those described under our "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Share Repurchase Program

On August 2, 2022, the Company's Board of Directors authorized the repurchase of up to \$50.0 million of the Company's common stock over the 12-month period ending August 2, 2023 (the "Repurchase Program"). Stock repurchases may be effected through open market repurchases at prevailing market prices, including through the use of block trades and trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, privately-negotiated transactions, through other transactions in accordance with applicable securities laws, or a combination of these methods on such terms and in such amounts as the Company deems appropriate and will be funded from available capital. The Company is not obligated to repurchase any specific number of shares, and the timing, manner, value, and actual number of shares repurchased will depend on a variety of factors, including the Company's stock price and liquidity requirements, other business considerations and general market and economic conditions. No shares will be purchased from SLP Fastball Aggregator, L.P. and its affiliates. The Company may discontinue or modify purchases without notice at any time. The Company has used and plans to use its existing cash to fund repurchases made under the share repurchase program.

On November 8, 2022, the Company's Board of Directors authorized an increase to the total available amount under its Repurchase Program to \$150.0 million and extended the program through December 31, 2023. On February 28, 2023, the Company's Board of Directors authorized an increase to the total available amount under its Repurchase Program to \$200.0 million. On September 14, 2023, the Company announced that its Board of Directors approved a one-year extension of its share repurchase authorization, extending the previously authorized \$200.0 million program through December 31, 2024. Through November 6, 2023, the Company repurchased approximately \$118.4 million of shares under the Repurchase Program.

Dividends

On August 8, 2023, the Company's Board of Directors declared a one-time special cash dividend of \$1.50 per share to stockholders of record at the close of business on August 21, 2023. The cash dividend was paid on August 31, 2023.

Long-Term Debt

In February 2020, a new financing structure was established consisting of a new First Lien Credit Agreement ("First Lien Agreement"). The First Lien Agreement provided financing in the form of a \$670.0 million term loan due January 31, 2027 ("First Lien Credit Facility") and a \$75.0 million new revolving credit facility due January 31, 2025 ("Revolver").

On February 1, 2021, we amended the First Lien Agreement to fund \$100.0 million of additional first lien term loans and reduce the applicable margins by 0.25%.

In connection with the IPO, the Company entered into an amendment to increase the borrowing capacity under the Revolver from \$75.0 million to \$100.0 million and extend the maturity date from January 31, 2025 to July 31, 2026.

Borrowings under the First Lien Agreement bear interest at a rate per annum equal to an applicable margin plus, at our option, either (a) a base rate or (b) LIBOR, which is subject to a floor of 0.00% per annum. In June 2023, the Credit Agreement was amended to transition the reference rate from LIBOR to SOFR (the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York), with the addition of an applicable margin. The applicable margins under the First Lien Agreement are subject to stepdowns based on our first lien net leverage ratio. In connection with the closing of the IPO, each applicable margin was reduced further by 0.25%. In addition, the borrower, First Advantage Holdings, LLC, which is an indirect wholly-owned subsidiary of the Company, is required to pay a commitment fee on any unutilized commitments under the revolving credit facility. The commitment fee rate ranges between 0.25% and 0.50% per annum based on our first lien net leverage ratio. The borrower is also required to pay customary letter of credit fees.

The First Lien Credit Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 1.00% of the principal amount. The Revolver has no amortization. The First Lien Credit Facility requires the borrower to prepay outstanding term loans, subject to certain exceptions, with certain proceeds from non-ordinary course asset sales, issuance of debt not permitted by the credit agreement to be incurred and annual excess cash flows. In addition, any voluntary prepayment of term loans in connection with certain repricing transactions on or prior to August 1, 2021 were subject to a 1.00% prepayment premium. Otherwise, the borrower may voluntarily repay outstanding loans without premium or penalty, other than customary "breakage" costs.

In connection with the closing of the IPO, on June 30, 2021, the Company repaid \$200.0 million of the First Lien Credit Facility outstanding, of which \$44.3 million was applied to all of the remaining quarterly amortizing principal payments due under the First Lien Agreement. The remaining \$564.7 million term loan is scheduled to mature on January 31, 2027.

The First Lien Agreement is unconditionally guaranteed by Fastball Parent, Inc., a wholly-owned subsidiary of the Company and the direct parent of the borrower, and material wholly owned domestic restricted subsidiaries of Fastball Parent, Inc. The First Lien Agreement and the guarantees of such obligations, are secured, subject to permitted liens and other exceptions, by (1) a first priority security interest in certain tangible and intangible assets of the borrower and the guarantors and (2) a first-priority pledge of 100% of the capital stock of the borrower and of each wholly-owned material restricted subsidiary of the borrower and the guarantors (which pledge, in the case of any non-U.S. subsidiary of a U.S. subsidiary, does not include more than 65% of the voting stock of such non-U.S. subsidiary).

The First Lien Agreement contains customary affirmative covenants, negative covenants, and events of default (including upon a change of control). The First Lien Agreement also includes a "springing" first lien net leverage ratio test, applicable only to the Revolver, that requires such ratio to be no greater than 7.75:1.00 on the last day of any fiscal quarter if more than 35.0% of the Revolver is utilized on such date.

Cash Flow Analysis

Comparison of Cash Flows for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022

The following table is a summary of our cash flow activity for the periods presented:

(in thousands)	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	\$ 106,080	\$ 142,842
Net cash used in investing activities	(61,932)	(40,526)
Net cash used in financing activities	(270,565)	(827)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$106.1 million for the nine months ended September 30, 2023, compared to \$142.8 million for the nine months ended September 30, 2022. Net cash provided by operating activities for the nine months ended September 30, 2023 decreased by \$36.8 million compared to the nine months ended September 30, 2022. Cash flows from operating activities were impacted by the continuation of more modest hiring activity in the Americas and softness internationally resulting from the ongoing uncertainty from the economic environment that began to impact hiring demand in late 2022. Additionally, cash flows from operating activities in 2023 were impacted by a \$9.2 million outflow due to working capital.

Cash Flows from Investing Activities

Net cash used in investing activities was \$61.9 million for the nine months ended September 30, 2023, compared to \$40.5 million for the nine months ended September 30, 2022. Net cash used in investing activities for the nine months ended September 30, 2023 increased by \$21.4 million compared to the nine months ended September 30, 2022. Cash flows used in investing activities were primarily impacted by the \$41.1 million Infinite ID acquisition, net of cash acquired and other transaction adjustments, during the nine months ended September 30, 2023. Cash flows used in investing activities for the nine months ended September 30, 2022 were impacted by the \$19.1 million acquisition of Form I-9 Compliance, net of cash acquired.

Cash Flows from Financing Activities

Net cash used in financing activities was \$270.6 million for the nine months ended September 30, 2023, compared to \$0.8 million for the nine months ended September 30, 2022. Net cash used in financing activities for the nine months ended September 30, 2023 were impacted by the Company's one-time special cash dividend of \$1.50 per share to stockholders of record at the close of business on August 21, 2023 and shares repurchased under the Company's Repurchase Program. An aggregate cash dividend of \$217.7 million was paid on August 31, 2023. During the nine months ended September 30, 2023, the Company repurchased 4,140,519 shares for a total cost of \$55.9 million. These outflows were offset partially by cash inflows related to share-based compensation activity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2023, no material change had occurred in our market risks, compared with the disclosure in our Annual Report on Form 10-K filed with the SEC on February 28, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. The term "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosures.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving their desired control objectives. Based on the evaluation of management's disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the quarter covered by this report, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Information in response to this Item is included in "Part I — Item 1. — Note 12 — Commitments and Contingencies" and is incorporated by reference into Part II of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

As of September 30, 2023, no material changes had occurred in our risk factors, compared with the disclosure in our Annual Report on Form 10-K filed with the SEC on February 28, 2023.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

Use of Proceeds

On June 25, 2021, we completed our IPO. All shares sold were registered pursuant to a registration statement on Form S-1 (File No. 333-256622), declared effective by the SEC on June 22, 2021.

As of September 30, 2023, we have fully used the net proceeds of \$316.5 million from our IPO as follows: (i) \$200.0 million debt repayment on the Company's First Lien Credit Facility and (ii) \$116.5 million for dividends.

Issuer Purchases of Equity Securities

The following information relates to the Company's purchase of its common stock during each month within the third quarter of 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
7/1/2023 - 7/31/2023	70,793	\$ 14.96	70,793	\$ 86,075,746
8/1/2023 - 8/31/2023	173,989	\$ 14.50	173,989	\$ 83,552,658
9/1/2023 - 9/30/2023	—	\$ —	—	\$ 83,552,658
Total	244,782	\$ 14.63	244,782	\$ 83,552,658

⁽¹⁾Average price paid per share for shares purchased as part of our Repurchase Program (includes brokerage commissions).

⁽²⁾On August 2, 2022, the Company's Board of Directors authorized the repurchase of up to \$50.0 million of the Company's common stock over the 12-month period ending August 2, 2023 (the "Repurchase Program"). On November 8, 2022, the Company's Board of Directors authorized an increase to the total available amount under its Repurchase Program to \$150.0 million and extended the program through December 31, 2023. On February 28, 2023, the Company's Board of Directors authorized an increase to the total available amount under its Repurchase Program to \$200.0 million. On September 14, 2023, the Company announced that its Board of Directors approved a one-year extension of its share repurchase authorization, extending the previously authorized \$200.0 million program through December 31, 2024. Through November 6, 2023, the Company repurchased approximately \$118.4 million of shares under the Repurchase Program.

Stock repurchases may be effected through open market repurchases at prevailing market prices, including through the use of block trades and trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, privately-negotiated transactions, through other transactions in accordance with applicable securities laws, or a combination of these methods on such terms and in such amounts as the Company deems appropriate and will be funded from available capital. The Company is not obligated to repurchase any specific number of shares, and the timing, manner, value, and actual number of shares repurchased will depend on a variety of factors, including the Company's stock price and liquidity requirements, other business considerations and general market and economic conditions. No shares will be purchased from SLP Fastball Aggregator, L.P. and its affiliates. The Company may discontinue or modify purchases without notice at any time.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

During the three months ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended) adopted, terminated, or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K), except as described in the table below.

Director/Officer Name	Title	Date of Adoption/Termination	Trading Arrangement		Scheduled Expiration	Aggregate Number of Securities to Be Purchased or Sold
			Rule 10b5-1 ⁽¹⁾	Non-Rule 10b5-1		
James L. Clark	Director	Adopted August 14, 2023	X		August 9, 2024	Sale of up to 7,703 shares of common stock in multiple transactions
Joseph Jaeger	President, Americas	Terminated August 14, 2023	X		December 29, 2023	Sale of up to 45,500 shares of common stock in multiple transactions
Joseph Jaeger	President, Americas	Adopted August 14, 2023	X		August 23, 2024	Sale of up to 40,000 shares of common stock in multiple transactions

(1) Intended to satisfy the affirmative defense of Rule 10b5-1(c).

(2) A trading plan may also expire on such earlier date that all transactions under the trading plan are completed.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of First Advantage Corporation (incorporated herein by reference to Exhibit 3.1 of First Advantage's Form 8-K filed on June 25, 2021).
3.2	Amended and Restated Bylaws of First Advantage Corporation (incorporated herein by reference to Exhibit 3.2 of First Advantage's Form 8-K filed on June 25, 2021).
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in the Exhibit 101 attachments).

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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.

FIRST ADVANTAGE CORPORATION

Date: November 9, 2023

By: **/s/ Scott Staples**
Scott Staples
Chief Executive Officer
(principal executive officer)

Date: November 9, 2023

By: **/s/ David L. Gamsey**
David L. Gamsey
Executive Vice President & Chief Financial Officer
(principal financial officer)

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott Staples, certify that:

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

Date: November 9, 2023

By:

/s/ Scott Staples
Scott Staples
Chief Executive Officer
(principal executive officer)

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David L. Gamsey, certify that:

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

Date: November 9, 2023

By:

/s/ David L. Gamsey
David L. Gamsey
Executive Vice President & Chief Financial Officer
(principal financial officer)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of First Advantage Corporation (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

By:

/s/ Scott Staples
Scott Staples
Chief Executive Officer
(principal executive officer)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of First Advantage Corporation (the "Company") for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

By:

/s/ David L. Gamsey

David L. Gamsey

**Executive Vice President & Chief Financial Officer
(principal financial officer)**
