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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

or

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

For the transition period from____________to_____________

Commission File Number: 001-40482

TaskUs, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**83-1586636** **(I.R.S. Employer Identification No.)**
1650 Independence Drive, Suite 100 **New Braunfels, Texas** **(Address of principal executive offices)**	**78132** **(Zip Code)**

(888) 400-8275
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	**TASK**	**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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of May 2, 2023, the number of shares outstanding of the registrant’s common stock was as follows: Class A common stock, par value $0.01 per share: 27,066,113; Class B common stock, par value $0.01 per share: 70,032,694.

TASKUS, INC.
Quarterly Report on Form 10-Q
For Quarterly Period Ended March 31, 2023
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which involve certain known and unknown risks and uncertainties. Forward-looking statements include all statements that are not historical facts. In some cases, you can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "could," "seeks," "predicts," "intends," "trends," "plans," "estimates," "anticipates," "position us" or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Our actual results may differ significantly from any results expressed or implied by any forward-looking statements. A summary of the principal risk factors that might cause our actual results to differ from our forward-looking statements is set forth below. The following is only a summary of the principal risks that may materially adversely affect our business, financial condition and results of operations. This summary should be read in conjunction with the more complete discussion of the risk factors we face, which are set forth under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 (our "Annual Report") as filed with the Securities and Exchange Commission (the "SEC"), as such risk 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. Such risks and uncertainties include, but are not limited to, the following:

- Our business is dependent on key clients, and the loss of a key client could have an adverse effect on our business and results of operations.
- Our clients may terminate contracts before completion or choose not to renew contracts and a loss of business or non-payment from clients could materially affect our results of operations.
- We may fail to cost-effectively acquire and retain new clients, which would adversely affect our business, financial condition and results of operations.
- If we provide inadequate service or cause disruptions in our clients' businesses or fail to comply with the quality standards required by our clients under our agreements, it could result in significant costs to us, the loss of our clients and damage to our corporate reputation.
- Unauthorized or improper disclosure of personal or other sensitive information, or security breaches and incidents, whether inadvertent or purposeful, including as the result of a cyber-attack, could result in liability and harm our reputation, each of which could adversely affect our business, financial condition, results of operations and prospects.
- Trust and Safety, including content monitoring and moderation services, is a large portion of our business. The long term impacts on the mental health and well-being of our employees doing this work are unknown. This work may lead to stress disorders and may create liabilities for us. This work is also subject to significant press and regulatory scrutiny. As a result, we may be subject to negative publicity or liability, or face difficulties recruiting and retaining employees, any of which could have an adverse effect on our reputation, business, financial condition and results of operations.
- Our failure to detect and deter criminal or fraudulent activities or other misconduct by our employees, or third parties such as contractors and consultants that may have access to our data, could result in loss of trust from our clients and negative publicity, which would have an adverse effect on our business and results of operations.
- Global economic and political conditions, especially in the social media and meal delivery and transport industries from which we generate significant revenue, could adversely affect our business, results of operations, financial condition and prospects.
- Our business is heavily dependent upon our international operations, particularly in the Philippines and India, and any disruption to those operations would adversely affect us.
- Our business is subject to a variety of U.S. federal and state, as well as international laws and regulations, including those regarding data privacy and security, and we or our clients may be subject to regulations related to the processing of certain types of sensitive and confidential information. Any failure to comply with applicable data privacy and security laws and regulations could harm our business, results of operations and financial condition.

- Our business prospects will suffer if we are unable to continue to anticipate our clients' needs by adapting to market and technology trends, investing in technology as it develops, and adapting our services and solutions to changes in technology and client expectations.
- Fluctuations against the U.S. dollar in the local currencies in the countries in which we operate could have a material effect on our results of operations.
- Our business depends on a strong brand and corporate reputation, and if we are not able to maintain and enhance our brand, our ability to expand our client base will be impaired and our business and operating results will be adversely affected.
- Pricing pressure may reduce our revenue or gross profits and adversely affect our financial results.
- Our results of operations have been, and could in the future be, adversely affected by volatile, unfavorable or uncertain economic and political conditions, particularly in the markets in which our clients and operations are concentrated, and the effects of these conditions on our clients' businesses.
- The success of our business depends on our senior management and key employees.
- The COVID-19 pandemic, including the resulting global economic uncertainty and measures taken in response to the pandemic, has adversely impacted our business, financial condition and results of operations.
- Increases in employee expenses as well as changes to labor laws could reduce our profit margin.
- We may fail to attract, hire, train and retain sufficient numbers of skilled employees in a timely fashion at our sites to support our operations, which could have a material adverse effect on our business, financial condition, results of operations and prospects.
- Our business relies heavily on owned and third-party technology and computer systems, which subjects us to various uncertainties.
- Our profitability will suffer if we are not able to maintain asset utilization levels, price appropriately and control our costs.
- Our Sponsor and our Co-Founders control us and their interests may conflict with ours or yours in the future.
- The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our common stock prior to the completion of our June 2021 initial public offering ("IPO"), and it may depress the trading price of our Class A common stock.
- The market price of shares of our Class A common stock has been, and may continue to be, volatile and may decline regardless of our operating performance, which could cause the value of your investment to decline.

We urge you to carefully consider the foregoing summary together with the risks discussed under "Risk Factors" in the Annual Report, and in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

We use our website and our social media outlets, such as Facebook, Instagram, LinkedIn, TikTok, YouTube, and Twitter as channels of distribution of Company information. The information we post through these channels may be deemed material. Financial and other important information regarding the Company is routinely posted on and accessible through the Company's website at ir.taskus.com, its Facebook page at facebook.com/TaskUs/, its Instagram page at instagram.com/taskus/, its LinkedIn page at linkedin.com/company/taskus/, its TikTok page at tiktok.com/@taskusinc, its YouTube account at youtube.com/c/Taskus/, and its Twitter account at twitter.com/taskus. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive email alerts and other information about the Company when you enroll your email address by visiting the "Email Alerts" section of our investor relations website at ir.taskus.com. The contents of our website and social media channels are not, however, a part of this Quarterly Report.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TASKUS, INC.
Unaudited Condensed Consolidated Balance Sheets
(in thousands, except share data)

Assets	March 31, 2023	December 31, 2022
Current assets:		
Cash and cash equivalents	$ 167,011	$ 133,992
Accounts receivable, net of allowance for doubtful accounts of $3,422 and $3,422, respectively	170,664	178,678
Income tax receivable	526	2,879
Prepaid expenses and other current assets	30,021	25,876
Total current assets	368,222	341,425
Noncurrent assets:		
Property and equipment, net	75,604	75,053
Operating lease right-of-use assets	41,021	41,510
Deferred tax assets	6,334	6,165
Intangibles	208,053	212,993
Goodwill	217,785	217,382
Other noncurrent assets	8,425	7,487
Total noncurrent assets	557,222	560,590
Total assets	$ 925,444	$ 902,015
Liabilities and Shareholders' Equity		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	$ 33,178	$ 37,062
Accrued payroll and employee-related liabilities	52,561	48,663
Current portion of debt	4,347	3,334
Current portion of operating lease liabilities	11,904	11,614
Current portion of income tax payable	9,265	5,730
Deferred revenue	3,066	3,481
Total current liabilities	114,321	109,884
Noncurrent liabilities:		
Income tax payable	2,304	2,293
Long-term debt	262,632	264,225
Operating lease liabilities	32,154	32,380
Accrued payroll and employee-related liabilities	3,444	2,818
Deferred tax liabilities	34,541	34,514
Other noncurrent liabilities	293	288
Total noncurrent liabilities	335,368	336,518
Total liabilities	449,689	446,402
Commitments and Contingencies (See Note 10)		
Shareholders' equity:		
Class A common stock, $0.01 par value. Authorized 2,500,000,000; 29,489,895 issued and 27,450,163 outstanding and 29,257,651 issued and 27,607,720 outstanding, respectively	295	293
Class B convertible common stock, $0.01 par value. Authorized 250,000,000; 70,032,694 and 70,032,694 shares issued and outstanding, respectively	700	700
Additional paid-in capital	645,322	631,908
Accumulated deficit	(126,165)	(135,674)
Accumulated other comprehensive loss	(7,056)	(10,647)
Treasury stock, at cost with 2,039,732 and 1,649,931 shares, respectively	(37,341)	(30,967)
Total shareholders' equity	475,755	455,613
Total liabilities and shareholders' equity	$ 925,444	$ 902,015

See accompanying notes to unaudited condensed consolidated financial statements.

TASKUS, INC.
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Service revenue	$ 235,306	$ 239,680
Operating expenses:		
Cost of services	137,762	141,282
Selling, general, and administrative expense	64,294	64,247
Depreciation	9,661	8,901
Amortization of intangible assets	5,124	4,711
Loss (gain) on disposal of assets	65	(15)
Total operating expenses	216,906	219,126
Operating income	18,400	20,554
Other expense (income)	(2,177)	1,053
Financing expenses	5,099	1,602
Income before income taxes	15,478	17,899
Provision for income taxes	5,969	6,313
Net income	$ 9,509	$ 11,586
Net income per common share:		
Basic	$ 0.10	$ 0.12
Diluted	$ 0.09	$ 0.11
Weighted-average number of common shares outstanding:		
Basic	97,561,650	97,481,412
Diluted	100,952,573	104,122,026

See accompanying notes to unaudited condensed consolidated financial statements.

TASKUS, INC.
Unaudited Condensed Consolidated Statements of Comprehensive Income
(in thousands)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income	$ 9,509	$ 11,586
Retirement benefit reserves	8	9
Foreign currency translation adjustments	3,583	(1,765)
Comprehensive income	$ 13,100	$ 9,830

See accompanying notes to unaudited condensed consolidated financial statements.

TASKUS, INC.
Unaudited Condensed Consolidated Statements of Shareholders' Equity
(in thousands, except share data)

	Capital stock and additional paid-in capital									
	Class A common stock		Class B convertible common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Treasury stock		Total shareholders' equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance as of December 31, 2021	27,431,264	$ 275	70,032,694	$ 700	$ 556,418	$ (176,096)	$ (2,163)	—	$ —	$ 379,134
Issuance of common stock for settlement of equity awards	137,794	1	—	—	(1)	—	—	—	—	—
Shares withheld related to net share settlement	(45,389)	(1)	—	—	(1,468)	—	—	—	—	(1,469)
Stock-based compensation expense	—	—	—	—	19,605	—	—	—	—	19,605
Net income	—	—	—	—	—	11,586	—	—	—	11,586
Other comprehensive loss	—	—	—	—	—	—	(1,756)	—	—	(1,756)
Balance as of March 31, 2022	27,523,669	$ 275	70,032,694	$ 700	$ 574,554	$ (164,510)	$ (3,919)	—	$ —	$ 407,100

	Capital stock and additional paid-in capital									
	Class A common stock		Class B convertible common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Treasury stock		Total shareholders' equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance as of December 31, 2022	29,257,651	$ 293	70,032,694	$ 700	$ 631,908	$ (135,674)	$ (10,647)	1,649,931	$ (30,967)	$ 455,613
Issuance of common stock for settlement of equity awards	246,537	2	—	—	207	—	—	—	—	209
Shares withheld related to net share settlement	(14,293)	—	—	—	(257)	—	—	—	—	(257)
Repurchase of common stock	—	—	—	—	—	—	—	389,801	(6,374)	(6,374)
Stock-based compensation expense	—	—	—	—	13,464	—	—	—	—	13,464
Net income	—	—	—	—	—	9,509	—	—	—	9,509
Other comprehensive income	—	—	—	—	—	—	3,591	—	—	3,591
Balance as of March 31, 2023	29,489,895	$ 295	70,032,694	$ 700	$ 645,322	$ (126,165)	$ (7,056)	2,039,732	$ (37,341)	$ 475,755

See accompanying notes to unaudited condensed consolidated financial statements.

TASKUS, INC.
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three months ended March 31, 2023	Three months ended March 31, 2022
Cash flows from operating activities:		
Net income	$ 9,509	$ 11,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,661	8,901
Amortization of intangibles	5,124	4,711
Amortization of debt financing fees	149	139
Loss (gain) on disposal of assets	65	(15)
Provision for losses on accounts receivable	—	479
Unrealized foreign exchange losses (gains) on forward contracts	(6,336)	759
Deferred taxes	(90)	(19)
Stock-based compensation expense	13,464	19,605
Changes in operating assets and liabilities:		
Accounts receivable	8,070	(9,979)
Prepaid expenses and other current assets	(16)	(2,478)
Operating lease right-of-use assets	3,825	3,226
Other noncurrent assets	34	(223)
Accounts payable and accrued liabilities	(5,356)	(1,071)
Accrued payroll and employee-related liabilities	3,520	(1,392)
Operating lease liabilities	(3,310)	(2,804)
Income tax payable	5,789	4,686
Deferred revenue	(417)	779
Other noncurrent liabilities	(2)	—
Net cash provided by operating activities	43,683	36,890
Cash flows from investing activities:		
Purchase of property and equipment	(5,244)	(17,770)
Investment in loan receivable	(1,000)	—
Net cash used in investing activities	(6,244)	(17,770)
Cash flows from financing activities:		
Payments on long-term debt	(675)	(2,625)
Proceeds from employee stock plans	209	—
Payments for taxes related to net share settlement	(257)	(1,469)
Payments for stock repurchases	(6,374)	—
Net cash used in financing activities	(7,097)	(4,094)
Increase in cash and cash equivalents	30,342	15,026
Effect of exchange rate changes on cash	2,677	(1,536)
Cash and cash equivalents at beginning of period	133,992	63,584
Cash and cash equivalents at end of period	$ 167,011	$ 77,074

See accompanying notes to unaudited condensed consolidated financial statements.

TASKUS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business and Organization

TaskUs, Inc. (formerly known as TU TopCo, Inc.) (“TaskUs” and, together with its subsidiaries, the “Company,” “we,” “us” or “our”) was formed by investment funds affiliated with Blackstone Inc. (“Blackstone”) as a vehicle for the acquisition of TaskUs Holdings, Inc. (formerly known as TaskUs, Inc.) (“TaskUs Holdings”) on October 1, 2018 (the “Blackstone Acquisition”). Prior to the Blackstone Acquisition, TaskUs had no operations and TaskUs Holdings operated as a standalone entity. TaskUs, Inc. was incorporated in Delaware in July 2018, and is headquartered in New Braunfels, Texas.

The Company is a provider of outsourced digital services and next-generation customer experience to the world’s most innovative companies, helping its clients represent, protect and grow their brands. The Company’s global, omni-channel delivery model is focused on providing its clients three key services - Digital Customer Experience, Trust and Safety and Artificial Intelligence (“AI”) Services. The Company has designed its platform to enable it to rapidly scale and benefit from its clients’ growth. Through its agile and responsive operational model, the Company delivers services from multiple delivery sites that span globally from the United States, Philippines, India and other parts of the world.

The Company’s major service offerings are described in more detail below:

- *Digital Customer Experience*: Principally consists of omni-channel customer care services, primarily delivered through digital (non-voice) channels.
- *Trust and Safety*: Principally consists of review and disposition of user and advertiser generated visual, text and audio content for purposes which include removal or labeling of policy violating, offensive or misleading content. Also included in this area are our offerings for risk management, compliance, identity management and fraud.
- *AI Services*: Principally consists of high-quality data labeling services, annotation, context relevance and transcription services performed for the purpose of training and tuning machine learning algorithms, enabling them to develop cutting-edge AI systems.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Our Annual Report on Form 10-K for the year ended December 31, 2022 (the “Annual Report”), as filed with the Securities and Exchange Commission (the “SEC”), includes a discussion of the significant accounting policies used in the preparation of our consolidated financial statements. There have been no changes to the Company’s significant accounting policies described in the Annual Report that have had a material impact on the Company’s condensed consolidated financial statements and related notes.

These unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with US GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by US GAAP for complete financial statements and should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2022 included in the Annual Report. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of March 31, 2023 and its results of operations, comprehensive income and shareholders’ equity for the three months ended March 31, 2023 and 2022, and cash flows for the three months ended March 31, 2023 and 2022. The condensed consolidated balance sheet as of December 31, 2022, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements.

The Company has made certain reclassifications to prior period consolidated financial statements to conform to current period presentation. India, which was previously included in Rest of World, is now reported separately within revenue disaggregation by geographical location. Other receivables, Prepaid expenses and Other current assets have been combined into Prepaid expenses and other current assets.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with US 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include: the determination of useful lives and impairment of fixed assets; allowances for doubtful accounts and other receivables; the valuation of deferred tax assets; the measurement of lease liabilities and right-of-use assets; valuation of forward contracts; valuation of stock-based compensation; valuation of acquired intangible assets and goodwill, as well as related impairment assessments; and reserves for income tax uncertainties and other contingencies.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has no variable interest entities in its corporate structure.

(d) Concentration Risk

Most of the Company's customers are located in the United States. Customers outside of the United States are concentrated in Europe.

For the three months ended March 31, 2023 and 2022, the following customers represented greater than 10% of the Company's service revenue:

	Service revenue percentage	
	Three months ended March 31,	
Client	2023	2022
A	20 %	24 %
B	Less than 10 %	10 %

As of March 31, 2023 and December 31, 2022, the following clients represented greater than 10% of the Company's accounts receivable:

	Accounts receivable percentage	
Client	March 31, 2023	December 31, 2022
A	16 %	17 %
B	12 %	13 %

The Company's principal operations, including the majority of its employees and the fixed assets owned by its wholly owned subsidiaries, are located in the Philippines.

(e) Recent Accounting Pronouncements

The Company currently qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Accordingly, the Company is provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. The Company has elected to adopt new or revised accounting guidance within the same time period as private companies.

Recently adopted accounting pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). The revised standard relates to measurement of credit losses on financial instruments, and requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The guidance replaces the incurred loss model with an expected loss model referred to as current expected credit loss ("CECL"). The CECL model requires us to measure lifetime expected credit losses for financial instruments held at the reporting date using historical experience, current conditions and reasonable supportable forecasts. The guidance expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating credit losses and requires new disclosures of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. The company adopted this standard as of January 1, 2023. The adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements.

3. Business Combination

On April 15, 2022 (the "Closing Date"), the Company completed the acquisition of 100% of the equity interests of Parsec d.o.o. and Q Experience d.o.o. (collectively, "heloo") for $35.4 million. The former shareholders of heloo are also eligible to receive contingent earn-out payments not to exceed €20 million, based on performance compared to prescribed EBITDA targets outlined in the purchase agreement during each of the one year periods ending April 30, 2023 and 2024, respectively. The total fair value of contingent earn-out payments was determined to be $18.5 million and $14.9 million as March 31, 2023 and December 31, 2022, respectively, based on a Monte Carlo simulation model, utilizing a discounted payout analysis based on probabilities and timing of achieving the prescribed targets. Since these payments are contingent on future service conditions, they are recognized as compensation expense ratably over the required service period. For the three months ended March 31, 2023, the Company recognized $6.6 million in compensation expense related to the contingent earn-out payments included in selling, general, and administrative expenses.

4. Revenue from Contracts with Customers

Disaggregation of Revenue

The Company's revenues are derived from contracts with customers related to business outsourcing services that it provides. The following table presents the breakdown of the Company's revenues by service offering:

	Three months ended March 31,	
(in thousands)	**2023**	**2022**
Digital Customer Experience	$ 157,136	$ 159,731
Trust and Safety	40,598	45,852
AI Services	37,572	34,097
Service revenue	$ 235,306	$ 239,680

The majority of the Company's revenues are derived from contracts with customers who are located in the United States. However, the Company delivers its services from geographies outside of the United States. The following table presents the breakdown of the Company's revenues by geographical location, based on where the services are provided from:

	Three months ended March 31,	
(in thousands)	**2023**	**2022**
Philippines	$ 126,859	$ 120,080
United States	46,662	79,131
India	28,243	23,358
Rest of World	33,542	17,111
Service revenue	$ 235,306	$ 239,680

Contract Balances

Accounts receivable, net of allowance for doubtful accounts includes $84.2 million and $80.8 million of unbilled revenues as of March 31, 2023 and December 31, 2022, respectively.

5. Forward Contracts and Fair Value Measurement

The Company transacts business in various foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency exchange rate risk. During 2023 and 2022, the Company entered into foreign currency exchange rate forward contracts, with two commercial banks as the counterparties, with maturities of generally 12 months or less, to reduce the volatility of cash flows primarily related to forecasted costs denominated in Philippine pesos. In addition, the Company utilizes foreign currency exchange rate contracts to mitigate foreign currency exchange rate risk associated with foreign currency-denominated assets and liabilities, primarily intercompany balances. The Company does not use foreign currency exchange rate contracts for trading purposes. The exchange rate forward contracts entered into by the Company are not designated as hedging instruments. Any gains or losses resulting from changes in the fair value of these contracts are recognized in other expense (income) in the consolidated statements of operations. The forward contract receivable (payable) resulting from changes in fair value was recorded under prepaid expenses and other current assets (accounts payable and accrued liabilities).

The following table presents the Company's settled forward contracts and realized and unrealized losses (gains) associated with derivative contracts:

	Three months ended March 31,	
(in thousands)	2023	2022
Total notional amount of settled forward contracts	$ 59,425	$ 40,382
Realized losses from settlement of forward contracts	$ 1,618	$ 1,420
Unrealized losses (gains) on forward contracts	$ (6,336)	$ 759

The following table presents the Company's outstanding forward contracts:

(in thousands)	March 31, 2023	December 31, 2022
Total notional amount of outstanding forward contracts	$ 110,925	$ 175,050

By entering into derivative contracts, the Company is exposed to counterparty credit risk, or the failure of the counterparty to perform under the terms of the derivative contract. For the periods presented, the non-performance risk of the Company and the counterparties did not have a material impact on the fair value of the derivative instruments.

The Company has implemented the fair value accounting standard for those assets and liabilities that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

For financial statement presentation purposes, we offset assets and liabilities for forward contracts with the same counterparty that we intend to net settle upon maturity; however, we do not offset assets and liabilities under master netting arrangements that we do not intend to net settle. The following table presents information about the Company’s assets and liabilities that are measured at fair value on a recurring basis at March 31, 2023 and December 31, 2022 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	March 31, 2023							
	Fair value measurements using							
(in thousands)	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total Gross Fair Value	Effect of Counter-party Netting	Net Amounts on Balance Sheet	Effect of Master Netting Arrangements	Net Amounts
Assets								
Money market funds	$ 3,739	$ —	$ —	$ 3,739	$ —	$ 3,739	$ —	$ 3,739
Forward contracts receivable	$ —	$ 8,132	$ —	$ 8,132	$ —	$ 8,132	$ —	$ 8,132

	December 31, 2022							
	Fair value measurements using							
(in thousands)	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total Gross Fair Value	Effect of Counter-party Netting	Net Amounts on Balance Sheet	Effect of Master Netting Arrangements	Net Amounts
Assets								
Money market funds	$ 6,069	$ —	$ —	$ 6,069	$ —	$ 6,069	$ —	$ 6,069
Forward contracts receivable	$ —	$ 4,845	$ —	$ 4,845	$ (518)	$ 4,327	$ (1,778)	$ 2,549
Liabilities								
Forward contracts payable	$ —	$ 3,049	$ —	$ 3,049	$ (518)	$ 2,531	$ (1,778)	$ 753

The Company’s derivatives are carried at fair value using various pricing models that incorporate observable market inputs, such as interest rate yield curves and currency rates, which are Level 2 inputs. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or by the Company.

6. Property and Equipment, net

The components of property and equipment, net as of March 31, 2023 and December 31, 2022 were as follows:

(in thousands)	March 31, 2023	December 31, 2022
Leasehold improvements	$ 53,288	$ 53,950
Technology and computers	96,191	95,189
Furniture and fixtures	4,348	6,173
Construction in process	10,674	4,640
Other property and equipment	11,453	10,828
Property and equipment, gross	175,954	170,780
Accumulated depreciation	(100,350)	(95,727)
Property and equipment, net	$ 75,604	$ 75,053

The Company's principal operations are in the Philippines where the majority of property and equipment resides under its wholly owned subsidiaries. The table below presents the Company's total property and equipment by geographic location as of March 31, 2023 and December 31, 2022:

(in thousands)	March 31, 2023	December 31, 2022
Philippines	$ 42,953	$ 42,153
United States	8,968	9,136
India	14,881	15,482
Rest of World	8,802	8,282
Property and equipment, net	$ 75,604	$ 75,053

7. Goodwill and Intangibles

The changes in the carrying amount of goodwill during the period were as follows:

(in thousands)	
Balance as of December 31, 2022	$ 217,382
Foreign currency translation	403
Balance as of March 31, 2023	$ 217,785

The components of intangible assets as of March 31, 2023 and December 31, 2022 were as follows:

	March 31, 2023			December 31, 2022		
(in thousands)	Intangibles, Gross	Accumulated Amortization	Intangibles, Net	Intangibles, Gross	Accumulated Amortization	Intangibles, Net
Customer relationships	$ 251,738	$ (73,288)	$ 178,450	$ 251,539	$ (68,987)	$ 182,552
Trade name	42,228	(12,727)	29,501	42,222	(11,986)	30,236
Other intangibles	407	(305)	102	410	(205)	205
Total	$ 294,373	$ (86,320)	$ 208,053	$ 294,171	$ (81,178)	$ 212,993

8. Long-Term Debt

The balances of current and non-current portions of debt consist of the following as of March 31, 2023 and December 31, 2022:

	March 31, 2023			December 31, 2022		
(in thousands)	Current	Noncurrent	Total	Current	Noncurrent	Total
Term Loan	$ 4,725	$ 263,925	$ 268,650	$ 3,712	$ 265,613	$ 269,325
Revolver	—	—	—	—	—	—
Less: Debt financing fees	(378)	(1,293)	(1,671)	(378)	(1,388)	(1,766)
Total	$ 4,347	$ 262,632	$ 266,979	$ 3,334	$ 264,225	$ 267,559

2022 Credit Agreement

On September 7, 2022, the Company entered into a credit agreement (the “2022 Credit Agreement”) with both new and existing lenders which amended and restated its previous credit agreement. The 2022 Credit Agreement includes a $270.0 million term loan (the "2022 Term Loan Facility") and a $190.0 million revolving credit facility (the "2022 Revolving Credit Facility" and, together with the 2022 Term Loan Facility, the “2022 Credit Facilities”).

The 2022 Term Loan Facility matures on September 7, 2027, and commencing with the fiscal quarter ending December 31, 2022, requires quarterly principal payments of 0.25% of the original principal amount through September 30, 2023, 0.625% of the original principal amount through September 30, 2024, 1.25% of the original principal amount through September 30, 2025, 1.875% of the original principal amount through September 30, 2026 and 2.50% of the original principal amount thereafter, with the remaining principal due in a lump sum at the maturity date. Voluntary principal prepayments are permitted.

The 2022 Revolving Credit Facility provides the Company with access to a $15.0 million letter of credit facility and a $15.0 million swing line facility, each of which, to the extent used, reduces borrowing availability under the 2022 Revolving Credit Facility. The 2022 Revolving Credit Facility terminates on September 7, 2027. As of March 31, 2023, we had $190.0 million of borrowing availability under the 2022 Revolving Credit Facility.

Borrowings under the 2022 Credit Agreement, with the exception of swing line borrowings, bear interest, at our option, either at (i) an adjusted Term Secured Overnight Financing Rate ("SOFR rate") plus a margin of 2.25% per annum, subject to a Term SOFR rate floor of 0.00% or (ii) an alternative base rate plus a margin of 1.25% per annum, subject to an alternative base rate floor of 1.00%. Any borrowings under the swing line will be subject to the base rate. The 2022 Revolving Credit Facility also requires a commitment fee of 0.40% per annum of undrawn commitments to be paid quarterly in arrears. We have elected to pay interest on borrowings under the 2022 Term Loan Facility based on the SOFR rate. The interest rate in effect for the 2022 Term Loan Facility as of March 31, 2023 was 6.993% per annum.

The 2022 Credit Agreement contains a financial covenant requiring compliance with a maximum total net leverage ratio and certain other covenants, including, among other things, covenants restricting additional borrowings, investments (including acquisitions) and distributions. We were in compliance with all debt covenants as of March 31, 2023. Substantially all assets of our direct wholly owned subsidiary TU MidCo, Inc., its wholly owned subsidiary, TU BidCo, Inc. and its material wholly owned domestic subsidiaries are pledged as collateral under the 2022 Credit Agreement, subject to certain customary exceptions.

9. Leases

Operating lease costs recorded to cost of services was $4.4 million and $4.0 million for the three months ended March 31, 2023 and 2022, respectively. Operating lease costs recorded to selling, general, and administrative expense were immaterial.

The following table presents the weighted average remaining lease term and weighted average discount rate for the Company's operating leases as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Weighted average remaining lease term	4.0 years	4.1 years
Weighted average discount rate	5.6 %	5.3 %

The following table presents supplemental cash flow information related to the Company's operating leases:

	Three months ended March 31,	
(in thousands)	2023	2022
Cash paid for amounts included in the measurement of operating lease liabilities	$ 4,259	$ 3,250
ROU assets obtained in exchange for operating lease liabilities	2,628	9

The future lease payments on the Company's operating lease liabilities as of March 31, 2023 were as follows:

(in thousands)		
2023-remainder of year	$	10,558
2024		13,001
2025		12,075
2026		7,368
2027		3,578
Thereafter		3,152
Total lease payments		49,732
Less: imputed interest		(5,674)
Total lease liabilities	$	44,058

10. Commitments and Contingencies

We are subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. Although the outcomes of such matters cannot be predicted with certainty, we believe that resolution of all such pending matters will not, either individually or in the aggregate, have a material adverse effect on the Company's business, operating results, cash flows, or financial condition.

On February 23, 2022, a purported class action lawsuit captioned Lozada v. TaskUs, Inc. et al., No. 22-cv-1479-JPC, was filed in the United States District Court for the Southern District of New York against the Company, our Chief Executive Officer, our President, and our Chief Financial Officer. The complaint alleges that the registration statement filed in connection with the Company's IPO and the Company's second and third quarter 2021 earnings calls contained materially false and misleading information in violation of the federal securities laws. On October 20, 2022, the Court entered an order appointing Humberto Lozada as lead plaintiff in the lawsuit. On December 16, 2022, lead plaintiff filed an amended complaint, alleging additional misstatements in certain of the Company's 2021 earnings releases filed on Form 8-K and at an investor conference, and asserting additional securities claims, including against members of TaskUs's board of directors as well as BDP FC Aggregator L.P. The complaint seeks unspecified damages and an award of costs and expenses, including reasonable attorneys' fees, as well as equitable relief. We believe that the lawsuit is without merit and intend to defend the lawsuit vigorously. On February 17, 2023, TaskUs filed a motion to dismiss, which is currently pending. We cannot predict at this point the length of time that this action will be ongoing or the liability, if any, which may arise therefrom.

The Company has received three lawsuits that present in large degree the same legal or factual issues, with allegations that are similar in nature. We believe that these three lawsuits are without merit and intend to defend each vigorously. We cannot predict at this point the length of time that these actions will be ongoing or the liability, if any, which may arise therefrom. As these actions are still in preliminary phases, any potential loss or impact on financial position or results of operations cannot yet be estimated:

On April 1, 2022, a purported class action lawsuit captioned Gregory Forsberg, Christopher Gunter, Samuel Kissinger, and Scott Sipprell vs. TaskUs, Inc. and Shopify, Inc., Shopify Holdings (USA), Inc., Shopify (USA) Inc., No. 1:22-cv-00436-UNA, was filed in the United States District Court for the District of Delaware. The complaint alleges the named defendants failed to exercise reasonable care in securing and safeguarding consumer information in connection with a 2020 data breach impacting Ledger SAS cryptocurrency hardware wallets, resulting in the unauthorized public release of approximately 272,000 pieces of detailed personally identifiable information, including Plaintiffs' and class members' full names, email addresses, postal addresses, and telephone numbers. The four named plaintiffs allege aggregate losses of approximately $140,000, and allege that the damages exceed $5 million for purposes of class action jurisdiction. On April 8, 2022, TaskUs filed a motion to dismiss, which is currently pending. This case is currently stayed.

On September 16, 2022, a purported class action lawsuit captioned My Choice Software, LLC vs. Shopify, Inc. Shopify (USA) Inc., TaskUs, Inc., Does 1-100, No. CGC-22-601842, was filed in the Superior Court of the State of California, County of San Francisco. The complaint alleges the named defendants secretly installed tracking cookies on consumers' devices to track individual consumer activity and gather private information and that the defendant Shopify allowed two of its support staff to steal customer data from more than 100 merchants. The complaint seeks unspecified damages and an award of costs and expenses, including reasonable attorneys' fees, as well as equitable relief. This complaint has not been served on TaskUs, Inc.

On September 16, 2022, a lawsuit captioned My Choice Software, LLC vs. TaskUs, Inc., Tassilo Heinrich, Shopify, Inc., Shopify Holdings (USA) Inc., Shopify (USA) Inc., Does 1-50, No. 22-cv-1710 was filed in the US District Court, Central District of California. The complaint alleges the defendants profited off of the plaintiff's information. The complaint seeks unspecified damages and an award of costs and expenses, including reasonable attorneys' fees, as well as equitable and injunctive relief. On February 13, 2023, TaskUs, Inc. filed a motion to dismiss the amended complaint, which is currently pending.

Indemnification

In addition, in the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify clients, vendors and other business partners with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, cybersecurity breach, services to be provided by us or from intellectual property infringement claims made by third parties. Historically, we have not experienced significant losses on these types of indemnification obligations.

11. Stock-Based Compensation

The following table summarizes the stock option and restricted stock unit ("RSU") activity for the three months ended March 31, 2023:

	Options		RSUs	
	Number of options	Weighted - average exercise price	Number of RSUs	Weighted - average grant date fair value
Outstanding at January 1, 2023	7,723,711	$ 12.98	3,895,224	$ 28.00
Granted	770,937	$ 18.11	1,379,119	$ 18.14
Exercised or released	(46,132)	$ 4.54	(200,405)	$ 26.00
Forfeited, cancelled or expired	(334,159)	$ 6.38	(128,503)	$ 27.42
Outstanding at March 31, 2023	8,114,357	$ 13.78	4,945,435	$ 25.34

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2023 was $8.85. There were 3,373,417 performance stock units ("PSUs") outstanding at January 1, 2023 and March 31, 2023.

The following table summarizes the components of stock-based compensation expense recognized for the periods presented:

	Three months ended March 31,	
(in thousands)	2023	2022
Cost of services	$ 877	$ 703
Selling, general, and administrative expense	12,587	18,902
Total	$ 13,464	$ 19,605

As of March 31, 2023, there was $15.7 million, $68.8 million and $4.5 million of unrecognized compensation expense related to the Company's unvested stock options, RSUs and PSUs, respectively, that is expected to be recognized over a weighted-average period of 1.2 years, 1.5 years and 1.5 years.

12. Income Taxes

In determining its interim provision for income taxes, the Company used an estimated annual effective tax rate, which is based on expected income before taxes, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the period in which they occur and can be a source of variability in the effective tax rate from quarter to quarter.

The Company recorded provision for income taxes of $6.0 million and $6.3 million in the three months ended March 31, 2023 and 2022, respectively. The effective tax rate was 38.6% and 35.3% for the three months ended March 31, 2023 and 2022, respectively. The difference between the effective tax rate and the 21% federal statutory rate in the three months ended March 31, 2023 was primarily due to nondeductible earn-out consideration, as well as Global Intangible Low-Taxed Income ("GILTI") inclusion, Base Erosion Anti-avoidance Tax ("BEAT") and nondeductible compensation of officers. The difference between the effective tax rate and the 21% federal statutory rate in the three months ended March 31, 2022 was primarily due to GILTI inclusion, BEAT, tax benefits of income tax holidays in foreign jurisdiction, and nondeductible compensation of officers.

13. Earnings Per Share

The Company has Class A common stock and Class B common stock outstanding. Because the only difference between the two classes of common stock are related to voting, transfer and conversion rights, the Company has not presented earnings per share under the two-class method, as earnings per share are the same for both Class A common stock and Class B common stock.

The following table summarizes the computation of basic and diluted earnings per share for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
(in thousands, except share and per share data)	**2023**	**2022**
Numerator:		
Net income available to common shareholders	$ 9,509	$ 11,586
Denominator:		
Weighted-average common shares outstanding – basic	97,561,650	97,481,412
Effect of dilutive securities	3,390,923	6,640,614
Weighted-average common shares outstanding – diluted	100,952,573	104,122,026
Net income per common share:		
Basic	$ 0.10	$ 0.12
Diluted	$ 0.09	$ 0.11

The Company excluded 3,778,307 and 1,152,816 potential common stock equivalents from the computation of diluted EPS for the three months ended March 31, 2023 and 2022, respectively, because the effect would have been anti-dilutive. There were 4,819,894 and 5,292,857 potential common stock equivalents outstanding as of March 31, 2023 and 2022, respectively, with market conditions which were not met at that date, that were excluded from the calculation of diluted EPS.

14. Subsequent Events

On May 8, 2023, the Company announced that the Board of Directors of the Company authorized a $100.0 million increase to the Company's share repurchase program, increasing the total authorization to $200.0 million. After giving effect to repurchases completed under the original share repurchase program and the approved $100.0 million increase, approximately $155.1 million remained available for share repurchases as of May 5, 2023.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report"), the financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2022 (the Annual Report"), as filed with the Securities and Exchange Commission (the "SEC") and the information included under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. In addition to historical data, the following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in our forward-looking statements as a result of various factors, including but not limited to those discussed under "Cautionary Note Regarding Forward-Looking Statements" in this Quarterly Report and under Part I, Item 1A, "Risk Factors" in the Annual Report.

This Quarterly Report includes certain historical consolidated financial and other data for TaskUs, Inc. ("we," "us," "our" or the "Company"). The following discussion provides a narrative of our results of operations and financial condition for the three months ended March 31, 2023 and 2022. India, which was previously included in Rest of World, is now reported separately within revenue disaggregation by geographical location. As a result, the comparison of service revenue by delivery geography for the three months ended March 31, 2022 has been recast for comparability.

Overview

We are a provider of outsourced digital services and next-generation customer experience to the world's most innovative companies, helping our clients represent, protect and grow their respective brands. We serve our clients to support their end customers' urgent needs, navigate an increasingly-complex compliance landscape, handle sensitive tasks, including online content moderation and enable artificial intelligence technology and automation.

Our global, omni-channel delivery model is focused on providing our clients three key services – Digital Customer Experience ("Digital CX"), Trust and Safety and Artificial Intelligence ("AI") Services. We have designed our platform to enable us to rapidly scale and benefit from our clients' growth. We believe our ability to deliver "ridiculously good" outsourcing will enable us to continue to grow our client base.

At TaskUs, culture is at the heart of everything we do. Many of the companies operating in the Digital Economy are well-known for their obsession with creating a world-class employee experience. We believe clients choose TaskUs in part because they view our company culture as aligned with their own, which enables us to act as a natural extension of their brands and gives us an advantage in the recruitment of highly engaged frontline teammates who produce better results.

Recent Financial Highlights

For the three months ended March 31, 2023, we recorded service revenue of $235.3 million, a 1.8% decrease from $239.7 million for the three months ended March 31, 2022.

Net income for the three months ended March 31, 2023 decreased to $9.5 million from $11.6 million for the three months ended March 31, 2022. This decrease is due primarily to rising interest rates and revenue declines associated with certain clients electing to shift work from the United States, partially offset by the impact of foreign currency exchange rate changes. Adjusted Net Income for the three months ended March 31, 2023 decreased 7.0% to $32.5 million from $35.0 million for the three months ended March 31, 2022. Adjusted EBITDA for the three months ended March 31, 2023 increased 2.0% to $55.2 million from $54.1 million for the three months ended March 31, 2022.

The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

2023 Developments

Macroeconomic Trends

Macroeconomic factors, including global economic and geopolitical developments, increased inflation rates, interest rate increases, and foreign currency exchange rate changes, have direct and indirect impacts on our results of operations that are difficult to isolate and quantify. Due to market uncertainty and potential recession or other economic challenges, many of our customers have increased their focus on cost reduction resulting in certain customers electing to shift work from our onshore locations to our offshore delivery locations or reduce vendor spend across the board. These factors contributed to a deceleration in our revenue growth rate and an increase in our operating costs. We expect some or all of these factors to continue to impact our operations in the near term; however, we believe that the increased cost focus also creates meaningful opportunities with both new and existing clients.

Cost management and financial flexibility

During three months ended March 31, 2023, we continued to focus on cost management and financial flexibility. We reviewed of our cost structure in order to drive efficiencies across functions. While we incurred certain costs associated with these changes, including severance in some cases, we believe these actions will have long-term benefits to the goal of enabling our future growth and profitability. We generated net cash flow from operating activities of $43.7 million and Free Cash Flow of $38.4 million, respectively.

Subsequent Events

For a description of subsequent events, see Note 14, "Subsequent Events" in the Notes to Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report.

Results of Operations

Comparison of the Three Months Ended March 31, 2023 and 2022

The following tables set forth certain historical consolidated financial information for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,		Period over Period Change	
(in thousands, except %)	**2023**	**2022**	**($)**	**(%)**
Service revenue	$ 235,306	$ 239,680	$ (4,374)	(1.8)%
Operating expenses:				
Cost of services	137,762	141,282	(3,520)	(2.5)%
Selling, general, and administrative expense	64,294	64,247	47	0.1 %
Depreciation	9,661	8,901	760	8.5 %
Amortization of intangible assets	5,124	4,711	413	8.8 %
Loss (gain) on disposal of assets	65	(15)	80	NM
Total operating expenses	216,906	219,126	(2,220)	(1.0)%
Operating income	18,400	20,554	(2,154)	(10.5)%
Other expense (income)	(2,177)	1,053	(3,230)	NM
Financing expenses	5,099	1,602	3,497	218.3 %
Income before income taxes	15,478	17,899	(2,421)	(13.5)%
Provision for income taxes	5,969	6,313	(344)	(5.4)%
Net income	$ 9,509	$ 11,586	$ (2,077)	(17.9)%

NM = not meaningful

Service revenue

Service revenue for the three months ended March 31, 2023 and 2022 was $235.3 million and $239.7 million, respectively. Service revenue for the three months ended March 31, 2023 decreased by $4.4 million, or 1.8%, when compared to the three months ended March 31, 2022.

Service revenue by service offering

The following table presents the breakdown of our service revenue by service offering for each period:

	Three months ended March 31,		Period over Period Change	
(in thousands, except %)	**2023**	**2022**	**($)**	**(%)**
Digital Customer Experience	$ 157,136	$ 159,731	$ (2,595)	(1.6)%
Trust and Safety	40,598	45,852	(5,254)	(11.5)%
AI Services	37,572	34,097	3,475	10.2 %
Service revenue	$ 235,306	$ 239,680	$ (4,374)	(1.8)%

The period over period declines in Trust and Safety and Digital Customer Experience contributed 2.2% and 1.0%, respectively, while growth in AI Services contributed 1.4% of the total decrease of 1.8% for the three months ended March 31, 2023.

The 11.5% decline in Trust and Safety was primarily driven by a decrease from existing clients in Social Media and FinTech, partially offset by an increase from existing clients in Entertainment + Gaming, On Demand Travel + Transportation and Retail + E-Commerce, as well as new clients in Social Media.

The 1.6% decline in Digital Customer Experience was primarily driven by a decrease from existing clients in FinTech, Social Media, HealthTech, Retail + E-Commerce and Professional Services + Industry. These decreases were mostly offset by an increase from new clients in On Demand Travel + Transportation, FinTech, Retail + E-Commerce, HealthTech and Technology, as well as new clients as a result of the acquisition of Parsec d.o.o. and Q Experience d.o.o. ("heloo"), and existing clients in Technology, Entertainment + Gaming and On Demand Travel + Transportation.

The 10.2% growth in AI Services was primarily driven by an increase from existing clients in On Demand Travel + Transportation, Social Media and Entertainment + Gaming, as well as new clients in Retail + E-Commerce, partially offset by a decrease from existing clients in Retail + E-Commerce and HealthTech.

Service revenue by delivery geography

We deliver our services from multiple locations around the world; however, the majority of our service revenues are derived from contracts that require payment in United States dollars, regardless of whether the clients are located in the United States.

The following table presents the breakdown of our service revenue by geographical location, based on where the services are provided, for each period:

	Three months ended March 31,		Period over Period Change	
(in thousands, except %)	**2023**	**2022**	**($)**	**(%)**
Philippines	$ 126,859	$ 120,080	$ 6,779	5.6 %
United States	46,662	79,131	(32,469)	(41.0)%
India	28,243	23,358	4,885	20.9 %
Rest of World	33,542	17,111	16,431	96.0 %
Service revenue	$ 235,306	$ 239,680	$ (4,374)	(1.8)%

Revenue generated from services provided from our delivery sites in the Philippines grew primarily from expansion in two of our service offerings, including the impact of certain clients electing to shift work from the United States. Trust and Safety contributed 6.3% of the total increase primarily driven by clients in Social Media. AI Services contributed 3.0% of the total increase primarily driven by clients in Social Media, On Demand Travel + Transportation, Retail + E-Commerce and Entertainment + Gaming. These increases were partially offset by a 3.7% decrease contributed by Digital Customer Experience primarily driven by clients in FinTech, On Demand Travel + Transportation, HealthTech and Professional Services + Industry, partially offset by clients in Technology.

Revenue generated from services provided from our delivery sites in the United States declined primarily from certain of our clients electing to shift work from the United States to the Philippines and India as well as decreased spending from clients in FinTech, particularly crypto and equity trading clients. Digital Customer Experience contributed 20.4% of the total decrease primarily driven by clients in FinTech and Social Media, partially offset by clients in On Demand Travel + Transportation. Trust and Safety contributed 18.9% of the total decrease primarily driven by clients in Social Media and FinTech. AI Services contributed 1.7% of the total decrease primarily driven by clients in Social Media and Retail + E-Commerce, partially offset by clients in On Demand Travel + Transportation and Entertainment + Gaming.

Revenue generated from services provided from our delivery sites in India grew primarily from expansion in all three of our service offerings, including the impact of certain clients electing to shift work from the United States. Digital Customer Experience contributed 9.8% of the total increase primarily driven by clients in On Demand Travel + Transportation and Retail + E-Commerce. Trust and Safety contributed 6.7% of the total increase primarily driven by clients in Social Media, On Demand Travel + Transportation and Retail + E-Commerce, partially offset by clients in FinTech. AI Services contributed 4.3% of the total increase primarily driven by clients in Social Media and On Demand Travel + Transportation, partially offset by clients in HealthTech.

Revenue generated from services provided from our delivery sites in the Rest of World grew primarily from expansion in all three of our service offerings. Digital Customer Experience contributed 92.0% of the total increase primarily driven by new clients as a result of the acquisition of heloo, clients in FinTech, On Demand Travel + Transportation and Entertainment +

Gaming, partially offset by clients in Social Media. Trust and Safety contributed 2.9% of the total increase primarily driven by clients in Entertainment + Gaming, mostly offset by clients in Social Media. AI Services contributed 1.1% of the total increase primarily driven by clients in Technology and On Demand Travel + Transportation. Growth in the Rest of World was led by Europe, with consistent growth from Latin America and Asia.

Operating expenses

Cost of services

Cost of services for the three months ended March 31, 2023 and 2022 was $137.8 million and $141.3 million, respectively. Cost of services for the three months ended March 31, 2023 decreased by $3.5 million, or 2.5%, when compared to the three months ended March 31, 2022. The decrease was primarily driven by lower personnel costs of $3.2 million, including the impact of certain clients electing to shift work from the United States to the Philippines and India. The remaining decrease included lower recruiting costs, mostly offset by costs associated with site expansions and certain teammates operating on-site.

Selling, general, and administrative expense

Selling, general, and administrative expense for the three months ended March 31, 2023 and 2022 was $64.3 million and $64.2 million, respectively. Selling, general, and administrative expense for the three months ended March 31, 2023 remained flat when compared to the three months ended March 31, 2022. Selling, general, and administrative expense was impacted by higher personnel costs of $1.5 million, due primarily to earn-out consideration associated with the acquisition of heloo recognized as compensation expense, as well as severance recognized as we drive efficiencies across functions, mostly offset by a reduction in stock-based compensation expense. The increase in personnel costs were mostly offset by lower recruiting and professional development costs.

Depreciation

Depreciation for the three months ended March 31, 2023 and 2022 was $9.7 million and $8.9 million, respectively. The increase in depreciation is a result of capital expenditures for leasehold improvements associated with site expansions.

Amortization of intangible assets

Amortization of intangible assets for the three months ended March 31, 2023 and 2022 was $5.1 million and $4.7 million, respectively. The increase in amortization is due to the acquisition of heloo on April 15, 2022.

Other expense (income)

Other expense (income) for the three months ended March 31, 2023 and 2022 was $(2.2) million and $1.1 million, respectively. Changes are driven by our exposure to foreign currency exchange risk resulting from our operations in foreign geographies, primarily the Philippines, offset by economic hedges using foreign currency exchange rate forward contracts. See Part I, Item 3., “Quantitative and Qualitative Disclosures About Market Risk” in this Quarterly Report for additional information on how foreign currency impacts our financial results.

Financing expenses

Financing expense for the three months ended March 31, 2023 and 2022 was $5.1 million and $1.6 million, respectively. Changes in financing expense are primarily driven by the rate of SOFR and LIBOR used to calculate the interest rate of our debt and additional borrowings during 2022.

Provision for income taxes

Provision for income taxes for the three months ended March 31, 2023 and 2022 was $6.0 million and $6.3 million, respectively. The effective tax rate for the three months ended March 31, 2023 and 2022 was 38.6% and 35.3%, respectively. Costs related to the issuance of stock-based compensation and costs related to the acquisition of heloo within the provision for income taxes calculation are adjusted for Non-GAAP purposes. If those costs are removed, the provision for income taxes would have been $8.0 million and $8.7 million and the effective tax rate would have been 21.6% and 23.1% for the three months ended March 31, 2023 and 2022, respectively.

Revenue by Top Clients

The table below sets forth the percentage of our total service revenue derived from our largest clients for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022
Top ten clients	58 %	61 %
Top twenty clients	71 %	75 %

Our clients are part of the rapidly growing Digital Economy and they rely on our suite of digital solutions to drive their continued success. For our existing clients, we benefit from our ability to grow as they grow and to cross sell new solutions, further deepening our entrenchment.

For the three months ended March 31, 2023 and 2022, we generated 20% and 24%, respectively, of our service revenue from our largest client, and we generated less than 10% and 10%, respectively, of our service revenue from our second largest client.

We continue to identify and target high growth industry verticals and clients. Our strategy is to acquire new clients and further grow with our existing ones in order to achieve meaningful client and revenue diversification over time.

Foreign Currency

As a global company, we face exposure to movements in foreign currency exchange rates. Fluctuations in foreign currencies impact the amount of total assets, liabilities, revenue, operating expenses and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into U.S. dollars. See Part I, Item 3., “Quantitative and Qualitative Disclosures About Market Risk” in this Quarterly Report for additional information on how foreign currency impacts our financial results.

Non-GAAP Financial Measures

We use Adjusted Net Income, Adjusted Earnings Per Share (“EPS”), EBITDA, Adjusted EBITDA, Free Cash Flow and Conversion of Adjusted EBITDA, as key measures to assess the performance of our business.

Each of the measures are not recognized under accounting principles generally accepted in the United States of America ("GAAP") and do not purport to be an alternative to net income or cash flow as a measure of our performance. Such measures have limitations as analytical tools, and you should not consider any of such measures in isolation or as substitutes for our results as reported under GAAP. Additionally, Adjusted Net Income, Adjusted EPS, EBITDA, and Adjusted EBITDA exclude items that can have a significant effect on our profit or loss and should, therefore, be used in conjunction with profit or loss for the period. Our management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, these measures may not be comparable to other similarly titled measures of other companies.

Adjusted Net Income

Adjusted Net Income is a non-GAAP profitability measure that represents net income or loss for the period before the impact of amortization of intangible assets and certain items that are considered to hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses. During the periods presented, we excluded from Adjusted Net Income amortization of intangible assets, transaction costs, earn-out consideration, the effect of foreign currency gains and losses, gains and losses on disposals of assets, stock-based compensation expense and employer payroll tax associated with equity-classified awards and the related effect on income taxes of certain pre-tax adjustments, which include costs that are required to be expensed in accordance with GAAP. Our management believes that the inclusion of supplementary adjustments to net income applied in presenting Adjusted Net Income are appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future.

The following table reconciles net income, the most directly comparable GAAP measure, to Adjusted Net Income for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,		Period over Period Change	
(in thousands, except %)	2023	2022	($)	(%)
Net income	$ 9,509	$ 11,586	$ (2,077)	(17.9)%
Amortization of intangible assets	5,124	4,711	413	8.8 %
Transaction costs[1]	245	192	53	27.6 %
Earn-out consideration[2]	6,648	—	6,648	100.0 %
Foreign currency losses (gains)[3]	(1,982)	1,153	(3,135)	NM
Loss (gain) on disposal of assets	65	(15)	80	NM
Severance costs[4]	1,218	—	1,218	100.0 %
Stock-based compensation expense[5]	13,672	19,688	(6,016)	(30.6)%
Tax impacts of adjustments[6]	(1,988)	(2,350)	362	(15.4)%
Adjusted Net Income	$ 32,511	$ 34,965	$ (2,454)	(7.0)%
Net Income Margin[7]	4.0 %	4.8 %		
Adjusted Net Income Margin[7]	13.8 %	14.6 %		

NM = not meaningful

(1) Represents professional service fees related to the acquisition of heloo in 2022 and other non-recurring transactions.

(2) Represents earn-out consideration recognized as compensation expense related to the acquisition of heloo.

(3) Realized and unrealized foreign currency losses (gains) include the effect of fair market value changes of forward contracts and remeasurement of U.S. dollar-denominated accounts to foreign currency.

(4) Represents severance payments as a result of certain cost optimization measures we undertook during the period to restructure support roles.

(5) Represents stock-based compensation expense associated with equity-classified awards, as well as associated payroll tax.

(6) Represents tax impacts of adjustments to net income which resulted in a tax benefit during the period, including stock-based compensation expense and earn-out consideration.

(7) Net Income Margin represents net income divided by service revenue and Adjusted Net Income Margin represents Adjusted Net Income divided by service revenue.

Adjusted EPS

Adjusted EPS is a non-GAAP profitability measure that represents earnings available to shareholders excluding the impact of certain items that are considered to hinder comparison of the performance of our business on a period-over-period basis or with other businesses. Adjusted EPS is calculated as Adjusted Net Income divided by our diluted weighted-average number of shares outstanding, including the impact of any potentially dilutive common stock equivalents that are anti-dilutive to GAAP net income per share – diluted (“GAAP diluted EPS”) but dilutive to Adjusted EPS. Our management believes that the inclusion of supplementary adjustments to earnings per share applied in presenting Adjusted EPS are appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future.

The following table reconciles GAAP diluted EPS, the most directly comparable GAAP measure, to Adjusted EPS for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022
GAAP diluted EPS	$ 0.09	$ 0.11
Per share adjustments to net income[1]	0.23	0.23
Adjusted EPS	$ 0.32	$ 0.34
Weighted-average common shares outstanding – diluted	100,952,573	104,122,026

(1) Reflects the aggregate adjustments made to reconcile net income to Adjusted Net Income, as noted in the above table, divided by the GAAP diluted weighted-average number of shares outstanding for the relevant period.

EBITDA and Adjusted EBITDA

EBITDA is a non-GAAP profitability measure that represents net income or loss for the period before the impact of the benefit from or provision for income taxes, financing expenses, depreciation, and amortization of intangible assets. EBITDA eliminates potential differences in performance caused by variations in capital structures (affecting financing expenses), tax positions (such as the availability of net operating losses against which to relieve taxable profits), the cost and age of tangible assets (affecting relative depreciation expense) and the extent to which intangible assets are identifiable (affecting relative amortization expense).

Adjusted EBITDA is a non-GAAP profitability measure that represents EBITDA before certain items that are considered to hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses. During the periods presented, we excluded from Adjusted EBITDA transaction costs, earn-out consideration, the effect of foreign currency gains and losses, gains and losses on disposals of assets, and stock-based compensation expense and employer payroll tax associated with equity-classified awards, which include costs that are required to be expensed in accordance with GAAP. Our management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future.

The following table reconciles net income, the most directly comparable GAAP measure, to EBITDA and Adjusted EBITDA for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,		Period over Period Change	
(in thousands, except %)	2023	2022	($)	(%)
Net income	$ 9,509	$ 11,586	$ (2,077)	(17.9)%
Provision for income taxes	5,969	6,313	(344)	(5.4)%
Financing expenses	5,099	1,602	3,497	218.3 %
Depreciation	9,661	8,901	760	8.5 %
Amortization of intangible assets	5,124	4,711	413	8.8 %
EBITDA	$ 35,362	$ 33,113	$ 2,249	6.8 %
Transaction costs(1)	245	192	53	27.6 %
Earn-out consideration(2)	6,648	—	6,648	100.0 %
Foreign currency losses (gains)(3)	(1,982)	1,153	(3,135)	NM
Loss (gain) on disposal of assets	65	(15)	80	NM
Severance costs(4)	1,218	—	1,218	100.0 %
Stock-based compensation expense(5)	13,672	19,688	(6,016)	(30.6)%
Adjusted EBITDA	$ 55,228	$ 54,131	$ 1,097	2.0 %
Net Income Margin(6)	4.0 %	4.8 %		
Adjusted EBITDA Margin(6)	23.5 %	22.6 %		

NM = not meaningful

(1) Represents professional service fees related to the acquisition of heloo in 2022 and other non-recurring transactions.

(2) Represents earn-out consideration recognized as compensation expense related to the acquisition of heloo.

(3) Realized and unrealized foreign currency losses (gains) include the effect of fair market value changes of forward contracts and remeasurement of U.S. dollar-denominated accounts to foreign currency.

(4) Represents severance payments as a result of certain cost optimization measures we undertook during the period to restructure support roles.

(5) Represents stock-based compensation expense associated with equity-classified awards, as well as associated payroll tax.

(6) Net Income Margin represents net income divided by service revenue and Adjusted EBITDA Margin represents Adjusted EBITDA divided by service revenue.

Free Cash Flow

Free Cash Flow is a non-GAAP liquidity measure that represents our ability to generate additional cash from our business operations. Free Cash Flow is calculated as net cash provided by operating activities in the period minus cash used for purchase of property and equipment in the period. Our management believes that the inclusion of this non-GAAP measure, when considered with our GAAP results, provides management and investors with an additional understanding of our ability to generate additional cash for ongoing business operations and other capital deployment.

The following table reconciles net income, the most directly comparable GAAP measure, to Free Cash Flow for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022
Net cash provided by operating activities	$ 43,683	$ 36,890
Purchase of property and equipment	(5,244)	(17,770)
Free Cash Flow	$ 38,439	$ 19,120
Conversion of Adjusted EBITDA(1)	69.6 %	35.3 %

(1) Conversion of Adjusted EBITDA represents Free Cash Flow divided by Adjusted EBITDA.

Liquidity and Capital Resources

As of March 31, 2023, our principal sources of liquidity were cash and cash equivalents totaling $167.0 million, which were held for working capital purposes, as well as the borrowing availability under the 2022 Revolving Credit Facility of $190.0 million.

As of March 31, 2023, our total indebtedness, net of debt financing fees was $267.0 million. The interest rate in effect for the 2022 Term Loan Facility as of March 31, 2023 was 6.993% per annum. We were in compliance with all debt covenants as of March 31, 2023. See Note 8, "Long-Term Debt" in the Notes to Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report for additional information regarding our debt.

During the three months ended March 31, 2023, we repurchased 389,801 shares of our Class A common stock under the share repurchase program for $6.4 million, which we funded principally with available cash. As of March 31, 2023, approximately $62.7 million remained available for share repurchases under our share repurchase program.

Historically, we have financed our operations and made investments in supporting the growth of our business primarily through cash provided by operations. We expect to continue to make similar investments in the future. We believe our existing cash and cash equivalents and our 2022 Credit Facilities will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months.

Cash Flows

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

	Three months ended March 31,	
(in thousands)	2023	2022
Net cash provided by operating activities	$ 43,683	$ 36,890
Net cash used in investing activities	(6,244)	(17,770)
Net cash used in financing activities	(7,097)	(4,094)

Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2023 was $43.7 million compared to net cash provided by operating activities of $36.9 million for the three months ended March 31, 2022. Net cash provided by operating activities for the three months ended March 31, 2023 reflects net income of $9.5 million, as well as the add back for non-cash charges totaling $22.0 million and changes in operating assets and liabilities of $12.1 million. Non-cash charges primarily consisted of $13.5 million in stock-based compensation expense, $9.7 million of depreciation and $5.1 million of amortization related to intangibles, partially offset by $6.3 million of unrealized foreign exchange gains on forward contracts. Net cash provided by operating activities for the three months ended March 31, 2022 reflects the net income of $11.6 million, as well as the add back for non-cash charges totaling $34.6 million, primarily driven by $19.6 million in stock-based compensation expense, $8.9 million of depreciation and $4.7 million of amortization related to intangibles. These changes were partially offset by changes in operating assets and liabilities of $9.3 million.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2023 was $6.2 million compared to net cash used in investing activities of $17.8 million for the three months ended March 31, 2022. Net cash used in investing activities primarily consisted of investments in technology and computers and build-out costs associated with site expansions.

Financing Activities

Net cash used by financing activities for the three months ended March 31, 2023 was $7.1 million compared to net cash used in financing activities of $4.1 million for the three months ended March 31, 2022. Net cash used by financing activities for the three months ended March 31, 2023 consisted primarily of payments to acquire shares under our share repurchase program, payments on long-term debt and payments for taxes related to net share settlement of equity awards, partially offset by proceeds from employee stock plans. Net cash used in financing activities for the three months ended March 31, 2022 consisted of payments on long-term debt and payments for taxes related to net share settlement of equity awards.

Critical Accounting Estimates

There have been no material changes to our critical accounting estimates as reported in our Annual Report.

Recent Accounting Pronouncements

For additional information regarding recent accounting pronouncements adopted and under evaluation, refer to Note 2, "Summary of Significant Accounting Policies" in the Notes to Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our activities expose us to a variety of financial risks: market risk (includes foreign currency), interest rate risk and credit risk.

Foreign Currency Risk

Our exposure to market risk arises principally from exchange rate risk. Although substantially all of our revenues are denominated in U.S. dollars, a substantial portion of our expenses were incurred and paid in the Philippine peso and Indian rupee in the three months ended March 31, 2023 and 2022. We also incur expenses in U.S. dollars, and currencies of the other countries in which we have operations. The exchange rates among the Philippine peso, Indian rupee and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future.

The average exchange rate of the Philippine peso against the U.S. dollar increased from 51.56 pesos during the three months ended March 31, 2022 to 54.83 pesos during the three months ended March 31, 2023, representing a depreciation of the Philippine peso of 6.3%. Based upon our level of operations during the three months ended March 31, 2023, and excluding any forward contract arrangements that we had in place during that period, a 10% appreciation/depreciation in the Philippine peso against the U.S. dollar would have increased or decreased our expenses incurred and paid in the Philippine peso by approximately $9.6 million or $7.8 million, respectively, in the three months ended March 31, 2023.

The average exchange rate of the Indian rupee against the U.S. dollar increased from 75.17 rupees during the three months ended March 31, 2022 to 82.22 rupees during the three months ended March 31, 2023, representing a depreciation of the Indian rupee of 9.4%. Based upon our level of operations during the three months ended March 31, 2023, a 10% appreciation/depreciation in the Indian rupee against the U.S. dollar would have increased or decreased our expenses incurred and paid in the Indian rupee by approximately $2.2 million or $1.8 million, respectively, in the three months ended March 31, 2023.

In order to mitigate our exposure to foreign currency fluctuation risks and minimize the earnings and cash flow volatility associated with forecasted transactions denominated in certain foreign currencies, and economically hedge our intercompany balances and other monetary assets and liabilities denominated in currencies other than functional currencies, we enter into foreign currency forward contracts. These derivatives have not been designated as hedges under ASC Topic 815, *Derivatives and Hedging* (“ASC 815”). Changes in the fair value of these derivatives are recognized in the consolidated statements of operations and are included in other expense (income).

For the three months ended March 31, 2023 and 2022, the realized losses of $1.6 million and $1.4 million, respectively, resulting from the settlement of forward contracts were included within other expense (income).

For the three months ended March 31, 2023 and 2022, we had outstanding forward contracts. The forward contract receivable (payable) resulting from changes in fair value was recorded under prepaid expenses and other current assets (accounts payable and accrued liabilities). For the three months ended March 31, 2023 and 2022, the unrealized losses (gains) on the forward contracts of $(6.3) million and $0.8 million, respectively, were included within other expense (income).

These contracts must be settled on the day of maturity or may be canceled subject to the receipts or payments of any gains or losses, respectively, equal to the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We do not enter into foreign currency forward contracts for speculative or trading purposes. These derivative instruments do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on the settlement of these derivatives are intended to offset revaluation losses and gains on the assets and liabilities being hedged.

Interest Rate Risk

Our exposure to market risk is influenced by the changes in interest rates paid on any outstanding balance on our borrowings, mainly under our 2022 Credit Facilities. All of our borrowings outstanding under the 2022 Credit Facilities as of March 31, 2023 accrue interest at SOFR plus 2.25%. Our total principal balance outstanding as of March 31, 2023 was $268.7 million. Based on the outstanding balances and interest rates under the 2022 Credit Facilities as of March 31, 2023, a hypothetical 10% increase or decrease in SOFR would cause an increase or decrease in interest expense of approximately $1.3 million over the next 12 months.

Credit Risk

As of March 31, 2023, we had accounts receivable, net of allowance for doubtful accounts, of $170.7 million, of which $47.3 million was owed by two of our clients. Collectively, these clients represented approximately 27% of our gross accounts receivable as of March 31, 2023.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports 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 our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2023. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2023, the design and operation of the our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information required with respect to this item can be found under Note 10, "Commitments and Contingencies" in the Notes to Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report and is incorporated by reference into this Item 1.

Item 1A. Risk Factors

We are subject to various risks that could have a material adverse impact on our financial position, results of operations or cash flows. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed under "Risk Factors" in the Annual Report. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our financial position, results of operations or cash flows. There have been no material changes to the risk factors included in the Annual Report. You should carefully consider the risk factors set forth in the Annual Report and the other information set forth elsewhere in this Quarterly Report.

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

Purchases of Equity Securities by the Issuer

During the three months ended March 31, 2023, our purchases of Class A common stock were as follows:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
January 1, 2023 through January 31, 2023	106,148	$ 17.32	106,148	$ 67,195
February 1, 2023 through February 28, 2023	48,300	19.01	48,300	66,276
March 1, 2023 through March 31, 2023	235,353	15.37	235,353	$ 62,659
Total	389,801		389,801	

(1) On September 7, 2022, our board of directors authorized the commencement of a share repurchase program, which authorizes us to purchase up to $100.0 million of shares of our common stock from time to time through open market purchases, in privately negotiated transactions or by other means, including through the use of trading plans intended to qualify un 10b5-1 under the Exchange Act. Open market repurchases are expected to be structured to occur within the pricing volume requirements of Rule 10b-18. The timing and total amount repurchases will depend upon, business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, restrictions under the terms of our loan agreen other relevant considerations. The repurchase program terminates on December 31, 2024, and may be modified, suspended or discontinued at any time at our discretion. The program obligate the Company to acquire any amount of Class A common stock.

(2) Average price paid per share includes costs associated with the repurchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Section 13(r) Disclosure

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, we hereby incorporate by reference herein Exhibit 99.1 of this report, which includes disclosures regarding activities at Mundys S.p.A. (formerly, Atlantia S.p.A.), which may be, or may have been at the time considered to be, an affiliate of Blackstone and, therefore, our affiliate.

Item 6. Exhibits

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of TaskUs, Inc., dated as of June 10, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 15, 2021).
3.2	Third Amended and Restated Bylaws of TaskUs, Inc., dated as of March 2, 2023 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 7, 2023).
10.1†	Pay Change Memo, dated February 28, 2023, for Bryce Maddock (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K filed on March 6, 2023).
10.2†	Pay Change Memo, dated February 28, 2023, for Jaspar Weir (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K filed on March 6, 2023).
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), 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.
99.1*	Section 13(r) Disclosure.
101.INS	XBRL Instance Document– the instance document does not appear in the interactive data file because its 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.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith.
† Management contract or compensatory plan or arrangement.

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

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.

TASKUS, INC.
(Registrant)

Date:	May 9, 2023	By:	/s/ Balaji Sekar
			Balaji Sekar Chief Financial Officer (Principal Financial Officer) (Authorized Signatory)
Date:	May 9, 2023	By:	/s/ Steven Amaya
			Steven Amaya Senior Vice President—Finance (Principal Accounting Officer)

Exhibit 31.1

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

I, Bryce Maddock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of TaskUs, Inc.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

/s/ Bryce Maddock
Bryce Maddock
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Balaji Sekar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of TaskUs, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

/s/ Balaji Sekar
Balaji Sekar
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 TaskUs, Inc. (the "Company") for the quarter ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryce Maddock, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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.

/s/ Bryce Maddock
Bryce Maddock
Chief Executive Officer
(Principal Executive Officer)

May 9, 2023

Exhibit 32.2

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 TaskUs, Inc. (the "Company") for the quarter ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Balaji Sekar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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.

/s/ Balaji Sekar
Balaji Sekar
Chief Financial Officer
(Principal Financial Officer)

May 9, 2023

Section 13(r) Disclosure

The disclosure reproduced below was initially included in the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission by Blackstone Inc. (“Blackstone”) with respect to its fiscal quarter ended March 31, 2023, in accordance with Section 13(r) of the Securities Exchange Act of 1934, as amended, in regard to Mundys S.p.A. (formerly, Atlantia S.PA.). Mundys S.p.A. may be, or may have been at the time considered to be, an affiliate of Blackstone, and therefore an affiliate of TaskUs, Inc. (“TaskUs”). TaskUs did not independently verify or participate in the preparation of the disclosure reproduced below.

Blackstone included the following disclosure in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2023:

Mundys S.p.A. (formerly “Atlantia S.p.A.”) provided the disclosure reproduced below in connection with activities during the quarter ended March 31, 2023. We have not independently verified or participated in the preparation of this disclosure.

> “Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934. Funds affiliated with Blackstone first invested in Mundys S.p.A. (formerly “Atlantia S.p.A.”) on November 18, 2022 in connection with the voluntary public tender offer by Schema Alfa S.p.A. for all of the shares of Mundys S.p.A., pursuant to which such funds obtained a minority non-controlling interest in Mundys S.p.A. Mundys S.p.A. owns and controls Aeroporti di Roma S.p.A. (“ADR”), an operator of airports in Italy including Leonardo da Vinci-Fiumicino Airport. Iran Air has historically operated periodic flights to and from Leonardo da Vinci-Fiumicino Airport as authorized, from time to time, by an aviation-related bilateral agreement between Italy and Iran, scheduled in compliance with European Regulation 95/93, and approved by the Italian Civil Aviation Authority. ADR, as airport operator, is under a mandatory obligation to provide airport services to all air carriers (including Iran Air) authorized by the applicable Italian authority. The relevant turnover attributable to these activities (whose consideration is calculated on the basis of general tariffs determined by such independent Italian authority) in the quarter ended March 31, 2023 was less than €35,000. Mundys S.p.A. does not track profits specifically attributable to these activities.”