

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022
OR

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

For transition period from _____ to _____
Commission File Number 001-40812



THOUGHTWORKS HOLDING, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

82-2668392

(I.R.S. Employer
Identification Number)

200 East Randolph Street, 25th Floor
Chicago, Illinois 60601
(312) 373-1000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	TWKS	Nasdaq Global Select Market

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of November 10, 2022, there were 314,838,787 shares of the registrant's common stock outstanding.

THOUGHTWORKS HOLDING, INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

	Page
Forward-Looking Statements	<u>3</u>
Part I. Financial Information	
Item 1	
Condensed Consolidated Financial Statements (Unaudited)	<u>5</u>
Condensed Consolidated Balance Sheets as of September 30, 2022 (Unaudited) and December 31, 2021	<u>5</u>
Condensed Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income for the three and nine months ended September 30, 2022 and 2021 (Unaudited)	<u>6</u>
Condensed Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders' Equity for the three and nine months ended September 30, 2022 and 2021 (Unaudited)	<u>7</u>
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021 (Unaudited)	<u>9</u>
Notes to the Condensed Consolidated Financial Statements (Unaudited)	<u>11</u>
Item 2	
Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>25</u>
Item 3	
Quantitative and Qualitative Disclosure About Market Risk	<u>42</u>
Item 4	
Controls and Procedures	<u>42</u>
Part II. Other Information	
Item 1	
Legal Proceedings	<u>44</u>
Item 1A	
Risk Factors	<u>44</u>
Item 2	
Unregistered Sales of Equity Securities and Use of Proceeds	<u>44</u>
Item 3	
Defaults Upon Senior Securities	<u>44</u>
Item 4	
Mine Safety Disclosures	<u>44</u>
Item 5	
Other Information	<u>44</u>
Item 6	
Exhibits	<u>45</u>
Signatures	<u>46</u>

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q (the “Quarterly Report”) contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, as amended. Forward-looking statements include statements that are not historical facts and can be identified by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “strive,” “will,” “would” or similar expressions and the negatives of those terms but the absence of these words does not mean that the statement is not forward-looking. The forward-looking statements are contained principally in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements may include information concerning our possible or assumed future results of operations, client demand, business strategies, technology developments, financing and investment plans, competitive position, our industry, macroeconomic and regulatory environment, potential growth opportunities and the effects of competition.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this Quarterly Report. You should read this Quarterly Report and the documents that we have filed as exhibits hereto, completely and with the understanding that our actual future results may be materially different from what we expect.

Important factors that could cause actual results to differ materially from our expectations include:

- we may be unable to implement our growth strategy;
- our ability to generate and retain business depends on our reputation in the marketplace;
- we must successfully attract, hire, train and retain skilled professionals to service our clients’ projects and we must productively deploy our professionals to remain profitable;
- increases in wages, equity compensation and other compensation expenses could prevent us from sustaining our competitive advantage and increase our costs;
- our business and operations may be harmed if we cannot positively evolve and preserve our Thoughtworks culture;
- our global business exposes us to operational, geopolitical, regulatory, legal and economic risks;
- our business, financial condition and results of operations may be adversely affected by fluctuations in foreign currency exchange rates or changes in our effective tax rates;
- if we fail to adequately innovate, adapt and/or remain at the forefront of emerging technologies and related client demands, we could be materially adversely affected;
- we may not be successful at attracting new clients or retaining and expanding our relationships with our existing clients;
- we face intense competition and operate in a rapidly evolving industry, which makes it difficult to evaluate our future prospects;
- we generally do not have long-term commitments or contracts with our clients;
- we face risks associated with having a long selling and implementation cycle for our services;
- our profitability could suffer if we cannot accurately price our solutions and services, maintain favorable pricing for our solutions and services, are unable to collect on receivables from clients or fail to meet our contractual and other obligations to clients;
- the COVID-19 pandemic has impacted our business and operations, and future business and operational challenges posed by the COVID-19 pandemic could materially adversely affect us;
- we face risks associated with security breaches as well as privacy and data protection regulations, and we may incur significant liabilities if we fail to manage those risks;
- we may not be able to prevent unauthorized use of our intellectual property, and our intellectual property rights may not be adequate to protect our business and competitive position;
- investment funds advised by Apax Partners L.L.P. control us, and such control may give rise to actual or perceived conflicts of interests;
- our status as a “controlled company” will grant us exemptions from certain corporate governance requirements, and our status as an “emerging growth company” will allow us to comply with reduced public company reporting requirements; and

other factors disclosed in the section entitled "Risk Factors" in the Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the Securities and Exchange Commission (the "SEC") on March 8, 2022 (the "2021 Annual Report").

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, include, but are not limited to, those disclosed under the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report and in our 2021 Annual Report. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other Securities and Exchange Commission ("SEC") filings and public communications. You should evaluate all forward-looking statements made in this Quarterly Report in the context of these risks and uncertainties.

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

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

THOUGHTWORKS HOLDING, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands, except share data and per share data)

	September 30, 2022	December 31, 2021
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 184,544	\$ 368,209
Trade receivables, net of allowance of \$11,734 and \$8,916, respectively	145,686	145,874
Unbilled receivables	172,766	104,057
Prepaid expenses and other current assets	33,438	60,799
Total current assets	536,434	678,939
Property and equipment, net	37,656	34,500
Right-of-use assets	38,168	—
Intangibles and other assets:		
Goodwill	394,398	346,719
Trademark	273,000	273,000
Customer relationships, net	123,962	125,867
Other non-current assets	30,401	25,125
Total assets	\$ 1,434,019	\$ 1,484,150
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,799	\$ 4,773
Long-term debt - current	7,150	7,150
Income taxes payable	31,408	15,693
Accrued compensation	113,120	87,059
Deferred revenue	2,352	13,807
Value-added tax and sales tax payable	1,826	7,954
Accrued expenses	27,500	44,094
Lease liabilities, current	15,076	—
Total current liabilities	203,231	180,530
Lease liabilities, non-current	25,888	—
Long-term debt, less current portion	393,492	497,380
Deferred tax liabilities	61,424	78,944
Other long-term liabilities	20,326	18,805
Total liabilities	704,361	775,659
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 100,000,000 shares authorized, zero issued and outstanding at September 30, 2022 and December 31, 2021, respectively	—	—
Common stock, \$0.001 par value; 1,000,000,000 shares authorized, 365,376,105 and 356,117,752 issued, 314,733,382 and 305,132,181 outstanding at September 30, 2022 and December 31, 2021, respectively	365	356
Treasury stock, 50,642,723 and 50,985,571 shares at September 30, 2022 and December 31, 2021, respectively	(625,155)	(629,424)
Additional paid-in capital	1,572,038	1,390,630
Accumulated other comprehensive loss	(53,254)	(10,863)
Retained deficit	(164,336)	(42,208)
Total stockholders' equity	729,658	708,491
Total liabilities and stockholders' equity	\$ 1,434,019	\$ 1,484,150

The accompanying notes form an integral part of the condensed consolidated financial statements.

THOUGHTWORKS HOLDING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME (unaudited)
(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 332,447	\$ 285,051	\$ 985,494	\$ 783,145
Operating expenses:				
Cost of revenues	236,007	183,945	739,097	471,047
Selling, general and administrative expenses	89,559	113,019	297,587	248,366
Depreciation and amortization	5,303	4,173	15,364	13,007
Total operating expenses	330,869	301,137	1,052,048	732,420
Income (loss) from operations	1,578	(16,086)	(66,554)	50,725
Other (expense) income:				
Interest expense	(5,871)	(6,734)	(15,502)	(20,316)
Net realized and unrealized foreign currency loss	(13,127)	(1,934)	(21,614)	(3,608)
Other income (expense), net	2,056	162	1,731	306
Total other (expense) income	(16,942)	(8,506)	(35,385)	(23,618)
(Loss) income before income taxes	(15,364)	(24,592)	(101,939)	27,107
Income tax expense	16,027	643	19,348	15,605
Net (loss) income	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ 11,502
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(18,110)	(7,109)	(42,391)	(9,002)
Comprehensive (loss) income	\$ (49,501)	\$ (32,344)	\$ (163,678)	\$ 2,500
Net loss per common share:				
Basic loss per common share	\$ (0.10)	\$ (0.10)	\$ (0.39)	\$ (0.20)
Diluted loss per common share	\$ (0.10)	\$ (0.10)	\$ (0.39)	\$ (0.20)
Weighted average shares outstanding:				
Basic	311,621,233	241,351,052	309,481,860	237,121,811
Diluted	311,621,233	241,351,052	309,481,860	237,121,811

The accompanying notes form an integral part of the condensed consolidated financial statements.

THOUGHTWORKS HOLDING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND
STOCKHOLDERS' EQUITY (unaudited)
(In thousands, except share data)

	Redeemable, Convertible Preferred Stock		Common Stock		Treasury		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2020	23,493,546	\$ 322,800	278,322,716	\$ 279	572,711	\$ (1,608)	\$ 381,172	\$ (1,589)	\$ 106,458	\$ 484,712
Net income	—	—	—	—	—	—	—	—	18,585	18,585
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(3,968)	—	(3,968)
Issuance of common stock on exercise of options	—	—	27,184	—	—	—	62	—	—	62
Issuance of common stock	—	—	133,313	—	—	—	1,873	—	—	1,873
Issuance of Series A redeemable convertible preferred stock, net of issuance costs of \$9.0 million	27,765,084	380,994	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	(104)	—	—	(104)
Tender offer	—	—	(50,412,860)	—	50,412,860	(627,816)	(10,391)	—	(79,222)	(717,429)
Stock-based compensation expense	—	—	—	—	—	—	1,874	—	—	1,874
Balance as of March 31, 2021	51,258,630	\$ 703,794	228,070,353	\$ 279	50,985,571	\$ (629,424)	\$ 374,486	\$ (5,557)	\$ 45,821	\$ (214,395)
Net income	—	—	—	—	—	—	—	—	18,152	18,152
Other comprehensive income, net of tax	—	—	—	—	—	—	—	2,075	—	2,075
Issuance of common stock on exercise of options	—	—	10,297	—	—	—	24	—	—	24
Issuance of Series B Redeemable Convertible Preferred Stock, net of issuance costs of \$2.8 million	8,231,328	122,228	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	(279,191)	—	(45,821)	(325,012)
Other	—	—	—	—	—	—	104	—	—	104
Stock-based compensation expense	—	—	—	—	—	—	8,362	—	—	8,362
Balance as of June 30, 2021	59,489,958	\$ 826,022	228,080,650	\$ 279	50,985,571	\$ (629,424)	\$ 103,785	\$ (3,482)	\$ 18,152	\$ (510,690)
Net loss	—	—	—	—	—	—	—	—	(25,235)	(25,235)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(7,109)	—	(7,109)
Issuance of common stock upon initial public offering, net of issuance costs of \$30.3 million	—	—	16,429,964	16	—	—	314,700	—	—	314,716
Conversion of redeemable convertible preferred stock to common stock	(59,489,958)	(826,022)	59,489,958	60	—	—	825,962	—	—	826,022
Issuance of common stock on exercise of options, net of withholding taxes	—	—	1,116,471	1	—	—	(972)	—	—	(971)
Stock-based compensation expense	—	—	—	—	—	—	72,600	—	—	72,600
Balance as of September 30, 2021	—	\$ —	305,117,043	\$ 356	50,985,571	\$ (629,424)	\$ 1,316,075	\$ (10,591)	\$ (7,083)	\$ 669,333

	Redeemable, Convertible Preferred Stock		Common Stock		Treasury		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2021	—	\$ —	305,132,181	\$ 356	50,985,571	\$ (629,424)	\$ 1,390,630	\$ (10,863)	\$ (42,208)	\$ 708,491
Net loss	—	—	—	—	—	—	—	—	(59,904)	(59,904)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(5,679)	—	(5,679)
Issuance of common stock for equity incentive awards, net of withholding taxes	—	—	4,736,820	5	—	—	(28,047)	—	—	(28,042)
Reissuance of treasury shares for equity incentive awards	—	—	155,806	—	(155,806)	1,940	(1,796)	—	—	144
Stock-based compensation expense	—	—	—	—	—	—	120,737	—	—	120,737
Cumulative effect related to adoption of ASU 2016-13	—	—	—	—	—	—	—	—	(841)	(841)
Balance as of March 31, 2022	—	\$ —	310,024,807	\$ 361	50,829,765	\$ (627,484)	\$ 1,481,524	\$ (16,542)	\$ (102,953)	\$ 734,906
Net loss	—	—	—	—	—	—	—	—	(29,992)	(29,992)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(18,602)	—	(18,602)
Issuance of common stock for equity incentive awards, net of withholding taxes	—	—	888,186	1	—	—	2,442	—	—	2,443
Reissuance of treasury shares for equity incentive awards	—	—	51,311	—	(51,311)	639	(496)	—	—	143
Stock-based compensation expense	—	—	—	—	—	—	54,948	—	—	54,948
Balance as of June 30, 2022	—	\$ —	310,964,304	\$ 362	50,778,454	\$ (626,845)	\$ 1,538,418	\$ (35,144)	\$ (132,945)	\$ 743,846
Net loss	—	—	—	—	—	—	—	—	(31,391)	(31,391)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(18,110)	—	(18,110)
Issuance of common stock for equity incentive awards, net of withholding taxes	—	—	3,633,347	3	—	—	(13,635)	—	—	(13,632)
Reissuance of treasury shares for equity incentive awards	—	—	135,731	—	(135,731)	1,690	(1,541)	—	—	149
Stock-based compensation expense	—	—	—	—	—	—	48,796	—	—	48,796
Balance as of September 30, 2022	—	\$ —	314,733,382	\$ 365	50,642,723	\$ (625,155)	\$ 1,572,038	\$ (53,254)	\$ (164,336)	\$ 729,658

The accompanying notes form an integral part of the condensed consolidated financial statements.

THOUGHTWORKS HOLDING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net (loss) income	\$ (121,287)	\$ 11,502
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	25,561	21,702
Bad debt expense (recovery)	2,447	(611)
Deferred income tax benefit	(24,087)	(12,209)
Stock-based compensation expense	224,481	82,836
Unrealized foreign currency exchange losses	24,953	3,912
Non-cash lease expense on right-of-use assets	13,807	—
Other operating activities, net	(546)	1,360
Changes in operating assets and liabilities:		
Trade receivables	(10,803)	(3,960)
Unbilled receivables	(78,445)	(39,670)
Prepaid expenses and other assets	(4,856)	(29,147)
Lease liabilities	(11,842)	—
Accounts payable	(177)	1,602
Accrued expenses and other liabilities	17,135	58,182
Net cash provided by operating activities	56,341	95,499
Cash flows from investing activities:		
Purchase of property and equipment	(19,672)	(21,504)
Proceeds from disposal of fixed assets	437	375
Acquisitions, net of cash acquired	(70,011)	(44,759)
Net cash used in investing activities	(89,246)	(65,888)
Cash flows from financing activities:		
Proceeds from initial public offering, net of issuance costs and underwriting discounts	—	314,716
Proceeds from issuance of Series A redeemable convertible preferred stock, net of issuance costs	—	380,994
Proceeds from issuance of Series B redeemable convertible preferred stock, net of issuance costs	—	122,228
Proceeds from issuance of common stock	—	1,873
Payments of obligations of long-term debt	(105,363)	(234,921)
Payments of debt issuance costs	—	(7,098)
Proceeds from borrowings on long-term debt	—	401,285
Proceeds from issuance of common stock on exercise of options, net of employee tax withholding	5,651	(885)
Shares and options purchased under tender offer	—	(701,960)
Dividends paid	—	(315,003)
Withholding taxes paid on tender offer	(15,469)	—
Withholding taxes paid on dividends previously declared	(10,009)	—
Withholding taxes paid related to net share settlement of equity awards	(33,017)	—
Other financing activities, net	(6)	1,317
Net cash used in financing activities	(158,213)	(37,454)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18,032)	(3,394)
Net decrease in cash, cash equivalents and restricted cash	(209,150)	(11,237)
Cash, cash equivalents and restricted cash at beginning of the period	394,942	492,199
Cash, cash equivalents and restricted cash at end of the period	\$ 185,792	\$ 480,962

THOUGHTWORKS HOLDING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
Supplemental disclosure of cash flow information:		
Interest paid	\$ 14,486	\$ 18,736
Income taxes paid	\$ 22,830	\$ 21,307
Supplemental disclosures of non-cash financing activities:		
Withholding taxes payable included within accrued expenses	\$ —	\$ 34,539
Withholding taxes payable included within accrued compensation	\$ 11,534	\$ —
Option costs receivable included within prepaid expenses and other current assets	\$ 105	\$ —
Conversion of convertible preferred stock to common stock	\$ —	\$ 826,022
Net settlement on exercise of shares	\$ —	\$ 3,611
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 184,544	\$ 452,810
Restricted cash included in other current assets	—	26,827
Restricted cash included in other non-current assets	1,248	1,325
Total cash, cash equivalents and restricted cash	<u>\$ 185,792</u>	<u>\$ 480,962</u>

The accompanying notes form an integral part of the condensed consolidated financial statements.

THOUGHTWORKS HOLDING, INC.
Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Business and Summary of Significant Accounting Policies

Thoughtworks Holding, Inc. (together with its subsidiaries, the “Company”) develops, implements, and services complex enterprise application software, and provides business technology consulting. The Company conducts business in Australia, Brazil, Canada, Chile, China, Ecuador, Finland, Germany, Hong Kong, India, Italy, the Netherlands, Romania, Singapore, Spain, Thailand, the United Kingdom and the United States. Thoughtworks Holding, Inc. is the ultimate parent holding company of Thoughtworks, Inc. among other subsidiaries.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Thoughtworks Holding, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s 2021 *Annual Report*.

Certain amounts in the prior period consolidated financial statements and notes have been reclassified to conform to the 2022 presentation. These reclassifications had no effect on results of operations previously reported.

Preparation of Financial Statements and Use of Estimates

The preparation of these condensed consolidated financial statements is in conformity with generally accepted accounting principles in the United States (“GAAP”) and applicable rules and regulations of the SEC regarding interim financial reporting. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, the Company evaluates its estimates, including those related to the allowance for credit losses, valuation and impairment of goodwill and long-lived assets, income taxes, accrued bonus, contingencies, stock-based compensation and litigation costs. The Company bases its estimates on current expectations and historical experience and on other assumptions that its management believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying value of assets and liabilities when those values are not readily apparent from other sources. Actual results can differ from those estimates, and such differences may be material to the condensed consolidated financial statements in the future. Operating results for interim periods are not necessarily indicative of results that may be expected to occur for the entire year. In management’s opinion, all adjustments considered necessary for a fair presentation of the accompanying unaudited condensed consolidated financial statements have been included, and all adjustments are of a normal and recurring nature.

Restricted Cash

Restricted cash is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Restricted cash is restricted as to withdrawal or use. The Company has restricted cash held on deposit at various financial institutions. The amounts are held to secure bank guarantees of amounts related to government requirements and as collateral for a corporate credit card.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting which requires it to allocate the fair value of purchase consideration to the assets acquired and liabilities assumed based on the estimated fair values at the acquisition date. The fair value of the net assets acquired for the business is determined utilizing expectations and assumptions believed reasonable by management. The excess of the purchase consideration transferred over the fair values of assets acquired and liabilities assumed is recorded

as goodwill. As additional information is obtained about the assets and liabilities of the acquisition during the measurement period, not to exceed one year from the date of acquisition, the Company may record adjustments to the assets acquired and liabilities assumed with an offset to goodwill. After the measurement period, any adjustments are recorded in the condensed consolidated statements of (loss) income and comprehensive (loss) income. Acquisition costs are expensed as incurred.

Some business combinations may include a contingent consideration agreement. The Company determines the fair value of the contingent consideration liability using a Monte Carlo Simulation. The liability is remeasured to fair value at each reporting date with adjustments recorded within other income (expense), net in the condensed consolidated statements of (loss) income and comprehensive (loss) income.

Government Assistance

The Company has historically received government subsidies in the form of cash in China and Singapore related to expenses such as rent, wages, training benefits and taxes. The subsidies are recorded against the related expense within selling, general and administrative ("SG&A") expense or cost of revenues in the condensed consolidated statements of (loss) income and comprehensive (loss) income. The Company recorded an immaterial amount for the three and nine months ended September 30, 2022.

Allowance for Credit Losses

The Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) in the first quarter of 2022. See "—Recently Adopted Accounting Standards" below for further discussion. The Company is exposed to credit risk primarily through trade receivables and unbilled receivables. Activity related to the Company's allowance for credit losses is as follows (in thousands):

	Nine Months Ended September 30, 2022
Allowance for credit losses, beginning balance	\$ (8,916)
Impact of accounting standard adoption	(841)
Current provision for expected credit losses	(2,447)
Write-offs charged against allowance	114
Recoveries of amounts previously written off	—
Changes due to exchange rates	356
Allowance for credit losses, ending balance	<u>\$ (11,734)</u>

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), which amends existing accounting standards for lease accounting and requires lessees to recognize virtually all leases on the balance sheet by recording a right-of-use asset and a lease liability (for other than short term leases). The Company early adopted the standard effective January 1, 2022. The Company elected the modified retrospective transition method, and as a result, the Company did not adjust its comparative period financial information or make the new required lease disclosures for periods before the date of adoption. The Company elected to use the package of practical expedients, which permits the Company to not reassess: (i) whether a contract is or contains a lease, (ii) lease classification, and (iii) initial direct costs resulting from the lease. The Company did not elect the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets. The Company is electing not to apply the recognition requirements to short-term leases of 12 months or less and instead will recognize lease payments as expense on a straight-line basis over the lease term. The Company also elected the option to combine lease and non-lease components as a single component for the Company's entire population of lease assets. Upon adoption, the Company recorded \$40.9 million of right-of-use assets ("ROU") and \$43.7 million of lease liabilities. Refer to Note 7, Leases, for further discussion.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the accounting guidance and requires the measurement of all expected losses based on historical experience, current conditions, and reasonable and supportable forecasts, or a current expected credit loss (“CECL”) model. For trade receivables, loans, and other financial instruments, companies are required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. In November 2019, the FASB issued ASU 2019-10 which delayed the effective date for the CECL standard. The guidance and related amendments are effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date.

The Company early adopted the accounting standard by recording a cumulative effect adjustment to retained earnings as of January 1, 2022 using a modified retrospective approach. The adoption mainly impacts trade receivables and unbilled receivables. The Company analyzed its historical credit loss experience and considered current conditions and reasonable forecasts in developing the expected credit loss rates. The adoption of this new standard did not have a material impact on the Company's condensed consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, Disclosures by Business Entities About Government Assistance (Topic 832), which requires business entities to provide certain disclosures when they (1) have received government assistance and (2) use a grant or contribution accounting model by analogy to other accounting guidance. The guidance is effective for all entities for fiscal years beginning after December 15, 2021. Entities may apply the ASU's provisions either (1) prospectively to all transactions within the scope of Accounting Standards Codification (“ASC”) 832 that are reflected in the financial statements as of the adoption date and all new transactions entered into after the date of adoption or (2) retrospectively. The Company adopted the standard on January 1, 2022 on a prospective basis. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides temporary optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The optional amendments are effective as of March 12, 2020 through December 31, 2022, and upon adoption may be applied prospectively through December 31, 2022. The Company is currently assessing the impact of this ASU on the condensed consolidated financial statements and will adopt this new standard in the fiscal year beginning January 1, 2023.

In October 2021, the FASB issued ASU 2021-08, which amends ASC 805 to require acquiring entities to apply ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to recognize and measure contract assets and contract liabilities in a business combination. The guidance is effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Entities should apply the ASU's provisions prospectively to business combinations occurring on or after the effective date of the amendments. The Company is currently assessing the impact of this ASU on the condensed consolidated financial statements and will adopt this new standard in the fiscal year beginning January 1, 2023.

Concentration of Credit Risk and Other Risks and Uncertainties

Revenue generated from the Company's operations outside of the United States for the three months ended September 30, 2022 and 2021 was approximately 62% and 66%, respectively, and approximately 63% and 65% for the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022 and December 31, 2021, approximately 70% and 73%, respectively, of trade receivables and unbilled receivables was due from customers located outside the United States. At September 30, 2022 and December 31, 2021, the Company had net property and equipment of \$28.6 million and \$26.6 million, respectively, outside the United States.

Note 2 – Revenue Recognition

The Company disaggregates revenues from contracts with customers by geographic customer location, industry vertical and revenue contract types. Geographic customer location is pertinent to understanding the Company's revenues, as the Company generates its revenues from providing professional services to customers in various regions across the world. The Company groups customers into one of five industry verticals. Revenue contract types are differentiated by the type of pricing structure for customer contracts, which is predominantly time-and-materials, but also includes fixed price contracts.

Disaggregation of Revenues

The following table presents the disaggregation of the Company's revenues by customer location (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
North America (1)	\$ 129,421	\$ 103,769	\$ 382,856	\$ 290,954
APAC (2)	108,353	98,756	320,233	260,928
Europe (3)	79,937	69,522	239,466	196,476
LATAM	14,736	13,004	42,939	34,787
Total revenues	\$ 332,447	\$ 285,051	\$ 985,494	\$ 783,145

- (1) For the three months ended September 30, 2022 and 2021, the United States represented 36.4%, or \$121.1 million, and 33.9%, or \$96.5 million, respectively, of the Company's total revenues. For the nine months ended September 30, 2022 and 2021, the United States represented 36.5%, or \$359.7 million, and 35.1%, or \$275.0 million, of the Company's total revenues, respectively. Canadian operations were determined to be immaterial given the revenues as a percentage of total North America revenues was less than 10% for the three and nine months ended September 30, 2022 and 2021.
- (2) For the three months ended September 30, 2022 and 2021, Australia represented 11.5%, or \$38.4 million, and 10.9%, or \$31.0 million, respectively, of the Company's total revenues. For the nine months ended September 30, 2022 and 2021, Australia represented 11.6%, or \$114.5 million, and 10.7%, or \$83.7 million, respectively, of the Company's total revenues.
- (3) For the three months ended September 30, 2021, the United Kingdom represented 10.5%, or \$30.0 million, respectively, of the Company's total revenues. For the nine months ended September 30, 2022 and 2021, the United Kingdom represented 10.4%, or \$102.6 million, and 10.7%, or \$83.5 million, respectively, of the Company's total revenues. For the three and nine months ended September 30, 2021, Germany represented 10.5%, or \$30.0 million, and 10.7%, or \$84.2 million, respectively, of the Company's total revenues. For the three months ended September 30, 2022, revenue in the United Kingdom as a percentage of the Company's total revenues was less than 10%. For the three and nine months ended September 30, 2022, revenue in Germany as a percentage of the Company's total revenues was less than 10%.

Other foreign countries were determined to be immaterial given the revenues as a percentage of the Company's total revenues was less than 10% for the three and nine months ended September 30, 2022 and 2021.

The following table presents the disaggregation of the Company's revenues by industry vertical (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Technology and business services	\$ 94,219	\$ 75,086	\$ 274,815	\$ 211,226
Energy, public and health services	83,386	71,556	237,101	205,465
Retail and consumer	57,919	57,723	182,982	146,647
Financial services and insurance	55,004	46,739	173,139	121,848
Automotive, travel and transportation	41,919	33,947	117,457	97,959
Total revenues	\$ 332,447	\$ 285,051	\$ 985,494	\$ 783,145

The following table presents the disaggregation of the Company's revenues by contract type (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Time-and-material	\$ 282,190	\$ 237,533	\$ 829,485	\$ 635,608
Fixed-price	50,257	47,518	156,009	147,537
Total revenues	\$ 332,447	\$ 285,051	\$ 985,494	\$ 783,145

Contract Balances

The following table is a summary of the Company's contract assets and contract liabilities (in thousands):

	As of September 30, 2022	As of December 31, 2021
Contract assets included in unbilled receivables	\$ 50,426	\$ 25,408
Contract liabilities included in deferred revenue	\$ 2,352	\$ 13,807

Contract assets primarily relate to unbilled amounts on fixed-price contracts. Contract assets are recorded when services have been provided but the Company does not have an unconditional right to receive consideration. Professional services performed on or prior to the balance sheet date, but invoiced thereafter, are reflected in unbilled receivables.

Contract liabilities represent amounts collected from the Company's customers for revenues not yet earned. Such amounts are anticipated to be recorded as revenues when services are performed in subsequent periods. For the three months ended September 30, 2022 and 2021, the Company recognized \$0.5 million and \$0.5 million, respectively, of revenues that were included in current liabilities at the prior year end. For the nine months ended September 30, 2022 and 2021, the Company recognized \$13.1 million and \$11.2 million, respectively, of revenues that were included in current liabilities at the prior year end.

Costs to Obtain a Customer Contract

The Company incurs certain incremental costs to obtain a contract that the Company expects to recover. The Company applies a practical expedient and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs would primarily relate to commissions paid to our account executives and are included in SG&A expenses. The Company did not have long term contracts to capitalize related costs prior to the fourth quarter of 2021.

The following table is a summary of the Company's costs to obtain contracts and related amortization and impairment where the amortization period of the assets is greater than one year (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 1,642	\$ —	\$ 2,039	\$ —
Costs to obtain contracts capitalized	488	—	726	—
Amortization of capitalized costs	(291)	—	(916)	—
Changes due to exchange rates	(3)	—	(13)	—
Balance at end of period	\$ 1,836	\$ —	\$ 1,836	\$ —

Transaction Price Allocated to Remaining Performance Obligations

The Company does not have material future performance obligations that extend beyond one year. Accordingly, the Company has applied the optional exemption for contracts that have an original expected duration of one year or less.

Note 3 – Acquisitions

On April 26, 2022, the Company completed the acquisition of Connected Lab Inc. ("Connected"), an end-to-end product design and development firm that partners with their clients to discover and deliver products that drive business impact, in an all-cash transaction for a gross purchase price of \$83.8 million, or \$79.4 million net of cash acquired of \$4.4 million, which is inclusive of a \$14.0 million contingent consideration liability as discussed below and other adjustments. Connected is now wholly owned by the Company. The acquisition will advance the Company's capabilities in solving business problems through product-led design processes, from defining the strategy to discovery and delivery and enhance the Thoughtworks customer experience, product and design service line in North America.

In connection with the acquisition, the Company recorded a liability of \$14.0 million of contingent consideration, which is included within the total purchase price and classified within accrued expenses in the condensed consolidated balance sheet. The present value of the contingent consideration liability was determined using a Monte Carlo Simulation that calculated the average present value of the earnout payment. The fair value measurement of the earnout includes a performance metric which is an unobservable Level 3 input. The contingent consideration is payable in cash dependent upon achievement of the performance metric. The liability is remeasured to fair value at each reporting date with adjustments recorded within other income (expense), net in the condensed consolidated statements of (loss) income and comprehensive (loss) income. As of September 30, 2022, the maximum potential payout is \$16.0 million. The determined actual payout is expected to occur in the second quarter of 2023.

The following table presents the change in the contingent consideration liability (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 14,382	\$ —	\$ —	\$ —
Additions in the period	—	—	13,996	—
Change in fair value	(2,955)	—	(2,427)	—
Change due to exchange rates	(793)	—	(935)	—
Balance at end of period	\$ 10,634	\$ —	\$ 10,634	\$ —

The Company accounted for the acquisition under ASC 805, *Business Combinations*. The goodwill recognized in connection with the acquisition reflects the benefits expected to be derived from certain operational

synergies. The fair value of the net assets acquired for the business was determined using Level 3 inputs, for which little or no market data exists, requiring the Company to develop assumptions regarding future cash flow projections. The results of operations of the acquired business have been included in the condensed consolidated statements of (loss) income and comprehensive (loss) income from the acquisition date. Pro forma results of operations for the acquisition are not presented because the pro forma effects were not material to the Company's consolidated results of operations.

Aggregate acquisition-related costs related to Connected of \$1.5 million and \$2.7 million for the three and nine months ended September 30, 2022, respectively, were included within SG&A expenses in the condensed consolidated statements of (loss) income and comprehensive (loss) income.

The Company's preliminary allocation of the fair value of underlying assets acquired and liabilities assumed as of the acquisition date is as follows (in thousands):

	Total
Cash and cash equivalents	\$ 4,394
Trade receivables, net of allowance	3,678
Unbilled receivables	2,594
Customer relationships, net	15,800
Goodwill	66,191
Accrued compensation	(1,364)
Accrued expenses	(3,733)
Other assets/liabilities, net	(3,759)
Total gross purchase price	\$ 83,801
Cash consideration paid	\$ 69,805
Fair value of contingent consideration	13,996
Total gross purchase price	\$ 83,801

Goodwill represents the excess of the purchase price over the fair values of assets acquired and liabilities assumed. The changes in fair value allocated to goodwill, tangible and intangible assets are not deductible for tax purposes.

As additional information is obtained about the assets and liabilities of the acquisition during the measurement period (not to exceed one year from the date of acquisition), including the completion or finalization of asset appraisals, the Company will refine its estimates of fair value to allocate the purchase price including finalizing the impact on taxes.

Note 4 – Goodwill and Other Intangible Assets

The following is a summary of the changes in the carrying value of goodwill (in thousands):

	Total
Balance as of December 31, 2020	\$ 318,151
Additions due to acquisitions	32,615
Changes due to exchange rates	(4,047)
Balance as of December 31, 2021	346,719
Additions due to acquisitions	71,700
Changes due to exchange rates	(24,021)
Balance as of September 30, 2022	\$ 394,398

The following is a summary of other intangible assets (in thousands):

	September 30, 2022	December 31, 2021
Customer relationships	\$ 193,447	\$ 177,100
Less accumulated amortization	(55,981)	(46,184)
Customer relationships, net	137,466	130,916
Trademark	273,000	273,000
Total intangible assets, after amortization	410,466	403,916
Changes due to exchange rates	(13,504)	(5,049)
Intangible assets, net	\$ 396,962	\$ 398,867

Other than indefinite-lived trademarks, the Company's intangible assets have finite lives and, as such, are subject to amortization. Amortization expense related to these intangible assets was \$3.4 million and \$9.7 million for the three and nine months ended September 30, 2022, respectively, and \$3.1 million and \$9.1 million for the three and nine months ended September 30, 2021, respectively.

As of September 30, 2022, estimated amortization expense for the next five years and thereafter is as follows (in thousands):

Remainder of 2022	\$ 3,659
2023	14,635
2024	14,635
2025	14,635
2026	14,635
Thereafter	75,267
	\$ 137,466

The weighted average remaining useful life of the Company's finite-lived intangible assets was 9.5 years as of September 30, 2022 and 10.6 years as of December 31, 2021.

Note 5 – Income Taxes

Prior to the IPO, the Company calculated the provision for income taxes during interim reporting periods by applying an estimate of the effective tax rate for the full year to the pre-tax income or loss for the interim period, adjusting the provision for discrete tax items recorded in the period. Upon the IPO, due to the magnitude of transaction related stock-based compensation costs, the Company's forecasted pre-tax income for the year is causing the tax rate to be highly sensitive, whereby minor changes in forecasted pre-tax income generate significant variability in the estimated annual effective tax rate. This is impacting the customary relationship between income tax expense and pre-tax income in interim periods. Beginning in the third quarter of 2021, the Company concluded that it could not calculate a reliable estimate of the annual effective tax rate due to the range of potential impacts for the aforementioned forecast changes. Accordingly, the Company computed the effective tax rate for the nine-month period ended September 30, 2022 using actual results, as allowed by ASC 740-270-30-18, Income Taxes-Interim Reporting.

The Company's effective tax rate for the three months ended September 30, 2022 and September 30, 2021 was (104.3)% and (2.6)%, respectively and (19.0)% and 57.6% for the nine months ended September 30, 2022 and September 30, 2021, respectively. The effective tax rate in each period differed from the U.S. statutory rate of 21% primarily due to U.S. corporate state income taxation and the effect of foreign operations which reflects the impact of higher income tax rates in locations outside the United States, the unfavorable impact of valuation allowances on deferred tax assets of select foreign operations, the non-deductibility of executive compensation expense in compliance with §162(m) of the Internal Revenue Code ("IRC"), impacted by excess tax deficiencies unfavorably and excess tax benefits favorably on stock-based compensation for the three and nine months ended September 30, 2022 and September 30, 2021, respectively. The change in the effective tax rate for the three and nine months ended September 30, 2022, as compared to the prior

periods, was primarily due to the non-deductibility of China SAFE restricted stock units ("RSUs") and the unfavorable impact of capitalized research and experimental costs under IRC §174 increasing the Company's net global intangible low tax income ("GILTI") inclusion. The negative effective tax rate for the three months ended September 30, 2022 and September 30, 2021 and the nine months ended September 30, 2022 is a result of the aforementioned unique net unfavorable items when compared to the pre-tax loss recorded for the respective periods.

Note 6 – Loss Per Common Share

Basic loss per common share is computed by dividing the net loss allocated to common shareholders by the weighted average of common shares outstanding for the period.

Diluted loss per common share is computed by giving effect to all potential shares of common stock of the Company, including outstanding stock options, unvested RSUs, and unvested PSUs, to the extent the shares are dilutive. PSU shares are not included in dilution during the performance period. Once the performance period is completed, the PSU shares will be included in dilution during the remaining service period, to the extent they are dilutive. Basic and diluted loss per common share are the same for all periods presented, as the inclusion of all potential shares of common stock outstanding would have been anti-dilutive.

The components of basic and diluted loss per common share are as follows (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic loss per common share:				
Net (loss) income	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ 11,502
Preferred stock dividends	—	—	—	(59,642)
Net loss allocated to common shareholders – Basic	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ (48,140)
Weighted average common shares outstanding – Basic and diluted	311,621,233	241,351,052	309,481,860	237,121,811
Basic and diluted loss per common share	\$ (0.10)	\$ (0.10)	\$ (0.39)	\$ (0.20)

The following potentially dilutive securities were excluded from the computation of diluted loss per common share calculations because the impact of including them would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Employee stock options and RSUs	24,782,764	23,651,637	25,766,686	21,737,268

Note 7 – Leases

The Company leases facilities (office space and corporate apartments) and equipment (IT equipment) under various non-cancelable operating leases that expire through December 2031, some of which include one or more options to extend the leases, generally at rates to be determined in accordance with the agreements. The Company's facility leases generally provide for periodic rent increases and may contain escalation clauses and renewal options. The Company's lease terms include options to extend the lease if they are reasonably certain of being exercised.

The Company recognizes operating lease expense on a straight-line basis over the lease term and variable lease payments are expensed as incurred. Operating lease expense and the related variable lease expense is

recorded within SG&A expenses in the Company's condensed consolidated statements of (loss) income and comprehensive (loss) income. As of September 30, 2022, the Company's finance leases were immaterial.

The Company determines if a contract contains a lease at lease inception. If the borrowing rate implicit in the lease is not determinable, the Company uses its incremental borrowing rate ("IBR") based on information available at lease commencement including prevailing financial market conditions to determine the present value of future lease payments. The Company has elected the option to combine lease and non-lease components as a single component for the Company's entire population of lease assets.

Operating lease assets and lease liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent the right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, and lease incentives. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Leased assets are presented net of accumulated amortization. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as increases in lease payments based on changes in index rates or usage, are not included in the ROU assets or liabilities; instead, these are expensed as incurred and recorded as variable lease expense.

Adoption of Topic 842 resulted in the initial recognition of ROU assets of \$40.9 million and lease liabilities of \$43.7 million.

As of September 30, 2022, the Company does not have any leases that create significant rights and obligations that have not yet commenced. For the three and nine months ended September 30, 2022, operating lease cost was \$4.9 million and \$14.7 million, respectively. The Company's short-term lease cost and variable lease cost were immaterial.

The following table presents supplemental cash flow information (in thousands):

	Nine Months Ended September 30, 2022	
Cash paid for amounts included in the measurement of operating lease liabilities	\$	14,621
ROU assets obtained in exchange for new operating lease liabilities		13,791

The following table presents average lease terms and discount rates (in thousands):

	As of September 30, 2022	
Weighted-average remaining lease term (years)		4.0
Weighted average discount rate		5.6 %

As of September 30, 2022, the aggregate future lease payments under all operating leases are as follows (in thousands):

	Operating	
Remainder of 2022	\$	4,868
2023		15,649
2024		9,397
2025		5,898
2026		4,510
Thereafter		6,466
Total lease payments		46,788
Less: imputed interest		5,841
Present value of lease liabilities	\$	40,947

ASC 840 Disclosures

Prior to the adoption of Topic 842, aggregate future minimum lease payments, net of sublease income, under all operating leases were as follows as of December 31, 2021 (in thousands):

2022	\$	17,557
2023		11,690
2024		6,849
2025		3,955
2026		3,027
Thereafter		6,088
Total future minimum lease payments	\$	49,166

Total rent expense for all operating leases for the three and nine months ended September 30, 2021 was \$4.9 million and \$14.5 million, respectively.

Note 8 – Stock-Based Compensation

The following is a summary of the components of stock-based compensation expense for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues	\$ 33,426	\$ 25,756	\$ 155,771	\$ 29,071
Selling, general and administrative expenses	15,479	47,420	69,056	54,357
Total stock-based compensation expense	\$ 48,905	\$ 73,176	\$ 224,827	\$ 83,428

Stock Options

The following is a summary of performance and time vesting stock option activity for the nine months ended September 30, 2022 (in thousands, except share and per share data):

	Number of Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (years)
Balance at December 31, 2021	24,097,082	\$ 3.79		
Granted	—	—		
Forfeited	(101,891)	10.88		
Exercised	(1,902,174)	3.03		
Cancelled	—	—		
Expired	—	—		
Balance at September 30, 2022	22,093,017	\$ 3.83	\$ 154,753	5.8
Exercisable at September 30, 2022	20,639,262	\$ 3.40	\$ 151,007	5.6

As of September 30, 2022, total compensation cost related to time vesting options not yet recognized was \$3.5 million, which will be recognized over a weighted-average period of 1.5 years. Unless otherwise prohibited by law in local jurisdictions, time vesting options will continue to vest according to the 2017 Stock Option Plan (the "2017 Plan").

Restricted Stock Units

The following is a summary of RSU activity for the nine months ended September 30, 2022:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2021	14,128,722	\$ 23.39
Granted (1)	5,561,575	22.06
Forfeited	(1,318,242)	23.33
Vested (2)	(10,259,373)	21.00
Unvested balance at September 30, 2022	8,112,682	\$ 25.51

(1) Includes 4.4 million RSUs that were contingent upon the successful and active registration with the State Administration of Foreign Exchange of the People's Republic of China ("China SAFE"), which occurred on February 25, 2022. The amount also includes 0.1 million RSUs granted in relation to the Connected acquisition.

(2) Includes 2.6 million shares that were net settled when released and returned to the share pool for future grants.

As of September 30, 2022, total compensation cost related to RSUs not yet recognized was \$112.6 million, of which \$59.3 million is IPO related or associated with one-time grants and considered nonrecurring. The remainder of \$53.3 million is primarily related to the annual grant and considered recurring. The total unamortized expense is anticipated to be recognized over a weighted-average period of 1.6 years.

Performance Stock Units

In April 2022, the Board of Directors approved the grant of performance stock units ("PSUs") to certain executives and employees under the 2021 Omnibus Incentive Plan (the "Omnibus Plan"). Awards with a performance and time-based vesting as well as awards with market-based performance vesting components were granted. The performance and time-based PSUs, or non-market-based PSUs, are subject to the Company's achievement of specified profit targets. The market-based awards are tied to the Company's performance against relative total shareholder return ("rTSR") targets. Both types of PSUs vest over a three-year service period.

The following is a summary of PSU activity for the nine months ended September 30, 2022:

	Number of PSUs	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2021	—	\$ —
Granted (1)	269,586	24.15
Adjustment for PSUs expected to vest as of current period end	(162,156)	26.83
Forfeited	—	—
Vested	—	—
Unvested balance at September 30, 2022	107,430	\$ 20.11

(1) Reflects shares granted at 100%.

For compensation expense purposes, the fair value of the non-market-based PSUs was determined using the closing stock price on the grant date and the fair value for the market-based PSUs was determined using a Monte-Carlo simulation.

As of September 30, 2022, total compensation cost related to PSUs not yet recognized was \$5.1 million. The unamortized expense is anticipated to be recognized over a weighted-average period of 2.5 years.

Note 9 – Credit Agreements

Our subsidiaries are party to an amended and restated credit agreement, dated as of March 26, 2021 (as amended, the “Credit Agreement”), among Thoughtworks, Inc., Turing Acquisition LLC and Turing Midco LLC (collectively, the “Borrowers”), Turing Topco LLC (“Holdings”), Credit Suisse AG, Cayman Islands Branch, as administrative agent, the lenders party thereto and the other parties from time-to-time party thereto. The Credit Agreement provides for a senior secured term loan of \$715.0 million (the “Term Loan”) and a senior secured revolving credit facility of up to \$165.0 million (the “Revolver”).

On July 21, 2022, the Company made a voluntary prepayment of \$100.0 million on outstanding amounts owed on the Term Loan. As a result of the prepayment, the Company wrote off \$0.9 million of deferred financing fees, which is reflected in other (expense) income, net in the consolidated statements of (loss) income and comprehensive (loss) income for the three and nine months ended September 30, 2022.

The following table presents the Company's outstanding debt and borrowing capacity (in thousands):

	September 30, 2022	December 31, 2021
Availability under Revolver (due March 26, 2026)	\$ 165,000	\$ 165,000
Borrowings under Revolver	\$ —	\$ —
Long-term debt (due March 24, 2028), including current portion (1)	\$ 400,642	\$ 504,530
Interest rate	5.87 %	3.50 %

(1) The balance includes deferred financing fees. A reconciliation of gross to net amounts is presented below.

The following table presents the carrying value of the Company's credit facilities (including current maturities) (in thousands):

	September 30, 2022	December 31, 2021
Long-term debt, less current portion	\$ 397,125	\$ 502,488
Capitalized deferred financing fees	(3,633)	(5,108)
Long-term debt	393,492	497,380
Current portion of long-term debt	7,150	7,150
Total debt carrying value	\$ 400,642	\$ 504,530

The Company estimates the fair value of the Term Loan using current market yields. These current market yields are considered Level 2 inputs. The book value of the Company's credit facilities is considered to approximate its fair value as of September 30, 2022 as the interest rates are considered in line with current market rates. The fair value of the Term Loan was \$485.0 million as of December 31, 2021.

Note 10 – Accrued Expenses

The following is a summary of the Company's accrued expenses (in thousands):

	September 30, 2022	December 31, 2021
Accrued interest expense	\$ 164	\$ 76
Accrued employee expense	2,191	2,320
Accrued travel expense	546	514
Operating lease expenses	366	262
Insurance charges	312	170
Professional fees	7,074	5,188
Withholding taxes payable	43	26,077
Other taxes payable	1,437	1,803
Rebates payable	944	943
Contingent consideration	10,634	—
Other accrued expenses	3,789	6,741
Accrued expenses	\$ 27,500	\$ 44,094

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 our interim condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our 2021 Annual Report. Some of the information contained in this discussion and analysis, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should read the sections titled "Risk Factors" in our 2021 Annual Report and "Forward-Looking Statements" herein for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. Quarterly results reflected herein are not necessarily indicative of our operating results for a full year or any future period.

Overview

We are a global technology consultancy that integrates strategy, design and engineering to drive digital innovation. We are over 12,500 Thoughtworkers strong across 50 offices in 17 countries. Over the last 25+ years, we have delivered extraordinary impact together with our clients by helping them solve complex business problems with technology as the differentiator.

In April 2022, we completed the acquisition of Connected, an end-to-end product design and development firm, which will advance our capabilities in solving business problems through product-led design processes, from defining the strategy to discovery and delivery. Refer to Note 3, Acquisitions, for further detail.

In August 2022, we completed the acquisition of Handmade Design, an innovation through design consultancy, which will add premium customer experience ("CX") and product design capacity and capabilities in Brazil for the benefit of clients and end users worldwide. The effect of this acquisition was not material on the Company's condensed consolidated financial statements.

Our revenues are generated from providing professional services based on the mix and locations of delivery professionals involved, the pricing structure, which is predominantly time-and-materials, and the type of services, including: enterprise modernization, platforms & cloud; customer experience, product & design; data & artificial intelligence; and digital transformation & operations.

Key Operational and Business Metrics

In addition to the measures presented in our condensed consolidated financial statements, we use the following key operational and business metrics to evaluate our business, measure our performance, develop financial forecasts and make strategic decisions (in thousands, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 332,447	\$ 285,051	\$ 985,494	\$ 783,145
Revenue Growth Rate as reported (1)	16.6 %	45.0 %	25.8 %	31.2 %
Revenue Growth Rate at constant currency (1)	23.9 %	42.1 %	31.3 %	26.0 %
Net (loss) income	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ 11,502
Net (loss) income margin	(9.4)%	(8.9)%	(12.3)%	1.5 %
Adjusted Net Income (2)	\$ 26,758	\$ 37,188	\$ 107,758	\$ 96,613
Adjusted EBITDA (3)	\$ 67,165	\$ 66,459	\$ 198,554	\$ 171,514
Adjusted EBITDA Margin (3)	20.2 %	23.3 %	20.1 %	21.9 %

- (1) Certain of our subsidiaries use functional currencies other than the U.S. dollar and the translation of these foreign currency amounts into the U.S. dollar can impact the comparability of our revenues between periods. Accordingly, we use Revenue Growth Rate at constant currency as an important indicator of our underlying performance. Revenue Growth Rate at constant currency is calculated by applying the average exchange rates in effect during the earlier comparative fiscal period to the later fiscal period.
- (2) We use Adjusted Net Income as an important indicator of our performance. See “—Non-GAAP Financial Measures” below for a definition of and reconciliation of Adjusted Net Income to net (loss) income, the most directly comparable GAAP measure, how we use this measure and an explanation of why we consider this non-GAAP measure to be helpful for investors.
- (3) We also use Adjusted EBITDA and Adjusted EBITDA Margin as important indicators of our performance. See “—Non-GAAP Financial Measures” below for a definition of and a reconciliation of Adjusted EBITDA to net (loss) income, the most directly comparable GAAP measure, how we use Adjusted EBITDA and Adjusted EBITDA Margin and an explanation of why we consider these non-GAAP measures to be helpful for investors.

Revenue Growth Rate and Revenue Growth Rate at constant currency

For the three and nine months ended September 30, 2022, revenues increased 16.6% and 25.8%, respectively. Acquisitions completed in the last twelve months contributed approximately 3% and 2% to revenue growth for the three and nine months ended September 30, 2022, respectively. Had our consolidated revenues been expressed in constant currency terms using the exchange rates in effect for the three and nine months ended September 30, 2021, we would have reported revenue growth of 23.9% and 31.3%, respectively. The negative impact to revenues from foreign currencies was due to the appreciation of the U.S. dollar relative to certain principal functional currencies of our subsidiaries.

For more detail regarding our exposure to foreign currency rate fluctuations, see Note 2, *Revenue Recognition*, to our condensed consolidated financial statements and “Item 3. Quantitative and Qualitative Disclosures About Market Risk.”

Net (Loss) Income, Net (Loss) Income Margin and Adjusted Net Income

For the three months ended September 30, 2022, the \$6.2 million increase in net loss and 0.5 percentage point increase in net loss margin as compared to the three months ended September 30, 2021 were driven by increased payroll expenses (excluding stock-based compensation) of \$41.8 million due to our investment in additional headcount to support revenue growth and a \$15.4 million increase in income tax expense. This was partially offset by revenue growth reflecting strong demand for our services and decreased stock-based compensation expense of \$24.3 million, which includes \$37.0 million of nonrecurring expense mainly related to option and RSU expense from the IPO, partially offset by \$12.7 million of recurring RSU expense primarily related to the annual grant.

For the three months ended September 30, 2022, the decrease in Adjusted Net Income as compared to the three months ended September 30, 2021 of \$10.4 million, or 28.0%, was primarily due to increased payroll expenses (excluding stock-based compensation) to support revenue growth and an increase in income tax expense, partially offset by higher revenues as a result of strong demand for our services alongside our differentiated value proposition and premium services driving a higher bill rate.

For the nine months ended September 30, 2022, the \$132.8 million decrease in net income and 13.8 percentage point decrease in net income margin as compared to the nine months ended September 30, 2021 were driven by increased stock-based compensation expense of \$141.4 million, which includes \$37.8 million of recurring RSU expense primarily related to the annual grant and \$103.6 million of nonrecurring expense mainly related to option and RSU expense from the IPO. The decreases in net income and net income margin were also driven by increased payroll expenses (excluding stock-based compensation) of \$142.4 million due to our investment in additional headcount to support revenue growth. These increases were partially offset by revenue growth reflecting strong demand for our services and our continued focus on obtaining new clients and growing our existing client relationships. For more information, see “—Results of Operations.” We consider net income margin as the most directly comparable GAAP measure to Adjusted EBITDA Margin.

For the nine months ended September 30, 2022, the increase in Adjusted Net Income as compared to the nine months ended September 30, 2021 of \$11.1 million, or 11.5%, was due to higher revenues as a result of

strong demand for our services, partially offset by increased payroll expenses (excluding stock-based compensation) to support revenue growth.

Adjusted EBITDA and Adjusted EBITDA Margin

For the three months ended September 30, 2022, the increase in Adjusted EBITDA as compared to the three months ended September 30, 2021 of \$0.7 million, or 1.1%, was driven by higher revenues, partially offset by higher operating expenses, such as increased payroll expenses (excluding stock-based compensation) due to our investment in additional headcount. The 310 basis point decrease in Adjusted EBITDA Margin as compared to the three months ended September 30, 2021 was primarily due to increased payroll expenses (excluding stock-based compensation) and decreased utilization.

For the nine months ended September 30, 2022, the increase in Adjusted EBITDA as compared to the nine months ended September 30, 2021 of \$27.0 million, or 15.8%, was due to higher revenues, partially offset by public company costs and higher operating expenses, such as payroll expense (excluding stock-based compensation). The 180 basis point decrease in Adjusted EBITDA Margin as compared to the nine months ended September 30, 2021 was primarily due to increased payroll expenses (excluding stock-based compensation) and decreased utilization.

Key Factors Affecting Our Performance

Our long-term financial trend is characterized by strong organic growth, strong client retention, a majority of revenues from existing clients and substantial margin optimization with the support of onshore, nearshore and offshore delivery centers. Our performance for historical periods and future periods is driven by numerous factors discussed, including the following key factors.

Ability to retain and expand existing client relationships

For the trailing twelve months ended September 30, 2022, we served over 400 clients, which we define as clients with spend in excess of \$25,000 within the preceding twelve months, many of whom we work with across multiple geographies. We actively manage our client portfolio and target clients where we believe there is opportunity to develop long-term relationships and drive significant growth. Accordingly, for the three months ended September 30, 2022 and 2021, 84.0% and 85.1%, respectively, of our revenues were derived from existing clients, which we define as clients for whom we have done work and generated revenues in excess of \$25,000 within the preceding fiscal year. For the nine months ended September 30, 2022 and 2021, 89.4% and 89.9%, respectively, of our revenues were derived from existing clients. For the trailing twelve-month periods ended September 30, 2022 and 2021, 88.6% and 88.6%, respectively, of our revenues were derived from existing clients, which we define as clients for whom we have done work and generated revenues in excess of \$25,000 within the preceding twelve months, representing increases of 28.0% and 28.7% in revenues from new and existing clients, respectively. For the trailing twelve-month periods through September 30, 2022 and 2021, 36 and 29 clients, respectively, generated greater than \$10 million in revenues, a 24.1% increase.

While we continue to derive a substantial part of our overall revenues from existing clients, we maintain relatively low client concentration among our largest clients. For the three and nine months ended September 30, 2022, we experienced strong growth in our top five, ten and fifty clients and a continued diversification of our business. For the three months ended September 30, 2022, revenues from our top five, ten and fifty clients as a percentage of total revenues were 16.1%, 25.4% and 65.4%, respectively, compared to 16.2%, 27.1% and 69.8%, respectively, for the three months ended September 30, 2021. For the nine months ended September 30, 2022, revenues from our top five, ten and fifty clients as a percentage of total revenues were 15.4%, 25.2% and 64.6%, respectively, compared to 17.4%, 27.6% and 70.6%, respectively, for the nine months ended September 30, 2021.

Net Dollar Retention Rate

We also utilize the net dollar retention rate to measure revenue growth from our clients. Net dollar retention rate provides visibility into the risks associated with our revenues and expected growth, and it measures our ability to continually offer and deliver innovative services to our clients. We use this metric to appropriately manage resources and client retention and growth, such as account management and capability development

of our account leadership teams. The net dollar retention rate is calculated by dividing (a) the trailing twelve-month period revenue from existing clients by (b) the prior comparative period revenue from existing clients.

The net dollar retention rate was 119% for both the trailing twelve months ended September 30, 2022 and September 30, 2021 reflecting our sector diversification efforts which enabled us to balance sales exposure and provide value to our clients.

Ability to acquire new clients

We intend to continue to acquire new clients through programs designed to generate new business demand and position us as a trusted partner. Winning new business in existing and new geographies and industry verticals is a critical component of our growth strategy. Dedicated new business teams work with marketing using data-driven approaches to focus on client acquisition efforts. Commensurately, our total number of clients increased to 403 as of September 30, 2022 from 374 as of September 30, 2021, as we saw increased demand for our global services, including in North America, Europe, Asia-Pacific region ("APAC") and Latin America ("LATAM"). Going forward, we may also add new clients, including in new geographies and industry verticals, through selective strategic acquisitions.

Expanding our technical capabilities and client solutions

We combine strategy, design and software engineering expertise to offer premium, end-to-end solutions to our clients. Our value proposition is based on our thought leadership and expertise across innovative new technologies, differentiated client solutions across our service lines and local and nearshore capabilities (*i.e.*, those delivered from nearby countries in similar time zones) and offshore capabilities (*i.e.*, those delivered from distant countries in different time zones). Our premium position enabled us to drive average revenue per employee of approximately \$84,000, or \$112,000 annualized, for the nine months ended September 30, 2022, compared to \$88,000, or \$118,000 annualized, for the nine months ended September 30, 2021. The decrease compared to the nine months ended September 30, 2021 was driven by the negative impact from foreign currency translation, geography mix and decreased utilization. We believe our average revenue per employee is meaningfully higher than all our pure-play competitors. We define average revenue per employee as total revenues for the period divided by the average number of employees in such period. Our ability to continue delivering premium and innovative services to our clients depends on evolving our technical and engineering capabilities.

Ability to recruit and retain talent

To provide services to our clients, we must efficiently hire, train and retain skilled professionals without compromising on the high standards we set for our people. We believe our ability to attract and retain top talent drives high client satisfaction and enables us to deliver on strong client demand to generate growth. Apart from driving high client satisfaction, lower attrition leads to lower hiring and training costs and increased productivity. For the trailing twelve-month period through September 30, 2022, our voluntary attrition rate was 11.8%, down from 15.3% for the trailing twelve-month period through September 30, 2021. We believe the decrease in attrition was due to higher retention driven by technology industry hiring trends and our unique culture, focus on career development, intensive training programs and interesting work opportunities. We increased our total number of employees to over 12,500 as of September 30, 2022.

Ability to optimize our global delivery

We have a global footprint with the ability to deliver services from multiple geographic regions. As of September 30, 2022, 9 out of our top 10 clients by revenue relied on Thoughtworks' delivery from more than one region. We utilize a blended delivery model, which means we are able to offer a combination of local talent with nearshore/offshore talent, allowing us to maintain close proximity to our clients for context and local market knowledge, while driving rapid and high-quality delivery at scale.

Components of Our Operating Results

We operate and manage our business as one reportable segment. While the Company has offerings in multiple market segments and operates in multiple countries, the Company's business operates as one operating segment. Almost all of the Company's service offerings are delivered and supported on a global basis. Additionally, most of the Company's service offerings are deployed in a nearly identical way and the

Company's chief operating decision maker, who is the Company's Chief Executive Officer, evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

Revenues

Time-and-Materials Revenues. We generate the majority of our revenues under time-and-materials contracts, which are billed using hourly, daily or monthly rates to determine the amounts to be charged to the client. Revenue from time-and-material contracts is based on the number of hours worked and at contractually agreed-upon hourly rates and is recognized as those services are rendered as control of the services passes to the customer over time.

Fixed-Price Revenues. Fixed-price contracts include application development arrangements, where progress towards satisfaction of the performance obligation is measured using input methods as there is a direct correlation between hours incurred and the end product delivered to the client. Assumptions, risks and uncertainties inherent in the estimates used to measure progress could affect the amount of revenues, receivables and deferred revenues at each reporting period. Revenues under these contracts are recognized using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying performance obligations.

For a detailed discussion of our revenue recognition policy, refer to the notes to our consolidated financial statements included in the 2021 *Annual Report*.

Cost of Revenues

Cost of revenues consists primarily of personnel and related costs directly associated with the professional services, including salaries, bonuses, fringe benefits, stock-based compensation, project related travel costs and costs of contracted third-party vendors. Also included in cost of revenues is depreciation attributable to the portion of our property and equipment utilized in the delivery of services to our clients.

Gross Profit and Gross Margin

Gross profit represents revenues less cost of revenues. Gross margin represents gross profit as a percentage of revenues.

Selling, General and Administrative Expenses

SG&A expenses represent expenses associated with promoting and selling our services and general and administrative functions of our business. These expenses include the costs of salaries, bonuses, fringe benefits, stock-based compensation, severance, bad debt, travel, legal and accounting services, insurance, facilities (including operating leases), advertising and other promotional activities.

Depreciation and Amortization

Depreciation and amortization consist primarily of depreciation of fixed assets, amortization of capitalized software development costs (internal-use software) and amortization of acquisition-related intangible assets.

Other (Expense) Income

Other (expense) income consists of interest expense, impacts from foreign exchange transactions, gains (losses) on the sale of assets, change in fair value of contingent consideration and the write-off of deferred financing fees.

Income Tax Expense

Determining the consolidated income tax expense, deferred income tax assets and liabilities and any potential related valuation allowances involves judgment. We consider factors that may contribute, favorably or unfavorably, to the overall annual effective tax rate in the current year as well as the future. These factors include statutory tax rates and tax law changes in the countries where we operate as well as consideration of any significant or unusual items. Our income tax expense includes the impact of provisions established for

uncertain income tax positions, as well as any related interest and penalties. These reserves are adjusted given changing facts and circumstances, such as the closing of a tax audit, statute of limitation lapse or the refinement of an estimate. To the extent the final outcome of an uncertain income tax position differs from the amounts recorded, such differences will impact our income tax expense in the period in which such determination is made.

Results of Operations

The following table sets forth a summary of our condensed consolidated results of operations for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues	\$ 332,447	\$ 285,051	\$ 985,494	\$ 783,145
Operating expenses:				
Cost of revenues (1)	236,007	183,945	739,097	471,047
Selling, general and administrative expenses (1)	89,559	113,019	297,587	248,366
Depreciation and amortization	5,303	4,173	15,364	13,007
Income (loss) from operations	1,578	(16,086)	(66,554)	50,725
Other (expense) income:				
Interest expense	(5,871)	(6,734)	(15,502)	(20,316)
Net realized and unrealized foreign currency loss	(13,127)	(1,934)	(21,614)	(3,608)
Other income (expense), net	2,056	162	1,731	306
Total other (expense) income	(16,942)	(8,506)	(35,385)	(23,618)
(Loss) income before income taxes	(15,364)	(24,592)	(101,939)	27,107
Income tax expense	16,027	643	19,348	15,605
Net (loss) income	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ 11,502
Effective tax rate	(104.3)%	(2.6)%	(19.0)%	57.6 %

(1) Includes stock-based compensation as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues	\$ 33,426	\$ 25,756	\$ 155,771	\$ 29,071
Selling, general and administrative expenses	15,479	47,420	69,056	54,357
Total stock-based compensation expense	\$ 48,905	\$ 73,176	\$ 224,827	\$ 83,428

Summary Comparison of Three Months Ended September 30, 2022 with the Three Months Ended September 30, 2021

Revenues for the three months ended September 30, 2022 increased \$47.4 million, or 16.6%, to \$332.4 million, compared to \$285.1 million for the three months ended September 30, 2021. The increase in revenues was driven by higher demand for services as clients execute on their digital transformation strategies. The majority of our revenues are generated from existing clients who are often expanding their usage of our services. Revenue recognized from our existing client base was approximately 84.0% for the three months ended September 30, 2022 and 85.1% for the three months ended September 30, 2021, with the remainder of our revenue attributable to new clients.

Our revenue growth primarily depends on our ability to retain and drive growth from existing clients. The net dollar retention rate was 119% for both the trailing twelve months ended September 30, 2022 and 2021. For a

discussion of the factors impacting our net dollar retention rate, see "—Key Factors Affecting Our Performance—Net Dollar Retention Rate."

Income from operations for the three months ended September 30, 2022 increased \$17.7 million, or 109.8%, to \$1.6 million compared to loss from operations of \$16.1 million for the three months ended September 30, 2021. Income from operations as a percentage of revenues for the three months ended September 30, 2022 was 0.5%, compared to loss from operations as a percentage of revenues of (5.6)% for the three months ended September 30, 2021. The increase was primarily driven by an increase in revenues of \$47.4 million and decrease in stock-based compensation of \$24.3 million, as previously discussed, partially offset by an increase in payroll expenses (excluding stock-based compensation) of \$41.8 million.

Our effective tax rates for the three months ended September 30, 2022 and 2021 were (104.3)% and (2.6)%, respectively. The effective tax rate in each period differed from the U.S. statutory tax rate of 21% principally due to U.S. corporate state income taxation and the effect of foreign operations which reflects the impact of different income tax rates in locations outside the United States, the unfavorable impact of valuation allowances on deferred tax assets of select foreign operations, the non-deductibility of executive compensation expense in compliance with IRC §162(m), impacted by excess tax deficiencies unfavorably and excess tax benefits favorably on stock-based compensation for the three months ended September 30, 2022 and 2021, respectively. The change in the effective tax rate for the three months ended September 30, 2022 as compared to the prior year was primarily due to the non-deductibility of China SAFE RSUs and the unfavorable impact of capitalized research and experimental costs under IRC §174 increasing the Company's net GILTI inclusion. The negative effective tax rate for the three months ended September 30, 2022 and 2021 is a result of the aforementioned unique net unfavorable items when compared to the pre-tax loss recorded for the respective periods.

Net loss for the three months ended September 30, 2022 increased \$6.2 million to \$31.4 million compared to \$25.2 million for the three months ended September 30, 2021. The increase was primarily driven by increases in payroll expenses (excluding stock-based compensation) of \$41.8 million, net realized and unrealized foreign currency loss of \$11.2 million and income tax expense of \$15.4 million, partially offset by a decrease in stock-based compensation of \$24.3 million and an increase in revenues of \$47.4 million.

Summary Comparison of Nine Months Ended September 30, 2022 with the Nine Months Ended September 30, 2021

Revenues for the nine months ended September 30, 2022 increased \$202.3 million, or 25.8%, to \$985.5 million, compared to \$783.1 million for the nine months ended September 30, 2021. The increase in revenues was driven by higher demand for services as clients execute on their digital transformation strategies. The majority of our revenues are generated from existing clients or those expanding their usage of our services. Revenue recognized from our existing client base was approximately 89.4% for the nine months ended September 30, 2022 and approximately 89.9% for the nine months ended September 30, 2021, with the remainder of our revenue attributable to new clients.

Income from operations for the nine months ended September 30, 2022 decreased \$117.3 million, or 231.2%, to a loss from operations of \$66.6 million compared to income from operations of \$50.7 million for the nine months ended September 30, 2021. Loss from operations as a percentage of revenues for the nine months ended September 30, 2022 was (6.8)%, compared to income from operations of 6.5% for the nine months ended September 30, 2021. The decrease was primarily driven by an increase in stock-based compensation of \$141.4 million, as previously discussed, which includes \$47.7 million related to the approval of China SAFE during the first quarter of 2022, and an increase in payroll expenses (excluding stock-based compensation) of \$142.4 million. This was partially offset by an increase in revenues of \$202.3 million.

Our effective tax rates for the nine months ended September 30, 2022 and 2021 were (19.0)% and 57.6%, respectively. The effective tax rate in each period differed from the U.S. statutory tax rate of 21% principally due to U.S. corporate state income taxation and the effect of foreign operations which reflects the impact of different income tax rates in locations outside the United States, the unfavorable impact of valuation allowances on deferred tax assets of select foreign operations, the non-deductibility of executive compensation expense in compliance with IRC §162(m), impacted by excess tax deficiencies unfavorably and excess tax benefits favorably on stock-based compensation for the nine months ended September 30, 2022 and 2021, respectively. The change in the effective tax rate for the nine months ended September 30, 2022 as compared to the prior year was primarily due to the non-deductibility of China SAFE RSUs and the

unfavorable impact of capitalized research and experimental costs under IRC §174 increasing the Company's net GILTI inclusion. The negative effective tax rate for the nine months ended September 30, 2022 is a result of the aforementioned unique net unfavorable items when compared to the pre-tax loss recorded for the period.

Net income for the nine months ended September 30, 2022 decreased \$132.8 million to a net loss of \$121.3 million compared to net income of \$11.5 million for the nine months ended September 30, 2021. The decrease in net income was driven by increases in payroll expenses (excluding stock-based compensation) of \$142.4 million, stock-based compensation of \$141.4 million, which includes \$47.7 million related to the approval of China SAFE during the first quarter of 2022, net realized and unrealized foreign currency loss of \$18.0 million, partially offset by an increase in revenues of \$202.3 million.

Revenues

We continue to expand our international presence and nearshore capabilities in different geographies. For the three and nine months ended September 30, 2022, total revenues grew 16.6% and 25.8%, respectively, to \$332.4 million and \$985.5 million, respectively, compared to the same periods in the prior year. The increase in revenues was attributable to continued strong demand for our services, including strong growth across geographies and verticals, and expansion in our top fifty clients.

Revenues by Industry Vertical

The following table presents our revenues by industry vertical and revenues as a percentage of total revenues by industry vertical for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Technology and business services	\$94,219	28.4%	\$75,086	26.3%	\$274,815	27.8%	\$211,226	27.0%
Energy, public and health services	83,386	25.1%	71,556	25.1%	237,101	24.1%	205,465	26.2%
Retail and consumer	57,919	17.4%	57,723	20.3%	182,982	18.6%	146,647	18.7%
Financial services and insurance	55,004	16.5%	46,739	16.4%	173,139	17.6%	121,848	15.6%
Automotive, travel and transportation	41,919	12.6%	33,947	11.9%	117,457	11.9%	97,959	12.5%
Total revenues	\$332,447	100.0%	\$285,051	100.0%	\$985,494	100.0%	\$783,145	100.0%

During the three months ended September 30, 2022, we continued to see a healthy demand environment and multiple industries continued to sustain revenue growth. The technology and business services industry vertical grew by 25.5%, the automotive, travel and transportation industry vertical grew by 23.5%, and the financial services and insurance industry vertical grew by 17.7%, compared to the three months ended September 30, 2021. Revenue growth in these verticals was primarily driven by our clients executing on their digital transformation strategies.

During the nine months ended September 30, 2022, we continued to sustain revenue growth across the financial services and insurance; technology and business services; and retail and consumer industry verticals which grew by 42.1%, 30.1%, and 24.8%, respectively, compared to the nine months ended September 30, 2021. Revenue growth in these verticals was primarily driven by our clients executing on their digital transformation strategies.

Revenues by Customer Location

Our revenues are sourced from four geographic markets: North America, APAC, Europe and LATAM. We present and discuss our revenues by the geographic location where the revenues are under client contract; however, the delivery of those client contracts could be supported by offshore delivery locations.

The following table presents our revenues by customer location and revenues as a percentage of total revenues by customer location for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
North America	\$129,421	38.9%	\$103,769	36.4%	\$382,856	38.8%	\$290,954	37.2%
APAC	108,353	32.6%	98,756	34.6%	320,233	32.5%	260,928	33.3%
Europe	79,937	24.1%	69,522	24.4%	239,466	24.3%	196,476	25.1%
LATAM	14,736	4.4%	13,004	4.6%	42,939	4.4%	34,787	4.4%
Total revenues	\$332,447	100.0%	\$285,051	100.0%	\$985,494	100.0%	\$783,145	100.0%

For the three and nine months ended September 30, 2022, we had revenue growth of 24.7% and 31.6%, respectively, in North America, with the United States contributing revenues of \$121.1 million and \$359.7 million, respectively, compared to \$96.5 million and \$275.0 million, respectively, for the same periods in 2021. The largest client demand came from the energy, public and health services vertical followed by the technology and business services industry vertical which was primarily driven by our clients executing on their digital transformation strategies. Further, our ability to retain existing clients and increase the level of services we provide resulted in revenue expansion.

For the three and nine months ended September 30, 2022, we had revenue growth of 9.7% and 22.7%, respectively, in APAC where the top revenue contributing customer location country was Australia with revenues of \$38.4 million and \$114.5 million, respectively, compared to \$31.0 million and \$83.7 million, respectively, for the same periods in 2021. The largest client demand came from the technology and business services industry vertical driven by increased client demand on digital transformation projects. We also saw impacts from the strengthening of the United States Dollar against the foreign currencies in APAC, particularly the Australian Dollar.

For the three and nine months ended September 30, 2022, we had revenue growth of 15.0% and 21.9% in Europe where the top revenue contributing customer location country was the United Kingdom with revenues of \$32.3 million and \$102.6 million compared to \$30.0 million and \$83.5 million for the same period in 2021. The largest client demand came from our automotive, travel and transportation industry vertical where certain automotive manufacturers and service providers continued to focus on digital transformation. We also saw impacts from the strengthening of the United States Dollar against the foreign currencies in Europe, particularly the Euro and the Great British Pound.

For the three and nine months ended September 30, 2022, we had revenue growth of 13.3% and 23.4%, respectively, in LATAM, compared to the same periods in 2021 with Brazil being our largest customer location. The largest client demand came from our retail and consumer vertical where our clients continued to focus on digital transformation.

Revenues by Client Concentration

We have long-standing relationships with many of our clients. We seek to grow revenues from our existing clients by continually increasing the value we provide and expanding the scope and size of our engagements. Revenues derived from these clients may fluctuate as these accounts mature or upon beginning or completing multi-year projects. We believe there is significant potential for future growth as we expand our capabilities and offerings within existing clients. In addition, we remain committed to diversifying our client base and adding new clients to our client mix.

The following table presents revenues contributed by our largest clients by amount and as a percentage of total revenues for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Top five clients	\$53,548	16.1%	\$46,238	16.2%	\$151,981	15.4%	\$135,972	17.4%
Top ten clients	\$84,569	25.4%	\$77,186	27.1%	\$248,670	25.2%	\$216,094	27.6%
Top fifty clients	\$217,445	65.4%	\$199,103	69.8%	\$636,708	64.6%	\$552,803	70.6%

For the three and nine months ended September 30, 2022, revenues from our top five, ten and fifty clients experienced strong but slower growth compared to our reported revenue growth rate of 16.6% and 25.8% for the same periods, respectively. We continued to focus on opportunities with new and existing clients and further diversify our business. For the three months ended September 30, 2022, 16.0% of revenues came from new clients and 84.0% of revenues from existing clients, representing increases of 25.7% and 15.1% in revenues from new and existing clients, respectively. For the nine months ended September 30, 2022, 10.6% of revenues came from new clients and 89.4% of revenues from existing clients, representing increases of 32.2% and 25.1% in revenues from new and existing clients, respectively.

Bookings

We use Bookings ("Bookings") as a forward-looking metric that measures the value of new contracts, renewals, extensions and changes to existing contracts during the fiscal period. We believe Bookings provides a broad measure of useful trend information regarding changes in the volume of our business. We use Bookings to evaluate the results of our operations, generate future operating plans and assess the performance of our company. However, Bookings can vary significantly quarter to quarter due to both timing and demand from our clients and thus the conversion of Bookings to revenues is uncertain. The amount of Bookings involves estimates and judgments and is not a reliable predictor of revenues over time. There is no standard definition or measurement of Bookings thus our methodology may not be comparable to other companies. Bookings were \$1.5 billion and \$1.2 billion for the trailing twelve months ended September 30, 2022 and 2021, respectively.

Cost of Revenues

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
<i>(in thousands, except percentages)</i>						
Cost of revenues	\$236,007	\$183,945	28.3%	\$739,097	\$471,047	56.9%

During the three and nine months ended September 30, 2022, cost of revenues (including stock-based compensation) increased 28.3% and 56.9%, respectively, compared to the three and nine months ended September 30, 2021. The increases were primarily driven by an increase in payroll expenses (excluding stock-based compensation) of \$39.9 million and \$127.2 million, respectively, due to higher headcount as we invested in additional talent to support growth and pay increases. The increase was also driven by an increase in stock-based compensation expense of \$7.7 million and \$126.7 million, respectively.

Gross Profit and Gross Margin

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
<i>(in thousands, except percentages)</i>						
Gross profit	\$96,440	\$101,106	(4.6)%	\$246,397	\$312,098	(21.1)%
Gross margin	29.0%	35.5%		25.0%	39.9%	

Our gross margin decreased by 6.5 percentage points for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 and 14.9 percentage points for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 primarily due to increases in stock-based compensation of \$7.7 million and \$126.7 million, respectively, and payroll expenses (excluding stock-based compensation) of \$39.9 million and \$127.2 million, respectively. This was partially offset by revenue growth from increased demand for our services.

Selling, General and Administrative Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
<i>(in thousands, except percentages)</i>						
Selling, general and administrative expenses	\$89,559	\$113,019	(20.8)%	\$297,587	\$248,366	19.8%

For the three months ended September 30, 2022, SG&A expenses decreased 20.8% compared to the three months ended September 30, 2021. The decrease was primarily due to a decrease in stock-based compensation expense of \$31.9 million. SG&A expenses as a percentage of revenues was 26.9% for the three months ended September 30, 2022 compared to 39.6% for the three months ended September 30, 2021 due to improved efficiencies in the cost of delivering the general and administrative activities of our business.

For the nine months ended September 30, 2022, SG&A expenses increased 19.8% compared to the nine months ended September 30, 2021. The increase was driven by increases in payroll expenses (excluding stock-based compensation) of \$15.2 million, stock-based compensation expense of \$14.7 million and facility expenses of \$7.4 million. SG&A expenses as a percentage of revenues was 30.2% for the nine months ended September 30, 2022 compared to 31.7% for the nine months ended September 30, 2021 due to improved efficiencies in the cost of delivering the general and administrative activities of our business.

Depreciation and Amortization

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
<i>(in thousands, except percentages)</i>						
Depreciation and amortization	\$5,303	\$4,173	27.1%	\$15,364	\$13,007	18.1%

The increase was primarily due to an increase in the amortization expense related to increased capitalized software development costs for the three and nine months ended September 30, 2022 as compared to the three and nine months ended September 30, 2021.

Interest Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
<i>(in thousands, except percentages)</i>						
Interest expense	\$5,871	\$6,734	(12.8)%	\$15,502	\$20,316	(23.7)%

Interest expense is primarily related to our Term Loan and Revolver. The decrease for the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021 was primarily due to decreased borrowings and certain prepayments under our Credit Agreement.

Income Tax Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
<i>(in thousands, except percentages)</i>						
Income tax expense	\$16,027	\$643	NM	\$19,348	\$15,605	24.0%

NM - not meaningful. See Note 5, *Income Taxes*, for additional discussion around forecasting uncertainties related to our income tax rate.

The Company's income tax expense increased by \$15.4 million and \$3.7 million for the three and nine months ended September 30, 2022, respectively, as compared to the three and nine months ended September 30, 2021 primarily due to the unfavorable impact of excess tax deficiencies on stock-based compensation, valuation allowances on deferred tax assets of select foreign operations, capitalized research and experimental costs under IRC §174 increasing the Company's net GILTI inclusion, and the non-deductibility of China SAFE RSUs and executive compensation expense in compliance with IRC §162(m). The Company's tax expense for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 benefited from the pre-tax loss recorded from IPO related stock-based compensation expense.

Foreign Currency Exchange Gains and Losses

See "Item 3. *Quantitative and Qualitative Disclosures About Market Risk*" included elsewhere in this Quarterly Report as well as "Item 1A. Risk Factors—Risks Related to Our Global Operations—Our business, financial condition and results of operations may be adversely affected by fluctuations in foreign currency exchange rates" as included in our 2021 *Annual Report*.

Non-GAAP Financial Measures

We define Adjusted Net Income as net (loss) income adjusted for unrealized loss on foreign currency exchange, stock-based compensation expense, employer payroll related expense on employee equity incentive plan, amortization of acquisition-related intangibles, acquisition costs, certain professional fees that are considered unrelated to our ongoing revenue-generating operations, tender offer compensation expense that is considered one-time in nature, IPO-related costs, the change in fair value of contingent consideration, final tax assessment for closed operations and income tax effects of adjustments.

We define Adjusted EBITDA as net (loss) income adjusted to exclude income tax expense, interest expense, other income (expense), net, unrealized loss on foreign currency exchange, stock-based compensation expense, employer payroll related expense on employee equity incentive plan, depreciation and amortization expense, acquisition costs, certain professional fees that are considered unrelated to our ongoing revenue-generating operations, tender offer compensation expense that is considered one-time in nature, IPO-related costs and final tax assessment for closed operations. Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by total revenues.

We use Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income as measures of operating performance and the operating leverage in our business. We believe that these non-GAAP financial measures are useful to investors for supplemental period-to-period comparisons of our business and in understanding and evaluating our operating results for the following reasons:

- Our management uses Adjusted Net Income to assess our overall performance, without regard to items that are considered to be unique or non-recurring in nature or otherwise unrelated to our ongoing revenue-generating operations, net of the income tax effect of the adjustments;
- Adjusted EBITDA and Adjusted EBITDA Margin are widely used by investors and securities analysts to measure a company's operating performance without regard to the aforementioned adjustments which can vary substantially from company to company depending upon their financing, capital structures, and the method by which assets were acquired or costs that are unique or non-recurring in nature or otherwise unrelated to our ongoing revenue-generating operations;
- Our management uses Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin in conjunction with financial measures prepared in accordance with GAAP for planning purposes,

including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance; and

- Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin provide consistency and comparability with our past financial performance, facilitate period-to-period comparisons of our core operating results, and also facilitate comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin have limitations as analytical tools, and you should not consider these measures in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are, or may in the future be, as follows:

- Although depreciation and amortization expense is a non-cash charge, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA and Adjusted EBITDA Margin do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin exclude stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring non-cash expense for our business and an important part of our compensation strategy;
- Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA and Adjusted EBITDA Margin do not reflect (i) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (ii) accruals or tax payments that may represent a reduction in cash available to us;
- Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin do not reflect transaction costs related to acquisitions; and
- The expenses and other items that we exclude in our calculations of Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin may differ from the expenses and other items, if any, that other companies may exclude from similarly-titled non-GAAP measures when they report their operating results, and we may, in the future, exclude other significant, unusual or non-recurring expenses or other items from these financial measures.

Because of these limitations, Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin should be considered along with other financial performance measures presented in accordance with GAAP.

The following tables present a reconciliation of Adjusted Net Income, Adjusted EBITDA and Adjusted EBITDA Margin to their most directly comparable financial measure prepared in accordance with GAAP, for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ 11,502
Unrealized foreign exchange losses	15,446	1,393	24,953	3,912
Stock-based compensation	48,905	73,192	224,827	83,428
Amortization of acquisition-related intangibles	3,449	3,018	9,744	9,051
Acquisition costs (a)	1,742	450	3,044	7,936
Certain professional fees (b)	766	145	1,632	1,991
Non-recurring tender offer compensation expense (c)	—	—	—	2,715
IPO-related costs (d)	—	1,638	—	2,713
Employer payroll related expense on employee equity incentive plan (e)	2,950	—	6,447	—
Final tax assessment for closed operations (f)	—	—	258	—
Change in fair value of contingent consideration (g)	(2,955)	—	(2,427)	—
Income tax effects of adjustments (h)	(12,154)	(17,413)	(39,433)	(26,635)
Adjusted Net Income	<u>\$ 26,758</u>	<u>\$ 37,188</u>	<u>\$ 107,758</u>	<u>\$ 96,613</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income	\$ (31,391)	\$ (25,235)	\$ (121,287)	\$ 11,502
Income tax expense	16,027	643	19,348	15,605
Interest expense	5,871	6,734	15,502	20,316
Other (income) expense, net	(2,056)	(162)	(1,731)	(306)
Unrealized foreign exchange losses	15,446	1,393	24,953	3,912
Stock-based compensation	48,905	73,192	224,827	83,428
Depreciation and amortization	8,905	7,661	25,561	21,702
Acquisition costs (a)	1,742	450	3,044	7,936
Certain professional fees (b)	766	145	1,632	1,991
Non-recurring tender offer compensation expense (c)	—	—	—	2,715
IPO-related costs (d)	—	1,638	—	2,713
Employer payroll related expense on employee equity incentive plan (e)	2,950	—	6,447	—
Final tax assessment for closed operations (f)	—	—	258	—
Adjusted EBITDA	<u>\$ 67,165</u>	<u>\$ 66,459</u>	<u>\$ 198,554</u>	<u>\$ 171,514</u>
Net (loss) income margin	(9.4)%	(8.9)%	(12.3)%	1.5 %
Adjusted EBITDA Margin	20.2 %	23.3 %	20.1 %	21.9 %

(a) Reflects costs for certain professional fees and retention wage expenses related to certain acquisitions.

(b) Adjusts for certain transaction expenses, non-recurring legal expenses, and one-time professional fees.

- (c) Adjusts for the additional compensation expense related to the tender offer completed in the first quarter of 2021.
- (d) Adjusts for IPO-readiness costs and expenses that do not qualify as equity issuance costs.
- (e) We exclude employer payroll related expense on employee equity incentive plan as these expenses are tied to the exercise or vesting of underlying equity awards and the price of our common stock at the time of vesting or exercise. As a result, these expenses may vary in any particular period independent of the financial and operating performance of our business.
- (f) Adjusts for certain tax related expenses related to final tax assessments from closing operations in Uganda, which was completely shut down in 2015.
- (g) Adjusts for the non-cash adjustment to the fair value of contingent consideration.
- (h) Adjusts for the income tax effects of the foregoing adjusted items.

Liquidity and Capital Resources

The following table summarizes certain key measures of our liquidity and capital resources (in thousands):

	September 30, 2022		December 31, 2021	
Cash and cash equivalents	\$	184,544	\$	368,209
Availability under Revolver		165,000		165,000
Borrowings under Revolver		—		—
Long-term debt, including current portion (1)		400,642		504,530

(1) The balance includes deferred financing fees. A reconciliation of gross to net amounts is presented in Note 9, *Credit Agreements*.

Our cash generated from operations and financing activities has been our primary source of liquidity to fund operations and investments. Our capital investments focus on our technology solutions, corporate infrastructure and strategic acquisitions to further expand into new business sectors and/or expand sales in existing sectors. The Company generates sufficient cash flows for working capital and expects to do so for the foreseeable future.

As of September 30, 2022, our principal sources of liquidity were cash and cash equivalents of \$184.5 million and \$165.0 million of available borrowings under our Revolver.

In the future, we may enter into arrangements to acquire or invest in complementary businesses, services and technologies, or intellectual property rights. To fund these acquisitions or investments, we may seek to access the debt or capital markets. Our ability to obtain additional funding will be subject to various factors, including general market conditions, our operating performance, the market's perception of our growth potential, lender sentiment and our ability to incur additional debt in compliance with our contractual restrictions, including those in our Credit Agreement.

Our Credit Facilities

Our subsidiaries are party to the Credit Agreement. The Credit Agreement provides for a Term Loan and the Revolver. See Note 14, *Credit Agreements*, in the notes to our consolidated financial statements included in the 2021 Annual Report for a discussion of our Term Loan and Revolver. As of September 30, 2022, we had \$404.3 million outstanding under our Term Loan with an interest rate of 5.87% and no borrowings outstanding under the Revolver.

Borrowings under the Credit Agreement are guaranteed by substantially all the Borrowers' direct and indirect wholly owned material domestic subsidiaries subject to customary exceptions (the "Guarantors" and together with the Borrowers and Holdings, the "Loan Parties"). The obligations under the Credit Agreement and the guarantees of the Guarantors are secured by substantially all of the Loan Parties' assets, subject to customary exceptions and thresholds.

Borrowings under the Term Loan bear interest at a rate per annum equal to an applicable margin plus either (a) a base rate or (b) a LIBOR rate, at our option, subject to interest rate floors. Borrowings under the Revolver bear interest at a rate per annum equal to an applicable margin plus either (x) a base rate or (y) a LIBOR rate

at our option. In addition to paying interest on outstanding borrowings under the Revolver, we are required to pay a commitment fee to the lenders under the Revolver in respect of unutilized commitments thereunder and customary letter of credit fees. The applicable margins in respect of both the Term Loan and the Revolver are subject to adjustments based on our first lien leverage ratios and corporate family ratings. In the first quarter of 2022, the interest rate applicable to our Term Loan and our Revolver was permanently reduced by 25 basis points. See Note 1, "Recently Issued Accounting Pronouncements Not Yet Adopted" within Business and Summary of Significant Accounting Policies, for further additional discussion on the potential impact of the transition away from LIBOR.

The Credit Agreement requires compliance with certain covenants customary for agreements of this type. As of September 30, 2022, we were in compliance with our debt covenants.

Cash Flows

The following table shows a summary of our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by (used in):		
Operating activities	\$ 56,341	\$ 95,499
Investing activities	(89,246)	(65,888)
Financing activities	(158,213)	(37,454)
Effect of exchange rate changes on cash and cash equivalents	(18,032)	(3,394)
Net decrease in cash and cash equivalents	\$ (209,150)	\$ (11,237)

Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2022 was \$56.3 million compared to \$95.5 million for the comparable period in 2021. The decrease in cash provided was primarily due to an increase in unbilled receivables as a result of increased revenue in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 and a decrease in accrued expenses and other liabilities driven by the payment of bonus, annual wage payment and commissions, partially offset by a decrease in prepaid expenses and other assets.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2022 was \$89.2 million compared to \$65.9 million in the same period in 2021. The increase was primarily attributable to the acquisition of Connected in the second quarter of 2022.

Financing Activities

Net cash used in financing activities during the nine months ended September 30, 2022 was \$158.2 million driven by the repayment of long-term debt of \$105.4 million and withholding taxes paid related to the following: net share settlement on equity awards of \$33.0 million, tender offer of \$15.5 million and dividends previously declared of \$10.0 million.

Net cash used in financing activities of \$37.5 million during the nine months ended September 30, 2021 was primarily attributable to the repurchase of shares and vested options from our securityholders using the proceeds from the issuance of \$720.0 million of preferred stock, partially offset by proceeds from an increase in our term loan which were subsequently used to pay a dividend to our securityholders in April 2021. Additionally, the increase was a result of the repayment of long-term debt of \$234.9 million, offset by \$314.7 million of net proceeds from our IPO.

Contractual Obligations and Future Capital Requirements

Contractual Obligations

We recorded an acquisition purchase price liability of \$14.0 million for contingent consideration related to the acquisition of Connected which is expected to be paid in the second quarter of 2023. The fair value of the liability as of September 30, 2022 was \$10.6 million.

Refer to Note 3, Acquisitions, and Note 7, Leases, of the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report for further detail regarding the aforementioned contingent consideration and additional information related to our lease commitments.

There were no other material changes in our contractual obligations and commitments during the nine months ended September 30, 2022 from the contractual obligations and commitments disclosed in the 2021 Annual Report.

Except as disclosed in “—Our Credit Facilities” and those mentioned above, we did not have other material contractual obligations for cash expenditures.

Future Capital Requirements

We believe that our existing cash and cash equivalents combined with our expected cash flow from operations will be sufficient to meet our projected operating and capital expenditure requirements for at least the next twelve months and that we possess the financial flexibility to execute our strategic objectives, including the ability to make acquisitions and strategic investments in the foreseeable future. However, our ability to generate cash is subject to our performance, general economic conditions, industry trends and other factors, and due to our global operations, the value of cash generated may be adversely affected by fluctuations in foreign currency exchange rates. To the extent that existing cash and cash equivalents and operating cash flow are insufficient to fund our future activities and requirements, we may need to raise additional funds through public or private equity or debt financing. If we incur new debt, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity or convertible debt securities, existing stockholders may experience dilution, and such new securities could have rights senior to those of our common stock. These factors may make the timing, amount, terms and conditions of additional financings unattractive. Our inability to raise capital could impede our growth or otherwise require us to forego growth opportunities and could materially adversely affect our business, financial condition and results of operations. There is no assurance that we would be able to raise additional funds on favorable terms or at all.

Commitments and Contingencies

Certain conditions may exist as of the date of the condensed consolidated financial statements which may result in a loss to the Company but will only be resolved when one or more future events occur or fail to occur. Such liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources, are recorded when the Company assesses that it is probable that a future liability has been incurred and the amount can be reasonably estimated. Recoveries of costs from third parties, which the Company assesses as being probable of realization, are recorded to the extent of related contingent liabilities accrued. Legal costs incurred in connection with matters relating to contingencies are expensed in the period incurred. The Company records gain contingencies when realized.

Off-Balance Sheet Arrangements

We did not have during any of the periods presented, and we do not currently have, any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Recent Accounting Pronouncements

See Note 1, *Business and Summary of Significant Accounting Policies*, in the notes to our condensed consolidated financial statements included in Part I, Item I of this Quarterly Report for a discussion of recent accounting pronouncements.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report are prepared in accordance with GAAP. In preparing the condensed consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, stockholders' equity, revenues, expenses and related disclosures. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates as compared to those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our 2021 Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks in the ordinary course of our business. These risks primarily result from changes in concentration of credit, interest rates and foreign currency exchange rates. In addition, our international operations are subject to risks related to differing economic conditions, civil unrest, political instability or uncertainty, military activities, broad-based sanctions, differing tax structures, and other regulations and restrictions.

There were no material changes to the information on market risk disclosure from our 2021 Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Exchange Act"), as of the end of the period covered by this Quarterly Report.

Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (identified in management's evaluation pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act) that occurred during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls and Procedures

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. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations and businesses that cover a wide range of matters, including, among others, intellectual property, data privacy and cybersecurity, contract and employment, personal injury, product liability and warranty. Currently, there are no claims or proceedings against us that we believe will have a material adverse effect on our business, financial condition, results of operations or cash flows. However, the results of any current or future litigation cannot be predicted with certainty and, regardless of the outcome, we may incur significant costs and experience a diversion of management resources as a result of litigation.

Item 1A. Risk Factors

The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the 2021 Annual Report in Part I, Item 1A. "Risk Factors," any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price. There have been no material changes to the Company's risk factors since those set forth in the 2021 Annual Report.

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

There were no unregistered sales of the Company's equity securities during the third quarter of 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief 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 the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document - 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.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File - (formatted as inline XBRL and contained in Exhibit 101)
*	Exhibits filed herewith
**	Exhibits furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 14, 2022

THOUGHTWORKS HOLDING, INC.

By: /s/ Guo Xiao

Guo Xiao

Chief Executive Officer and Director

(Principal Executive Officer)

By: /s/ Erin Cummins

Erin Cummins

Chief Financial Officer

*(Principal Financial Officer and Principal
Accounting Officer)*

**Certification by Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Guo Xiao, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Thoughtworks Holding, 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 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. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 14, 2022

/s/ Guo Xiao

Guo Xiao

Chief Executive Officer and Director
(Principal Executive Officer)

**Certification by Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Erin Cummins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Thoughtworks Holding, 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 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. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: November 14, 2022

/s/ Erin Cummins

Erin Cummins

Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER 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 Thoughtworks Holding, Inc. (the "Company") for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Guo Xiao, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- i. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: November 14, 2022

/s/ Guo Xiao

Guo Xiao

Chief Executive Officer and Director
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER 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 Thoughtworks Holding, Inc. (the "Company") for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Erin Cummins, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to her knowledge:

- i. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: November 14, 2022

/s/ Erin Cummins

Erin Cummins

Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)