
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from ___ to ___

Commission file number 001-40643

Outbrain Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-5391629

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

111 West 19th Street, New York, NY 10011

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(646) 867-0149**

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" 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 April 30, 2024, Outbrain Inc. had 48,842,763 shares of common stock outstanding.

TABLE OF CONTENTS

	Page	
<u>Part I - Financial Information</u>		
Item 1.	Financial Statements	5
	Condensed Consolidated Balance Sheets	5
	Condensed Consolidated Statements of Operations	6
	Condensed Consolidated Statements of Comprehensive Loss	7
	Condensed Consolidated Statements of Stockholders' Equity	8
	Condensed Consolidated Statements of Cash Flows	9
	Notes to Condensed Consolidated Financial Statements	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	40
<u>Part II - Other Information</u>		
Item 1.	Legal Proceedings	41
Item 1A.	Risk Factors	41
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 5.	Other Information	41
Item 6.	Exhibits	42
	Signatures	43

Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Report”) contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements may include, without limitation, statements generally relating to possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. You can generally identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “foresee,” “potential” or “continue” or the negative of these terms or other similar expressions that concern our expectations, strategy, plans or intentions or are not statements of historical fact. We have based these forward-looking statements largely on our expectations and projections regarding future events and trends that we believe may affect our business, financial condition, and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors including, but not limited to:

- overall advertising demand and traffic generated by our media partners;
- factors that affect advertising demand and spending, such as the continuation or worsening of unfavorable economic or business conditions or downturns, instability or volatility in financial markets, and other events or factors outside of our control, such as U.S. and global recession concerns, geopolitical concerns, including the ongoing wars between Ukraine-Russia and Israel-Hamas, supply chain issues, inflationary pressures, labor market volatility, bank closures or disruptions, the impact of challenging economic conditions and other factors that have and may further impact advertisers’ ability to pay;
- our ability to continue to innovate, and adoption by our advertisers and media partners of our expanding solutions;
- the success of our sales and marketing investments, which may require significant investments and may involve long sales cycles;
- our ability to grow our business and manage growth effectively;
- our ability to compete effectively against current and future competitors;
- the loss of one or more of our large media partners, and our ability to expand our advertiser and media partner relationships;
- conditions in Israel, including the ongoing war between Israel and Hamas and other terrorist organizations, may limit our ability to market, support and innovate on our products due to the impact on our employees as well as our advertisers and their advertising markets;
- our ability to maintain our revenues or profitability despite quarterly fluctuations in our results, whether due to seasonality, large cyclical events, or other causes;
- the risk that our research and development efforts may not meet the demands of a rapidly evolving technology market;
- any failure of our recommendation engine to accurately predict attention or engagement, any deterioration in the quality of our recommendations or failure to present interesting content to users or other factors which may cause us to experience a decline in user engagement or loss of media partners;
- limits on our ability to collect, use and disclose data to deliver advertisements;
- our ability to extend our reach into evolving digital media platforms;
- our ability to maintain and scale our technology platform;
- our ability to meet demands on our infrastructure and resources due to future growth or otherwise;
- our failure or the failure of third parties to protect our sites, networks and systems against security breaches, or otherwise to protect the confidential information of us or our partners;

- outages or disruptions that impact us or our service providers, resulting from cyber incidents, or failures or loss of our infrastructure;
- significant fluctuations in currency exchange rates;
- political and regulatory risks in the various markets in which we operate;
- the challenges of compliance with differing and changing regulatory requirements;
- the timing and execution of any cost-saving measures and the impact on our business or strategy; and
- the risks described in the section entitled “Risk Factors” in the Annual Report on Form 10-K filed for the year ended December 31, 2023 and elsewhere in this Report.

Accordingly, you should not rely upon forward-looking statements as an indication of future performance. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or will occur, and actual results, events, or circumstances could differ materially from those projected in the forward-looking statements. The forward-looking statements made in this Report relate only to events as of the date on which the statements are made. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. We undertake no obligation and do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events or otherwise, except as required by law.

Part I Financial Information
Item 1. Financial Statements

OUTBRAIN INC.
Condensed Consolidated Balance Sheets
(In thousands, except for number of shares and par value)

	March 31, 2024 <i>(Unaudited)</i>	December 31, 2023
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 71,362	\$ 70,889
Short-term investments in marketable securities	91,909	94,313
Accounts receivable, net of allowances	156,392	189,334
Prepaid expenses and other current assets	38,997	47,240
Total current assets	358,660	401,776
Non-current assets:		
Long-term investments in marketable securities	68,349	65,767
Property, equipment and capitalized software, net	41,736	42,461
Operating lease right-of-use assets, net	17,113	12,145
Intangible assets, net	19,516	20,396
Goodwill	63,063	63,063
Deferred tax assets	38,346	38,360
Other assets	19,875	20,669
TOTAL ASSETS	\$ 626,658	\$ 664,637
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 139,763	\$ 150,812
Accrued compensation and benefits	19,055	18,620
Accrued and other current liabilities	95,594	119,703
Deferred revenue	6,987	8,486
Total current liabilities	261,399	297,621
Non-current liabilities:		
Long-term debt	118,000	118,000
Operating lease liabilities, non-current	14,237	9,217
Other liabilities	16,094	16,735
TOTAL LIABILITIES	\$ 409,730	\$ 441,573
Commitments and Contingencies (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, par value of \$0.001 per share – one billion shares authorized; 61,915,671 shares issued and 49,091,230 shares outstanding as of March 31, 2024; 61,567,520 shares issued and 49,726,518 shares outstanding as of December 31, 2023.	62	62
Preferred stock, par value of \$0.001 per share – 100,000,000 shares authorized, none issued and outstanding as of March 31, 2024 and December 31, 2023	—	—
Additional paid-in capital	471,593	468,525
Treasury stock, at cost – 12,824,441 shares as of March 31, 2024 and 11,841,002 shares as of December 31, 2023	(71,704)	(67,689)
Accumulated other comprehensive loss	(9,200)	(9,052)
Accumulated deficit	(173,823)	(168,782)
TOTAL STOCKHOLDERS' EQUITY	216,928	223,064
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 626,658	\$ 664,637

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Condensed Consolidated Statements of Operations
(In thousands, except for share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Revenue	\$ 216,964	\$ 231,774
Cost of revenue:		
Traffic acquisition costs	164,810	179,576
Other cost of revenue	10,559	11,043
Total cost of revenue	175,369	190,619
Gross profit	41,595	41,155
Operating expenses:		
Research and development	9,193	9,311
Sales and marketing	23,784	25,748
General and administrative	15,215	15,406
Total operating expenses	48,192	50,465
Loss from operations	(6,597)	(9,310)
Other income (expense), net:		
Interest expense	(937)	(1,867)
Interest income and other income, net	1,405	3,860
Total other income, net	468	1,993
Loss before benefit from income taxes	(6,129)	(7,317)
Benefit from income taxes	(1,088)	(1,712)
Net loss	\$ (5,041)	\$ (5,605)
Weighted average shares outstanding:		
Basic	49,265,012	51,435,289
Diluted	49,265,012	51,435,289
Net loss per common share:		
Basic	\$ (0.10)	\$ (0.11)
Diluted	\$ (0.10)	\$ (0.11)

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Condensed Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Net loss	\$ (5,041)	\$ (5,605)
Other comprehensive income (loss):		
Foreign currency translation adjustments	98	(1,220)
Unrealized (losses) gains on available-for-sale investments in debt securities (net of taxes of \$74 and \$(123) for the three months ended March 31, 2024 and 2023, respectively)	(246)	420
Total other comprehensive loss	(148)	(800)
Comprehensive loss	<u>\$ (5,189)</u>	<u>\$ (6,405)</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except for number of shares)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance – January 1, 2024	61,567,520	\$ 62	\$ 468,525	(11,841,002)	\$ (67,689)	\$ (9,052)	\$ (168,782)	\$ 223,064
Vesting of restricted stock units, net of shares withheld for taxes	348,151	—	—	(37,492)	(153)	—	—	(153)
Shares repurchased under the share repurchase program	—	—	—	(945,947)	(3,862)	—	—	(3,862)
Stock-based compensation	—	—	3,068	—	—	—	—	3,068
Other comprehensive loss	—	—	—	—	—	(148)	—	(148)
Net loss	—	—	—	—	—	—	(5,041)	(5,041)
Balance – March 31, 2024	<u>61,915,671</u>	<u>\$ 62</u>	<u>\$ 471,593</u>	<u>(12,824,441)</u>	<u>\$ (71,704)</u>	<u>\$ (9,200)</u>	<u>\$ (173,823)</u>	<u>\$ 216,928</u>

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance – January 1, 2023	60,175,020	\$ 60	\$ 455,831	(7,948,275)	\$ (49,168)	\$ (9,913)	\$ (179,024)	\$ 217,786
Vesting of restricted stock units, net of shares withheld for taxes	281,469	—	—	(48,202)	(213)	—	—	(213)
Shares repurchased under the share repurchase program	—	—	—	(1,313,073)	(6,142)	—	—	(6,142)
Stock-based compensation	—	—	2,895	—	—	—	—	2,895
Other comprehensive loss	—	—	—	—	—	(800)	—	(800)
Net loss	—	—	—	—	—	—	(5,605)	(5,605)
Balance – March 31, 2023	<u>60,456,489</u>	<u>\$ 60</u>	<u>\$ 458,726</u>	<u>(9,309,550)</u>	<u>\$ (55,523)</u>	<u>\$ (10,713)</u>	<u>\$ (184,629)</u>	<u>\$ 207,921</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,041)	\$ (5,605)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	1,639	1,704
Amortization of capitalized software development costs	2,409	2,641
Amortization of intangible assets	852	1,596
Amortization of discount on marketable securities	(642)	(1,241)
Stock-based compensation	2,927	2,611
Non-cash operating lease expense	1,195	1,146
Provision for credit losses	1,693	2,639
Deferred income taxes	(174)	(437)
Other	338	(1,054)
Changes in operating assets and liabilities:		
Accounts receivable	30,398	(1,478)
Prepaid expenses and other current assets	7,262	4,598
Accounts payable and other current liabilities	(31,875)	(28,017)
Operating lease liabilities	(1,205)	(1,138)
Deferred revenue	(1,471)	(317)
Other non-current assets and liabilities	300	1,874
Net cash provided by (used in) operating activities	<u>8,605</u>	<u>(20,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of a business, net of cash acquired	(181)	(285)
Purchases of property and equipment	(1,335)	(3,749)
Capitalized software development costs	(2,627)	(2,853)
Purchases of marketable securities	(31,578)	(32,762)
Proceeds from maturities of marketable securities	31,492	35,615
Other	—	(5)
Net cash used in investing activities	<u>(4,229)</u>	<u>(4,039)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Treasury stock repurchases and share withholdings on vested awards	(4,015)	(6,355)
Principal payments on finance lease obligations	(255)	(509)
Payment of contingent consideration liability up to acquisition-date fair value	—	(547)
Net cash used in financing activities	<u>(4,270)</u>	<u>(7,411)</u>
Effect of exchange rate changes	363	(436)
Net increase (decrease) in cash, cash equivalents and restricted cash	469	(32,364)
Cash, cash equivalents and restricted cash — Beginning	71,079	105,765
Cash, cash equivalents and restricted cash — Ending	<u>\$ 71,548</u>	<u>\$ 73,401</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO THE CONDENSED CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	\$ 71,362	\$ 73,214
Restricted cash, included in other assets	\$ 186	\$ 187
Total cash, cash equivalents, and restricted cash	<u>\$ 71,548</u>	<u>\$ 73,401</u>

OUTBRAIN INC.
Condensed Consolidated Statements of Cash Flows (Continued)
(In thousands)

	Three Months Ended March 31,	
	2024	2023
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash paid for income taxes, net of refunds	\$ 2,133	\$ 2,313
Cash paid for interest	\$ 1,815	\$ 3,581
<u>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</u>		
Purchases of property and equipment included in accounts payable	\$ 418	\$ 820
Operating lease right-of-use assets obtained in exchange for lease obligations	\$ 6,055	\$ 1,339
Acquisition consideration payable	\$ —	\$ 285
Stock-based compensation capitalized for software development costs	\$ 141	\$ 284

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization, Description of Business and Summary of Significant Accounting Policies

Organization and Description of Business

Outbrain Inc. (together with its subsidiaries, “Outbrain,” the “Company,” “we,” “our” or “us”), was incorporated in August 2006 in Delaware. The Company is headquartered in New York, New York and has wholly owned subsidiaries in Israel, Europe, Asia, Brazil and Australia. In connection with the Company’s initial public offering (“IPO”), its common stock began trading on The Nasdaq Stock Market LLC (“Nasdaq”) on July 23, 2021 under the “OB” ticker symbol.

Outbrain is a leading technology platform that drives business results by connecting media owners and advertisers with engaged audiences to drive business outcomes across the Open Internet. The Company’s platform provides advertisements on media owners’ online properties. The Company generates revenue from advertisers through consumer engagements with advertisements that it delivers across a variety of third-party media owners’ online properties. The Company pays traffic acquisition costs to its media owner partners on whose digital properties the advertisements are shown. The Company’s advertiser solutions are mainly priced using a performance-based model based on the actual number of engagements generated by consumers, which is highly dependent on its ability to generate trustworthy and interesting advertisements to individual consumers based on its proprietary algorithms. A portion of the Company’s revenue is generated through advertisers participating in programmatic auctions wherein the pricing is determined by the auction results and not dependent on consumer engagement.

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and are unaudited. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Accordingly, these condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission on March 8, 2024 (“2023 Form 10-K”).

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures as of the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are based on historical information and on various other assumptions that the Company believes are reasonable under the circumstances. Estimates and assumptions made in the accompanying condensed consolidated financial statements include, but are not limited to, the allowance for credit losses, sales allowance, software development costs eligible for capitalization, valuation of deferred tax assets, the useful lives of property and equipment, the useful lives and fair value of intangible assets, valuation of goodwill, the fair value of stock-based awards, and the recognition and measurement of income tax uncertainties and other contingencies. Actual results could differ materially from these estimates.

Certain Risks and Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, restricted cash, and accounts receivable. The Company’s cash and cash equivalents and restricted cash are generally invested in high-credit quality financial instruments with both banks and financial institutions to reduce the amount of exposure to any single financial institution.

The Company generally does not require collateral to secure accounts receivable, with the exception of certain customers with higher potential credit risk who are required to prepay for their campaigns. No single advertiser accounted for 10% or more of the Company’s total revenue for the three months ended March 31, 2024 or 2023, or 10% or more of its gross accounts receivable balance as of March 31, 2024 and December 31, 2023.

During the three months ended March 31, 2024 and 2023, none of the Company’s media owners accounted for 10% of its total traffic acquisition costs.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Segment Information

The Company has one operating and reporting segment. The Company's chief operating decision maker is its Chief Executive Officer who makes resource allocation decisions and assesses performance based on financial information presented on a consolidated basis.

New Accounting Pronouncements

Under the JOBS Act, the Company meets the definition of an emerging growth company ("EGC") and can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards would otherwise apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the Company is no longer an EGC or until the Company affirmatively and irrevocably opts out of the extended transition period.

Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"). ASU 2023-07 requires enhanced disclosures about significant segment expenses and profitability measures for all public entities, including those that have one reportable segment. The ASU is required to be applied retrospectively and is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is in the process of evaluating the impact of ASU 2023-07 on its segment disclosures.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 is focused on increased visibility into specific income tax components, requiring disclosures of specific categories and a greater disaggregation of information by jurisdiction within the effective tax rate reconciliation and income taxes paid disclosures. ASU 2023-09 is effective for our annual periods beginning January 1, 2025, with early adoption permitted. The Company is in the process of evaluating the impact of ASU 2023-09 on its tax-related disclosures.

See Note 1 to the Company's audited consolidated financial statements for the year ended December 31, 2023 in the Company's 2023 Form 10-K for a complete disclosure of the Company's significant accounting policies.

2. Revenue Recognition

The following table presents total revenue based on where the Company's advertisers are physically located:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
USA	\$ 59,409	\$ 72,216
Europe, the Middle East and Africa (EMEA)	135,819	133,754
Other	21,736	25,804
Total revenue	\$ 216,964	\$ 231,774

Contract Balances. There were no contract assets as of March 31, 2024 or December 31, 2023. Contract liabilities primarily relate to advance payments and consideration received from customers. As of March 31, 2024 and December 31, 2023, the Company's contract liabilities were recorded as deferred revenue in its condensed consolidated balance sheets.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Investments in Marketable Securities

All of the Company's debt securities are classified as available-for-sale. The Company's cash equivalents and investments as of March 31, 2024 and December 31, 2023 consisted of the following:

March 31, 2024								
(In thousands)	Fair Value Level	Amortized cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash Equivalents	Short-term investments	Long-term investments
Money market funds	1	\$ 13,238	\$ —	\$ —	\$ 13,238	\$ 13,238	\$ —	\$ —
U.S. Treasuries	2	15,007	—	(15)	14,992	6,576	8,416	—
U.S. government bonds	2	41,070	9	(124)	40,955	—	22,818	18,137
Commercial paper	2	13,197	1	(14)	13,184	1,499	11,685	—
U.S. Corporate bonds	2	99,395	75	(268)	99,202	—	48,990	50,212
Total cash equivalents and investments		<u>\$ 181,907</u>	<u>\$ 85</u>	<u>\$ (421)</u>	<u>\$ 181,571</u>	<u>\$ 21,313</u>	<u>\$ 91,909</u>	<u>\$ 68,349</u>

December 31, 2023								
(In thousands)	Fair Value Level	Amortized cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash Equivalents	Short-term investments	Long-term investments
Money market funds	1	\$ 15,355	\$ —	\$ —	\$ 15,355	\$ 15,355	\$ —	\$ —
U.S. Treasuries	2	14,977	1	(29)	14,949	3,497	11,452	—
U.S. government bonds	2	39,048	40	(114)	38,974	—	20,762	18,212
Commercial paper	2	9,422	11	(3)	9,430	—	9,430	—
U.S. Corporate bonds	2	100,146	275	(197)	100,224	—	52,669	47,555
Total cash equivalents and investments		<u>\$ 178,948</u>	<u>\$ 327</u>	<u>\$ (343)</u>	<u>\$ 178,932</u>	<u>\$ 18,852</u>	<u>\$ 94,313</u>	<u>\$ 65,767</u>

(1) The amortized cost of debt securities excludes accrued interest of \$1.5 million and \$1.4 million, respectively, as of March 31, 2024 and December 31, 2023.

The following table presents the fair value of the Company's available-for-sale securities by contractual maturity:

	March 31, 2024 (In thousands)
Within 1 year	\$ 113,222
After 1 year through 3 years	68,349
Total fair value	<u>\$ 181,571</u>

The following table presents the fair value of investments and gross unrealized losses recorded in other comprehensive loss, by investment category and the length of time the securities have been in a continuous loss position:

March 31, 2024						
(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	\$ 12,291	\$ (4)	\$ 2,701	\$ (11)	\$ 14,992	\$ (15)
U.S. government bonds	23,948	(75)	11,589	(49)	35,537	(124)
Commercial paper	9,757	(14)	—	—	9,757	(14)
U.S. Corporate bonds	49,786	(195)	18,396	(73)	68,182	(268)
Total	<u>\$ 95,782</u>	<u>\$ (288)</u>	<u>\$ 32,686</u>	<u>\$ (133)</u>	<u>\$ 128,468</u>	<u>\$ (421)</u>

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(In thousands)	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	\$ 1,279	\$ —	\$ 4,711	\$ (29)	\$ 5,990	\$ (29)
U.S. government bonds	6,798	(9)	16,964	(105)	23,762	(114)
Commercial paper	3,649	(3)	—	—	3,649	(3)
U.S. Corporate bonds	40,031	(119)	18,840	(78)	58,871	(197)
Total	<u>\$ 51,757</u>	<u>\$ (131)</u>	<u>\$ 40,515</u>	<u>\$ (212)</u>	<u>\$ 92,272</u>	<u>\$ (343)</u>

For marketable securities with unrealized loss positions, the Company does not intend to sell these securities and it is more likely than not that the Company will hold these securities until maturity or a recovery of the cost basis. No allowance for credit losses was recorded for these securities as of March 31, 2024 and December 31, 2023.

4. Goodwill and Intangible Assets

The Company's goodwill balance as of March 31, 2024 and December 31, 2023 was \$63.1 million. The Company has not recorded any accumulated impairments of goodwill.

The gross carrying amount and accumulated amortization of the Company's intangible assets are as follows:

	March 31, 2024			
	Weighted Average Amortization Period	Gross Value	Accumulated Amortization	Net Carrying Value
	(In thousands)			
Developed technology	8.0 years	\$ 18,411	\$ (11,213)	\$ 7,198
Customer relationships	5.0 years	5,882	(5,477)	405
Publisher relationships	8.0 years	18,791	(11,018)	7,773
Trade names	8.8 years	5,290	(1,910)	3,380
Content provider relationships	5.0 years	284	(127)	157
Other	15.8 years	898	(295)	603
Total intangible assets, net		<u>\$ 49,556</u>	<u>\$ (30,040)</u>	<u>\$ 19,516</u>

	December 31, 2023			
	Weighted Average Amortization Period	Gross Value	Accumulated Amortization	Net Carrying Value
	(In thousands)			
Developed technology	8.0 years	\$ 18,410	\$ (10,900)	\$ 7,510
Customer relationships	5.0 years	5,972	(5,530)	442
Publisher relationships	8.0 years	18,973	(10,863)	8,110
Trade names	8.8 years	5,326	(1,779)	3,547
Content provider relationships	5.0 years	284	(113)	171
Other	15.8 years	898	(282)	616
Total intangible assets, net		<u>\$ 49,863</u>	<u>\$ (29,467)</u>	<u>\$ 20,396</u>

No impairment charges were recorded for the Company's intangible assets subject to amortization during the three months ended March 31, 2024 and 2023.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

As of March 31, 2024, estimated amortization related to the Company's identifiable acquisition-related intangible assets in future periods was as follows:

	Amount
	(In thousands)
2024	\$ 2,599
2025	3,466
2026	3,466
2027	3,111
2028	3,062
Thereafter	3,812
Total	\$ 19,516

5. Balance Sheet Components

Accounts Receivable and Allowance for Credit Losses

Accounts receivable, net of allowance for credit losses consists of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Accounts receivable	\$ 167,979	\$ 199,714
Allowance for credit losses	(11,587)	(10,380)
Accounts receivable, net of allowance for credit losses	\$ 156,392	\$ 189,334

The allowance for credit losses consists of the following activity:

	Three Months Ended March 31, 2024	Year Ended December 31, 2023
	(In thousands)	
Allowance for credit losses, beginning balance	\$ 10,380	\$ 5,512
Provision for credit losses	1,645	8,220
Write-offs	(438)	(3,352)
Allowance for credit losses, ending balance	\$ 11,587	\$ 10,380

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Prepaid traffic acquisition costs	\$ 22,046	\$ 26,398
Prepaid taxes	7,070	11,371
Prepaid software licenses	3,342	2,224
Other prepaid expenses and other current assets	6,539	7,247
Total prepaid expenses and other current assets	\$ 38,997	\$ 47,240

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Property, Equipment and Capitalized Software, Net

Property, equipment and capitalized software, net consists of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Capitalized software development costs	\$ 81,016	\$ 78,389
Computer and equipment	62,134	61,529
Leasehold improvements	3,301	3,300
Software	3,243	3,221
Furniture and fixtures	1,091	1,098
Property, equipment, and capitalized software, gross	150,785	147,537
Less: accumulated depreciation and amortization	(109,049)	(105,076)
Total property, equipment and capitalized software, net	\$ 41,736	\$ 42,461

Accrued and Other Current Liabilities

Accrued and other current liabilities consists of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Accrued traffic acquisition costs	\$ 58,270	\$ 75,870
Accrued agency commissions	12,103	12,376
Accrued tax liabilities	11,504	15,596
Operating lease obligations, current	3,621	3,684
Accrued professional fees	3,330	3,261
Interest payable	753	1,566
Other	6,013	7,350
Total accrued and other current liabilities	\$ 95,594	\$ 119,703

In addition to accrued traffic acquisition costs, accounts payable includes \$127.9 million and \$137.6 million of traffic acquisition costs as of March 31, 2024 and December 31, 2023, respectively.

6. Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company's financial instruments include restricted time deposits, severance pay fund deposits and foreign currency forward contracts. The Company determines the fair value of its financial instruments based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the Company uses the fair value hierarchy described below to distinguish between observable and unobservable inputs:

Level I — Valuations based on quoted prices in active markets for identical assets and liabilities at the measurement date;

Level II — Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be principally corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level III — Valuations based on unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by level within the fair value hierarchy:

	March 31, 2024			
	Level I	Level II	Level III	Total
	(In thousands)			
Financial Assets:				
Cash equivalents and investments ⁽¹⁾	\$ 13,238	\$ 168,669	\$ —	\$ 181,907
Restricted time deposit ⁽²⁾	—	186	—	186
Severance pay fund deposits ⁽²⁾	—	4,809	—	4,809
Foreign currency forward contract ⁽³⁾	—	513	—	513
Total financial assets	\$ 13,238	\$ 174,177	\$ —	\$ 187,415
Financial Liabilities:				
Foreign currency forward contract ⁽⁴⁾	—	266	—	266
Total financial liabilities	\$ —	\$ 266	\$ —	\$ 266

	December 31, 2023			
	Level I	Level II	Level III	Total
	(In thousands)			
Financial Assets:				
Cash equivalents and investments ⁽¹⁾	\$ 15,355	\$ 163,577	\$ —	\$ 178,932
Restricted time deposit ⁽²⁾	—	190	—	190
Severance pay fund deposits ⁽²⁾	—	4,901	—	4,901
Foreign currency forward contract ⁽³⁾	—	1,254	—	1,254
Total financial assets	\$ 15,355	\$ 169,922	\$ —	\$ 185,277
Financial Liabilities:				
Foreign currency forward contract ⁽⁴⁾	—	106	—	106
Total financial liabilities	\$ —	\$ 106	\$ —	\$ 106

⁽¹⁾ Money market securities are valued using Level I of the fair value hierarchy, while the fair values of U.S. Treasuries, government bonds, commercial paper, and corporate bonds are considered Level II and are obtained from independent pricing services, which may use various methods, including quoted prices for identical or similar securities in active and inactive markets. See Note 3 for additional detail of the Company's fixed income securities by balance sheet location.

⁽²⁾ Recorded within other assets.

⁽³⁾ Recorded within prepaid expenses and other current assets.

⁽⁴⁾ Recorded within accrued and other current liabilities.

The Company records the fair values of the assets and liabilities relating to its undesignated foreign currency forward contracts on a gross basis in its condensed consolidated balance sheets, as they are not subject to master netting arrangements. There is no cash collateral required to be pledged by the Company or its counterparties. The Company enters into foreign currency forward exchange contracts to manage the effects of fluctuations in foreign currency exchange rates on its net cash flows from non-U.S. dollar denominated operations.

By entering into foreign currency forward contracts, the Company is exposed to a potential credit risk that the counterparty to its contracts will fail to meet its contractual obligations. If a counterparty fails to perform, the Company's maximum credit risk exposure would be the positive fair value of the foreign currency forward contracts, or any asset balance, which represents the amount the counterparty owes to the Company. In order to mitigate the counterparty risk, the Company performs an evaluation of its counterparty credit worthiness, and its forward contracts have a term of no more than 12 months. During the three months ended March 31, 2024 and 2023, the Company recognized net losses of \$0.9 million and \$0.1 million, respectively, within interest income and other income (expense), net in its condensed consolidated statements of operations, related to mark-to-market adjustments on its undesignated foreign currency forward contracts.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The 2.95% Convertible Senior Notes due 2026 (“Convertible Notes”) are recorded within long-term debt on the Company’s condensed consolidated balance sheets at their carrying value, which may differ from their fair value. The fair value of Convertible Notes is estimated using external pricing data, including any available market data for other debt instruments with similar characteristics. The following table summarizes the carrying value and the estimated fair value of the Convertible Notes, based on Level II measurements of the fair value hierarchy:

	March 31, 2024		December 31, 2023	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Convertible Notes	\$ 118,000	\$ 96,583	\$ 118,000	\$ 95,958

See Note 8 for additional information relating to the Convertible Notes.

7. Leases

The Company leases certain equipment and computers under finance lease arrangements, as well as office facilities and managed data center facilities under non-cancelable operating lease arrangements for its U.S. and international locations that expire on various dates through 2032.

The following table summarizes assets and liabilities related to the Company’s operating and finance leases:

Condensed Consolidated Balance Sheets Location		March 31, 2024	December 31, 2023
(In thousands)			
Lease assets:			
Operating leases	Operating lease right-of-use assets, net	\$ 17,113	\$ 12,145
Finance leases	Property, equipment and capitalized software, net	6	226
Total lease assets		<u>\$ 17,119</u>	<u>\$ 12,371</u>
Lease liabilities:			
Current liabilities:			
Operating leases	Accrued and other current liabilities	\$ 3,621	\$ 3,684
Finance leases	Accrued and other current liabilities	7	254
Non-current liabilities:			
Operating leases	Operating lease liabilities, non-current	14,237	9,217
Finance leases	Other liabilities	—	—
Total lease liabilities		<u>\$ 17,865</u>	<u>\$ 13,155</u>

The following table presents the components of the Company’s total lease expense:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Operating lease cost		
Fixed lease costs ⁽¹⁾	\$ 1,195	\$ 1,146
Variable lease costs ⁽²⁾	131	32
Short-term lease costs ⁽¹⁾	115	139
Finance lease cost:		
Depreciation ⁽³⁾	220	464
Interest ⁽⁴⁾	3	34
Total lease cost	<u>\$ 1,664</u>	<u>\$ 1,815</u>

⁽¹⁾ Recorded within cost of revenue and operating expenses.

⁽²⁾ Recorded within operating expenses.

⁽³⁾ Recorded within cost of revenue.

⁽⁴⁾ Recorded within interest expense.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

As of March 31, 2024, the maturities of the Company's lease liabilities under operating and finance leases were as follows:

Year	Operating Leases	Finance Leases
	(In thousands)	
Remainder of 2024	\$ 3,727	\$ 7
2025	4,845	—
2026	4,226	—
2027	3,784	—
2028	2,442	—
Thereafter	3,595	—
Total minimum payments required	\$ 22,619	\$ 7
Less: imputed interest	(4,761)	—
Total present value of lease liabilities	\$ 17,858	\$ 7

8. Long-Term Debt

Convertible Notes

As of each of March 31, 2024 and December 31, 2023, the Company had \$118.0 million principal amount of Convertible Notes outstanding, pursuant to an indenture, dated as of July 27, 2021 (the "Indenture"), between the Company and The Bank of New York Mellon, as trustee. The Convertible Notes mature on July 27, 2026, unless earlier converted, redeemed, or repurchased.

Interest on the Convertible Notes is payable semi-annually in arrears on January 27 and July 27 of each year, beginning on January 27, 2022, at a rate of 2.95% per year. The initial conversion rate for the Convertible Notes is 40 shares of the Company's common stock per \$1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of \$25 per share of the Company's common stock), subject to adjustment.

See Note 9 to the Company's 2023 Annual Report on Form 10-K for additional information relating to the Company's Convertible Notes, including the redemption and conversion provisions.

Revolving Credit Facility

The Company's First Amendment to the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank, a division of First Citizens Bank & Trust Company, provides, subject to borrowing availability and certain other conditions, for revolving loans in an aggregate principal amount of up to \$75.0 million (the "Facility"), with a \$15.0 million sub-facility for letters of credit. The Company's borrowing availability under the Facility is calculated by reference to a borrowing base which is determined by specified percentages of eligible accounts receivable. The Facility will terminate on the earlier of (i) November 2, 2026 or (ii) 120 days prior to the maturity date of the Convertible Notes, unless all of the Convertible Notes have been converted to common equity securities of the Company.

Outstanding loans under the Facility, as recently amended, accrue interest, at the Company's option based upon borrowing availability under the Facility, at a rate equal to either (a) a base rate minus an applicable margin ranging from 1.5% to 1.0% per annum or (b) SOFR plus an applicable margin of 1.5% to 2.0% per annum, subject to a SOFR adjustment ranging from 0.10% to 0.15%, depending on the length of the borrowing. The undrawn portions of the commitments under the Facility are subject to a commitment fee at a rate ranging from 0.20% per annum to 0.30% per annum, based upon borrowing availability under the Facility.

The Facility contains representations and warranties, including, without limitation, with respect to collateral; accounts receivable; financials; litigation, indictment and compliance with laws; disclosure and no material adverse effect, each of which is a condition to funding. Additionally, the Facility includes events of default and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, without limitation, restrictions on liens, indebtedness, investments, fundamental changes, dispositions, restricted payments and prepayment of the Convertible Notes and of junior indebtedness. The Facility contains a financial covenant that requires, in the event that credit extensions under the Facility equal or exceed

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

85% of the available commitments under the Facility or upon the occurrence of an event of default, the Company to maintain a minimum consolidated monthly fixed charge coverage ratio of 1.00. The obligations of the Company, and the other subsidiary co-borrowers under the 2021 Revolving Credit Facility are secured by a first-priority lien on substantially all the assets of the Company and such other subsidiary co-borrowers.

The Company was in compliance with all of the related financial covenants as of March 31, 2024 and December 31, 2023. As of March 31, 2024 and December 31, 2023, the Company had no borrowings outstanding under the 2021 Revolving Credit Facility and its available borrowing capacity was \$58.1 million and \$75.0 million, respectively, based on the defined borrowing formula. Other assets in the Company's condensed consolidated balance sheets as each of March 31, 2024 and December 31, 2023 included deferred financing costs of \$0.3 million, which are being amortized over the term of the Facility.

9. Income Taxes

The Company's interim provision for (benefit from) income taxes is determined based on its annual estimated effective tax rate, applied to the actual year-to-date income, and adjusted for the tax effects of any discrete items. The Company's effective tax rates for the three months ended March 31, 2024 and 2023, were 17.8% and 23.4%, respectively. The Company's effective tax rate for the three months ended March 31, 2024 was lower than the United States federal statutory tax rate of 21%, primarily due to a deduction related to foreign-derived intangible income, partially offset by the tax impact related to the profitability of non-U.S. jurisdictions and certain non-deductible stock-based compensation expenses. The Company's effective tax rate for the three months ended March 31, 2023 was higher than the U.S. federal statutory tax rate of 21%, primarily due to certain non-deductible stock-based compensation expenses partially offset by a deduction related to foreign-derived intangible income.

10. Commitments and Contingencies

Legal Proceedings and Other Matters

From time to time, the Company may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. In addition, the Company may receive letters alleging infringement of patent or other intellectual property rights. The Company is not currently a party to any material legal proceedings, nor is it aware of any pending or threatened litigation that, in its opinion, would have a material adverse effect on its business, operating results, cash flows or financial condition should such litigation be resolved unfavorably.

11. Stockholders' Equity

Share Repurchases

On December 14, 2022, the Company's Board of Directors (the "Board") approved a new share repurchase program, authorizing the Company to repurchase up to \$30 million of its common stock, par value \$0.001 per share, with no requirement to purchase any minimum number of shares. The manner, timing, and actual number of shares repurchased under the program will depend on a variety of factors, including price, general business and market conditions, and other investment opportunities. Shares may be repurchased through privately negotiated transactions or open market purchases, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The repurchase program may be commenced, suspended, or terminated at any time by the Company at its discretion without prior notice.

The following is a summary of the Company's share repurchase activity under its share repurchase program for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
	(In thousands, except share information)	
Shares repurchased	945,947	1,313,073
Fair value of shares repurchased	\$ 3,862	\$ 6,142

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

As of March 31, 2024, the remaining availability under the Company's \$30 million share repurchase program was \$8.6 million. Commission costs associated with share repurchases and excise taxes accrued as a result of the Inflation Reduction Act of 2022 do not reduce the remaining authorized amount under the repurchase programs.

In addition, the Company may periodically withhold shares to satisfy employee tax withholding obligations arising in connection with the vesting of restricted stock units and exercise of options and warrants in accordance with the terms of the Company's equity incentive plans and the underlying award agreements. During the three months ended March 31, 2024 and 2023, the Company withheld 37,492 and 48,202 shares, respectively, with a fair value of \$0.2 million and \$0.2 million, respectively, to satisfy the employee tax withholding obligations.

The following table details the changes in accumulated other comprehensive loss, net of tax:

	Foreign Currency Translation Loss	Unrealized Loss on Investments in Marketable Securities	Total Accumulated Other Comprehensive Loss
	(In thousands)		
Balance–December 31, 2023	\$ (9,039)	\$ (13)	\$ (9,052)
Other comprehensive income (loss), net of tax	98	(246)	(148)
Balance–March 31, 2024	<u>\$ (8,941)</u>	<u>\$ (259)</u>	<u>\$ (9,200)</u>

There were no amounts reclassified from AOCI to earnings during any of the periods presented.

12. Stock-based Compensation

Equity Incentive Plans

In July 2021, the Board and the Company's stockholders approved the 2021 Long-Term Incentive Plan (the "2021 Plan"), which may be used to grant, among other award types, stock options, restricted stock units ("RSUs") and performance stock units ("PSUs"). The number of shares of common stock reserved for future issuance under the 2021 Plan will be increased pursuant to provisions for annual automatic evergreen increases. The Company's previous awards issued under its 2007 Omnibus Securities and Incentive Plan, as amended and restated on January 21, 2009 ("2007 Plan"), remain subject to the 2007 Plan. As of March 31, 2024, 8,727,382 and 827,216 shares were available for grant under the 2021 Plan and the 2007 Plan, respectively. The Company generally issues new shares for stock option exercises and vesting of RSUs.

The Company recognizes stock-based compensation expense for stock-based awards based on the estimated fair value of the awards. The Company estimates the fair value of its stock option awards on the grant date using the Black-Scholes option pricing model. The fair value of RSUs and PSUs is based on the fair value of the Company's common stock on the date of grant, as adjusted based on achievement of any performance conditions. The Company accounts for forfeitures as they occur.

The following table summarizes stock-based compensation expense recognized in the Company's condensed consolidated statements of operations for the periods presented:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Research and development	\$ 713	\$ 502
Sales and marketing	1,067	1,026
General and administrative	1,147	1,083
Total stock-based compensation	<u>\$ 2,927</u>	<u>\$ 2,611</u>

As of March 31, 2024, the Company's remaining unrecognized stock-based compensation expense was \$0.7 million for unvested stock options and \$20.2 million for unvested RSUs.

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following table summarizes stock option and RSU activity for the three months ended March 31, 2024:

	Stock Options ⁽¹⁾	RSUs ⁽²⁾
Outstanding—December 31, 2023	2,409,553	3,507,083
Granted	—	100,191
Exercised/Vested	—	(348,151)
Forfeited	(54,282)	(46,475)
Outstanding—March 31, 2024	<u>2,355,271</u>	<u>3,212,648</u>

⁽¹⁾ Includes 2,861 SARs, which are accounted for as liability awards.

⁽²⁾ Includes 90,000 performance-based RSUs issued in 2023 with a grant date fair value of \$4.82 per share.

The weighted average grant date fair value of service-based RSUs granted during the three months ended March 31, 2024 was \$3.85 per share.

Stock-Based Awards Granted Outside of Equity Incentive Plans

Warrants

The Company issued equity-classified warrants to purchase shares of common stock to certain third-party advisors, consultants, and financial institutions, which expire between November 2024 and September 2026. As of March 31, 2024 and December 31, 2023, 188,235 warrants were outstanding and exercisable with a weighted average exercise price of \$7.57.

Employee Stock Purchase Plan

As of March 31, 2024, approximately 2,849,545 shares of the Company's common stock have been reserved for issuance under the Company's 2021 Employee Stock Purchase Plan (the "ESPP"), which is subject to annual automatic evergreen increases. There have been no shares purchased under the ESPP as it is not yet active.

See Note 13 to the Company's 2023 Annual Report on Form 10-K for additional information relating to the Company's share-based compensation awards.

13. Net Loss Per Common Share

The following table presents the computation of the Company's basic and diluted loss per share:

	Three Months Ended March 31,	
	2024	2023
(Dollars in thousands)		
Numerator:		
Net loss	\$ (5,041)	\$ (5,605)
Denominator:		
Weighted-average shares - basic and diluted	49,265,012	51,435,289
Net loss per share:		
Basic	<u>\$ (0.10)</u>	<u>\$ (0.11)</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ (0.11)</u>

OUTBRAIN INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following weighted-average shares have been excluded from the calculation of diluted net loss per share for each period presented because they are anti-dilutive:

	Three Months Ended March 31,	
	2024	2023
Convertible debt	4,720,000	9,440,000
Options to purchase common stock	2,395,550	2,611,077
Warrants	188,235	188,235
Restricted stock units	3,418,466	2,435,522
Total shares excluded from diluted loss per share	<u>10,722,251</u>	<u>14,674,834</u>

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

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q (this "Report") and in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission ("SEC") on March 8, 2024 ("2023 Form 10-K"). In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, beliefs, and expectations, and involve risks and uncertainties that could cause actual results, events, or circumstances to differ materially from those projected in the forward-looking statements. Factors that could cause or contribute to these differences include those incorporated by reference in Part II, Item 1A "Risk Factors" in this Report as such factors may be revised or supplemented in subsequent filings with the SEC, as well as those discussed below and elsewhere in this Report, including under the caption "Note About Forward-Looking Statements."

The purpose of this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is to provide the readers of our financial statements with narrative information from our management, which is necessary to understand our business, financial condition, and results of operations. The MD&A should be read in conjunction with our condensed consolidated financial statements and notes thereto. In addition to the condensed consolidated financial statements prepared in accordance with the generally accepted accounting principles in the United States ("GAAP"), we use certain non-GAAP financial measures throughout this discussion to provide investors with supplemental metrics used by our management for financial and operational decision making. These measures are supplemental and are not an alternative to our financial statements prepared in accordance with U.S. GAAP. See "Non-GAAP Reconciliations" in this Report for the definitions and limitations of these measures, and reconciliations to the most comparable U.S. GAAP financial measures.

Business Overview

Outbrain Inc. (together with our subsidiaries, "Outbrain," the "Company," "we," "our" or "us") was incorporated in August 2006 in Delaware. The Company is headquartered in New York, New York with various wholly-owned subsidiaries, including in Israel, Europe and Asia.

Outbrain is a leading technology platform that drives business results by connecting media owners and advertisers with engaged audiences to drive business outcomes, reaching over a billion unique consumers around the world. Outbrain's artificial intelligence ("AI") prediction engine powers a two-sided platform for advertisers and media owners that delivers concrete business outcomes. Our platform enables thousands of digital media owners to provide tailored experiences to their audiences, delivering audience engagement and monetization. For tens of thousands of advertisers, from enterprise brands to performance marketers, our platform optimizes audience attention and engagement to deliver greater return on investment at each step of the marketing funnel.

Outbrain operates a two-sided marketplace, which means we usually have exclusive control over all aspects of the consumer experience, allowing us to quickly test and deploy new formats for our advertisers and media owners. Since inception, we have been guided by the same core principles pertaining to our three constituents: consumers, media partners, and advertisers.

- **Consumers.** Our platform is centered on predicting consumer attention and engagement. We believe that by focusing our algorithm on optimizing toward these consumer-centric factors, we are able to cultivate user behavior patterns that compound over time, delivering greater effectiveness and efficiency for our advertisers, superior long-term monetization for our media partners, as well as increased value for Outbrain.
- **Media Partners.** We are committed to supporting the long-term success of our media partners. We strive to develop multi-year contracts with media partners, with the objective of delivering long-term revenue and deeper audience engagement. Our media partners include both traditional publishers and companies in new and rapidly evolving categories, such as mobile device manufacturers.
- **Advertisers.** We offer unique advertising solutions across the marketing funnel and provide a single access point to not only reach, but drive real business outcomes from consumers across the Open Internet. We provide advertisers from enterprise brands to performance marketers with solutions to optimize consumer attention and engagement, to deliver accountable business results and greater return on investment.

Through our direct, usually exclusive code-on-page integrations with media owners, we have become one of the largest online advertising platforms on the Open Internet. In 2023, we provided personalized ads to over a billion monthly unique consumers, delivering on average over 12 billion experiences promoting content, services, and products per day, with tens of thousands of advertisers directly using our platform.

The following is a summary of our performance for the periods presented:

- Our revenue was \$217.0 million in the three months ended March 31, 2024, compared to \$231.8 million in the three months ended March 31, 2023.
- Our gross profit was \$41.6 million and our gross margin was 19.2% for the three months ended March 31, 2024, compared to gross profit of \$41.2 million and gross margin of 17.8% for the comparable period in 2023.
- Our Ex-TAC Gross Profit⁽¹⁾ remained flat at \$52.2 million in each of the three months ended March 31, 2024 and 2023.
- Our net loss was \$5.0 million, or (12.1)% of gross profit, in the three months ended March 31, 2024, compared to net loss of \$5.6 million, or (13.6)% of gross profit, for the comparable period in 2023.
- Our Adjusted EBITDA⁽¹⁾ was \$1.4 million for the three months ended March 31, 2024, compared to \$0.7 million for the three months ended March 31, 2023. Adjusted EBITDA⁽¹⁾ was 2.7% and 1.3% of Ex-TAC Gross Profit⁽¹⁾ in the three months ended March 31, 2024 and 2023, respectively.

⁽¹⁾ Ex-TAC Gross Profit and Adjusted EBITDA are non-GAAP financial measures. See “Non-GAAP Reconciliations” in this Report for definitions and limitations of these measures, and reconciliations to the comparable GAAP financial measures.

Recent Developments

Israel-Hamas War

Many of our employees, including certain members of our management team and board of directors, operate from Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly affect our business and operations.

In October 2023, Hamas terrorists infiltrated Israel’s southern border from the Gaza strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on the Israeli population and industrial centers located along Israel’s border with the Gaza strip and in other areas within the State of Israel. These attacks resulted in extensive deaths, injuries and the kidnapping of civilians and soldiers. In response, Israel’s security cabinet declared war against Hamas and a military campaign against this terrorist organization commenced in parallel to their continued rocket and terror attacks. In addition, since the commencement of these events, there have been continued hostilities along Israel’s northern border with Lebanon (with the Hezbollah terror organization). Furthermore, the Houthi movement, which controls parts of Yemen, launched several attacks on marine vessels traversing the Red Sea, which were thought either to be in route toward Israel or to be owned by Israeli persons. The Red Sea is a vital maritime route for international trade traveling to or from Israel, and in response to the Houthi movement’s attacks, coalition forces led by the United States and Great Britain have targeted sites in Yemen. In addition, Iran launched attacks on specific targets in Israel and indicated that it may continue to do so in the future. It is possible that hostilities with Hezbollah in Lebanon and with Iran will escalate, and that other terrorist organizations, including Palestinian military organizations in the West Bank as well as other hostile countries will join or intensify the hostilities and these clashes may escalate in the future into a greater regional conflict.

The draft of Israeli military reservists, as well as the evacuation of Israeli citizens from areas near conflict zones have adversely affected our employees impacted by such actions. In addition, future government-imposed restrictions and precautions in response to such conflicts may negatively impact our employees, management and directors by interrupting their ability to effectively perform their roles and responsibilities. In addition, further hostilities involving Israel, possible damage to facilities and infrastructure, increased cyber attacks, the interruption or curtailment of trade between Israel and its trading partners, and/or the willingness to do business with companies with operations in Israel, as well as macroeconomic indications of deterioration of Israel’s economic standing as reflected in the downgrading in Israel’s credit rating by rating agencies that took place in parallel to these events, could adversely affect our business, financial condition and results of operations and could make it more difficult for us to raise capital. The intensity and duration of Israel’s current war against Hamas and the other terror organizations is difficult to predict and we are continuing to monitor the situation and assessing its potential impact on our business.

We cannot attribute the impact of the current trends in advertising demand to any particular factor, including the Israel-Hamas War, and cannot predict the impact if the war continues or escalates further. See Item 1A “Risk Factors” included in our 2023 Annual Report for more information regarding certain risks associated with the Israel-Hamas conflict.

Macroeconomic Environment

General worldwide economic conditions have recently experienced significant instability, as well as volatility and disruption in the financial markets, resulting from factors including the effects of the wars between Russia-Ukraine and Israel-Hamas, bank closures, and general economic uncertainty. The current macroeconomic environment, with variables such as inflation, increased interest rates, bank disruptions, recessionary concerns, bankruptcies, currency exchange rate fluctuations, global supply chain disruptions, and labor market volatility, has negatively impacted our advertisers. Accordingly, these conditions have adversely impacted our business and could, if they continue or worsen, adversely impact us in the future, including if our advertisers were to reduce or further reduce their advertising spending as a result of any of these factors. We continue to monitor our operations, and the operations of those in our ecosystem (including media partners, advertisers, and agencies). These conditions make it difficult for us, our media partners, advertisers, and agencies to accurately forecast and plan future business activities and could cause a further reduction or delay in overall advertising demand and spending or impact our advertisers’ ability to pay, which would negatively impact our business, financial condition, and results of operations.

Factors Affecting Our Business

Retention and Growth of Relationships with Media Partners

We rely on relationships with our media partners for a significant portion of our advertising inventory and our corresponding ability to drive advertising revenue. To further strengthen these relationships, we continuously invest in our technology and product functionality to drive user engagement and monetization by (i) improving our algorithms, referred to as our AI prediction engine; (ii) effectively managing supply and demand; (iii) expanding the adoption of our enhanced products by media partners; and (iv) expanding our demand capabilities to new formats and business lines such as Onyx.

Our relationships with media partners are typically long-term, exclusive, and strategic in nature. Our top 20 media partners, based on our 2023 revenue, have been using our platform for an average of seven years, despite their typical contract length being two to four years. Net revenue retention is an important indicator of media partner satisfaction, the value of our platform, as well as our ability to grow revenue from existing relationships.

We calculate media partner net revenue retention at the end of each quarter by starting with revenue generated on media partners’ properties during the same period in the prior year, “Prior Period Retention Revenue.” We then calculate the revenue generated on these same media partners’ properties in the current period, “Current Period Retention Revenue.” Current Period Retention Revenue reflects any expansions within the media partner relationships, such as any additional placements or properties on which we extend our recommendations, as well as contraction or attrition. Our media partner net revenue retention in a quarter equals the Current Period Retention Revenue divided by the Prior Period Retention Revenue. To calculate media partner net revenue retention for year-to-date and annual periods, we sum the quarterly Current Period Retention Revenue and divide it by the sum of the quarterly Prior Period Retention Revenue. These amounts exclude certain revenue adjustments and revenue recognized on a net basis. Our media partner net revenue retention was approximately 89% for the three months ended March 31, 2024.

Our growth also depends on our ability to secure partnerships with new media partners. New media partners are defined as those relationships in which revenue was not generated in the prior period, except for limited instances where residual revenue was generated on a media partner’s properties. In such instances, the residual revenue would be excluded from net revenue retention above. Revenue generated on new media partners’ properties contributed approximately 5% to revenue growth for the three months ended March 31, 2024.

User Engagement with Relevant Media and Advertising Content

Driving attention and engagement is the key pillar of our platform that drives value for consumers, media partners, and advertisers. Our AI prediction algorithm manages this dynamic, matching consumers with editorial and advertiser experiences that will deliver attention and engagement across the Open Internet. We believe that the user experience has a profound impact on long term user behavior patterns and thus “compounds” over time, improving our long-term monetization prospects. This principle guides our behavior, and as a result, we do not focus on the price of ads, nor on maximizing such prices, as key performance indicators for the business. We strive to compound consumer attention and engagement, continually enhancing value for both advertisers and media owners.

Growth in attention and engagement is driven by several factors, including enhancements to our AI prediction technology, growth in the breadth and depth of our data assets, the size and quality of our content and advertising index, user engagement, new media partners, and expansion on existing media partners. As we grow attention and engagement, we are able to collect more data and continually improve our prediction engine — which drives better results for our advertiser and media owner partners. This growth “flywheel” can be measured by growth of the consumer data points we drive, such as click-through-rate (“CTR”). CTR improvements increase the number of clicks on our platform. We believe that we have a significant opportunity to further grow consumer engagement, and thus our business, as today CTR for ads on our platform is less than 1% of ads served. With the launch of Onyx, we have expanded the measurable consumer data points that fuel our prediction engine, expanding our ability to drive concrete business outcomes at each step of the marketing funnel.

Advertiser Retention and Growth

Our engine serves the ad experiences that are predicted to deliver high attention or engagement, rather than on price of the ads. We believe this approach leads to better return-on-ad-spend (“ROAS”) for advertisers, whether they are focused on driving a performance outcome, or a branding outcome. Our growth is partially driven by retaining and expanding the amount of spend by advertisers on our platform, as well as by acquiring new advertisers. Our recent launch of Onyx by Outbrain™ expands Outbrain’s total addressable market to now include top of the funnel marketing dollars while also attracting more diverse, premium demand.

We continually invest in enhancements to our platform that allow advertisers to drive concrete business outcomes and ROAS. In particular, we are expanding our usage of AI to automate manual tasks in campaign set up and optimization, and to enhance advertiser creative and landing page performance.

Prices paid by advertisers on our platform fluctuate period to period for a variety of reasons, including supply and demand balance, macroeconomic conditions, and seasonality. In order to grow our revenue and Ex-TAC Gross Profit and maximize value for our advertisers and media partners, our focus as a business is on driving business outcomes and ROAS for advertisers, not on optimizing for price.

For the year ended December 31, 2023, tens of thousands of unique advertisers were active on our owned and operated platform, in addition to the thousands of advertisers who access Outbrain and Onyx environments through our programmatic partnerships.

Expansion Into New Environments, New Experiences and New Ad Formats

The accelerating pace of technological innovation has rapidly changed consumer habits. The available mediums and formats for consumers to engage with media has greatly expanded over the last several years. As this evolution in media consumption and consumer behavior continues, we are focused on utilizing our AI prediction technology to bring curated, relevant consumer experiences to these new devices, experiences and formats.

Fundamentally, we plan to continue to make our platform available for media partners on all types of devices and platforms and evolve our business to apply our technology to the most popular methods of media consumption, which now include unique video, high-impact display, and other new media experiences.

Examples of new environments in which content consumption is expected to grow include pre-installed applications on Smartphones, Smartphone content feeds, gaming applications, and push notifications. Additionally, we believe there is a strong opportunity to develop better personalization solutions for the visual and video consumption of news media across the Open Internet.

Through our acquisition of vi in the first quarter of 2022, we expanded our video product offerings to new formats and environments, including pre-roll video formats. With the introduction of Onyx by Outbrain™, we have expanded our investment in applying our AI prediction to these new video and high-impact formats, delivering a curated consumer experience that drives attention for enterprise brands. We plan to continue to evaluate strategic acquisition or investment opportunities as part of our growth strategy in the future.

The development and deployment of new ad formats allow us to better serve consumers, media partners and, ultimately, advertisers who seek to target and engage consumers at scale; we believe this continues to open and grow new types of advertiser demand, while ensuring relevance as the environments in which we operate diversify.

Investment in Our Technology and Infrastructure

Innovation is a core tenet of our Company and our industry. We plan to continue our investments in our people and our technology in order to retain and enhance our competitive position. For example, improvements to our AI prediction engine help us deliver more relevant ads, driving higher user engagement, thereby improving ROAS for advertisers and increasing monetization for our media partners.

We strongly believe in the transformative power of AI in shaping the future of sustainable media, and have been utilizing AI technology for years to empower both media owners and advertisers in their businesses. We leverage AI in a manner designed to enable media owners to increase their revenues and connect with audiences on their own platforms within the Open Internet. We use machine learning to predict consumer interest and propensity to convert. We make around 1 billion such predictions every second. Our technology has developed into a robust AI machine learning system and is largely homegrown by our Research and Development team. One of the strongest long-term levers in our business is the continuous improvement of our algorithms and the data sets our algorithms learn from. Our direct integrations across our media partners' properties provide us with a large volume of proprietary first-party data, including context, user interest and behavioral signals. The more data points we have, the better our CTR predictions and yield potential can be.

Our Smartlogic product dynamically adjusts both the arrangement and the formats of content delivered to a user, depending on the user's preferences and our media partner's key performance indicators ("KPIs"), designed to provide a tailored and engaging feed experience. We continue to invest in media partner and advertiser focused tools, technology, and products as well as privacy-centric solutions. For example, Keystone by Outbrain™ enables a more holistic management of overall revenue for media owners increasingly focused on revenue diversification.

We believe that our proprietary micro-services, API-based cloud infrastructure provides us with a strategic competitive advantage, as we are able to deploy code hundreds of times per day and grow in a scalable and highly cost-effective manner. As we develop and deploy solutions for enhanced integration of our technologies in new environments, with new content and ad formats, we anticipate activity through our platform to grow. We anticipate that the investment in our technology, infrastructure and solutions will contribute to our long-term growth.

Industry Dynamics

Our business depends on the overall demand for digital advertising, on the continuous success of our current and prospective media partners, and on general market conditions. Digital advertising is a rapidly growing industry, with growth that has outpaced the growth of the broader advertising industry. Content consumption continues to shift online, requiring media owners to adapt in order to successfully attract, engage and monetize their consumers. The soaring volume of online content, amplified by the latest generative AI innovations, has made content curation tools even more essential for consumers and media owners alike.

AI is revolutionizing content creation, distribution, and personalization; automating tasks like video editing, image recognition, and language translation. AI-powered systems are also improving content delivery, helping media platforms suggest relevant movies, shows, articles, and advertisements to consumers. This is especially important at a time when advertisers increasingly anticipate measurable results from their digital advertising investments. Our experience in this space enables us to more nimbly capitalize on the opportunities for media owners and advertisers to leverage AI and automation to engage consumers and optimize their business goals.

Regulators across most developed markets are increasingly focused on enacting and enforcing user privacy rules as well as exerting tighter oversight on the major "walled garden" platforms. Industry participants have recently been, and likely will continue to be, impacted by changes implemented by platform leaders, such as Apple's change to its Identifier for Advertisers policy and Google's evolving roadmap pertaining to the use of third-party cookies within its Chrome web browser. See Item 1A, "Risk Factors" in our 2023 Form 10-K for additional information regarding changing industry dynamics with respect to industry participants and the regulatory environment. Given our focus on context and engagement, the depth and length of our media partner relationships, and our scale, we believe that we are well positioned in the long-term to address and potentially benefit from many of these industry dynamics. Additionally, we are confident that our strength in delivering engagement and clear outcomes for advertisers, built on our proprietary AI prediction engine, aligns well with the ongoing market shift towards increased accountability and expectations of ROAS from digital advertising spend.

Seasonality

The global advertising industry experiences seasonal trends that affect most participants in the digital advertising ecosystem. Our revenue generally fluctuates from quarter to quarter as a result of a variety of factors, including seasonality, as many

advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing, as well as the timing of advertising budget cycles. Historically, the fourth quarter of the year has reflected the highest levels of advertiser spending, and the first quarter generally has reflected the lowest level of advertiser spending.

In addition, expenditures by advertisers tend to be cyclical and discretionary in nature, reflecting changes in brand advertising strategy, budgeting constraints, and buying patterns, and a variety of other factors, many of which are outside of our control. The quarterly rate of increase in our traffic acquisition costs is generally commensurate with the quarterly rate of increase in our revenue. However, traffic acquisition costs have, at times, grown at a faster or slower rate than revenue, primarily due to the mix of the revenue generated or contracted terms with media partners. We generally expect these seasonal trends to continue, though historical seasonality may not be predictive of future results given the potential for changes in advertising buying patterns and macroeconomic conditions. These trends will affect our operating results and we expect our revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole.

Definitions of Financial and Performance Measures

Revenue

We generate revenue from advertisers through ads that we deliver across a variety of media partner properties. We charge advertisers for clicks on and, to a lesser extent, impressions of their ads, depending on how they choose to contract with us. We recognize revenue in the period in which the click or impression occurs.

The amount of revenue that we generate depends on the level of demand from advertisers on our media partners' properties. We generate higher revenue at times of high demand, which is also impacted by seasonal factors. For any given marketing campaign, the advertiser has the ability to adjust its price in real time and set a maximum spend. This allows advertisers to adjust the estimated ad spend attributable to the particular campaign. Due to the measurable performance that our advertisers achieve with us, a portion of our advertisers increase their level of spend with us over time as long as their ROAS objectives are met.

Our agreements with advertisers provide them with considerable flexibility to modify their overall budget, price (cost-per-click or cost-per-impression), and the ads they wish to deliver on our platform.

Traffic Acquisition Costs

We define traffic acquisition costs ("TAC") as amounts owed to media partners for their share of the revenue we generated on their properties. We incur traffic acquisition costs in the period in which the revenue is recognized. Traffic acquisition costs are based on the media partners' revenue share or, in some circumstances, based on a guaranteed minimum rate of payment from us in exchange for guaranteed placement of our ads on specified portions of the media partner's digital properties. These guaranteed rates are typically provided per thousand qualified page views, whereas our minimum monthly payment to the media partner may fluctuate based on how many qualified page views the media partner generates, generally subject to a maximum guarantee. As such, traffic acquisition costs may not correlate with fluctuations in revenue, and our rates may remain fixed even with a decrease in revenue. Traffic acquisition costs also include amounts payable to programmatic supply partners.

Other Cost of Revenue

Other cost of revenue consists of costs related to the management of our data centers, hosting fees, data connectivity costs and depreciation and amortization. Other cost of revenue also includes the amortization of capitalized software that is developed or obtained for internal use associated with our revenue-generating technologies.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs consist of wages, benefits, bonuses, stock-based compensation and, with respect to sales and marketing expenses, sales commissions.

Research and Development. Research and development expenses are related to the development and enhancement of our platform and consist primarily of personnel and the related overhead costs, amortization of capitalized software for non-revenue generating infrastructure and facilities costs.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel and the related overhead costs for personnel engaged in marketing, advertising, client services, and promotional activities. These expenses also include advertising and promotional spend on media, conferences, and other events to market our services, and facilities costs.

General and Administrative. General and administrative expenses consist primarily of personnel and the related overhead costs, professional fees, facilities costs, insurance, and certain taxes other than income taxes. General and administrative personnel costs include, among others, our executive, finance, human resources, information technology and legal functions. Our professional service fees consist primarily of accounting, audit, tax, legal, information technology and other consulting costs, including our compliance with Sarbanes-Oxley Act requirements.

Other Income, Net

Other income, net is comprised of interest expense, and interest income and other income (expense), net.

Interest Expense. Interest expense consists of interest expense on the Convertible Notes, our revolving credit facility and capital leases. Interest expense may increase if we incur any borrowings under our revolving credit facility or if we enter into new debt facilities or capital leasing arrangements.

Interest Income and Other Income (Expense), net. Interest income and other income (expense), net primarily consists of interest earned on our cash, cash equivalents and investments in marketable securities, discount amortization on our investments in marketable securities, and foreign currency exchange gains and losses. Foreign currency exchange gains and losses, both realized and unrealized, relate to transactions and monetary asset and liability balances denominated in currencies other than the functional currencies, including mark-to-market adjustments on undesignated foreign exchange forward contracts. Foreign currency gains and losses may continue to fluctuate in the future due to changes in foreign currency exchange rates.

Benefit from Income Taxes

Benefit from income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions, as well as deferred income taxes and changes in valuation allowance, reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Realization of our deferred tax assets depends on the generation of future taxable income. In considering the need for a valuation allowance, we consider our historical and future projected taxable income, as well as other objectively verifiable evidence, including our realization of tax attributes, assessment of tax credits and utilization of net operating loss carryforwards.

Results of Operations

We have one operating segment, which is also our reportable segment. The following tables set forth our results of operations for the periods presented:

	Three Months Ended March 31,	
	2024	2023
(In thousands)		
Condensed Consolidated Statements of Operations:		
Revenue	\$ 216,964	\$ 231,774
Cost of revenue:		
Traffic acquisition costs	164,810	179,576
Other cost of revenue	10,559	11,043
Total cost of revenue	175,369	190,619
Gross profit	41,595	41,155
Operating expenses:		
Research and development	9,193	9,311
Sales and marketing	23,784	25,748
General and administrative	15,215	15,406
Total operating expenses	48,192	50,465
Loss from operations	(6,597)	(9,310)
Other income (expense), net:		
Interest expense	(937)	(1,867)
Interest income and other income, net	1,405	3,860
Total other income, net	468	1,993
Loss before benefit from income taxes	(6,129)	(7,317)
Benefit from income taxes	(1,088)	(1,712)
Net loss	\$ (5,041)	\$ (5,605)
Other Financial Data:		
Research and development as % of revenue	4.2 %	4.0%
Sales and marketing as % of revenue	11.0 %	11.1%
General and administrative as % of revenue	7.0 %	6.6%
Ex-TAC Gross Profit ⁽¹⁾	\$ 52,154	\$ 52,198
Adjusted EBITDA ⁽¹⁾	\$ 1,397	\$ 695

⁽¹⁾ Ex-TAC Gross Profit and Adjusted EBITDA are non-GAAP financial measures. See “Non-GAAP Reconciliations” in this Report for the definitions and limitations of these measures, and reconciliations to the most comparable GAAP financial measures.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Revenue

Revenue decreased \$14.8 million, or 6.4%, to \$217.0 million for the three months ended March 31, 2024 from \$231.8 million for the three months ended March 31, 2023. Our revenue decreased approximately \$26 million due to net revenue retention of 89% on existing media partners, as we have experienced weaker demand on our platform, reflecting the current macroeconomic conditions and the related impact on advertising spend, as well as lower ad impressions from certain supply partners. This decrease was partially offset by growth of approximately 5%, or \$11 million, from new media partners.

Cost of Revenue and Gross Profit

Traffic acquisition costs decreased \$14.8 million, or 8.2%, to \$164.8 million for the three months ended March 31, 2024, compared to \$179.6 million in the prior year period. The decrease in traffic acquisition costs was primarily due to the decrease in our revenue and a net favorable change in our revenue mix. As a percentage of revenue, traffic acquisition costs decreased 150 basis points to 76.0% for the three months ended March 31, 2024, from 77.5% for the three months ended March 31, 2023.

Other cost of revenue decreased \$0.4 million, or 4.4%, to \$10.6 million for the three months ended March 31, 2024, compared to \$11.0 million in the prior year period, primarily due to lower software amortization expense and lower network costs. As a percentage of revenue, other cost of revenue increased slightly to 4.9% for the three months ended March 31, 2024, from 4.8% for the three months ended March 31, 2023.

Gross profit increased \$0.4 million, or 1.1%, to \$41.6 million for the three months ended March 31, 2024, compared to \$41.2 million for the three months ended March 31, 2023, as the revenue decline was more than offset by the decrease in the cost of revenue, as previously described.

Ex-TAC Gross Profit

Our Ex-TAC Gross Profit remained flat at \$52.2 million in each of the three months ended March 31, 2024 and 2023, as lower revenue was offset by the net favorable change in our revenue mix. See “Non-GAAP Reconciliations” for the related definition and reconciliations to our gross profit.

Operating Expenses

Operating expenses decreased \$2.3 million, or 4.5%, to \$48.2 million for the three months ended March 31, 2024, from \$50.5 million for the three months ended March 31, 2023. The decrease in operating expenses was primarily attributable to a \$1.0 million decrease in our provision for credit losses, lower personnel-related costs, and lower expense related to fully amortized intangible assets from a prior acquisition.

The components of operating expenses as compared to the prior year period are discussed below:

- ***Research and development expenses*** — decreased \$0.1 million.
- ***Sales and marketing expenses*** — decreased \$2.0 million, primarily due to a \$1.5 million decrease in personnel-related costs (including a \$0.7 million decline in severance and related costs) and lower expense of \$0.7 million related to fully amortized intangible assets.
- ***General and administrative expenses*** — decreased \$0.2 million, reflecting a \$1.0 million decrease in the provision for credit losses, largely offset by higher incentive-based compensation costs.

Operating expenses as a percentage of revenue increased 40 basis points to 22.2% for the three months ended March 31, 2024 from 21.8% for the three months ended March 31, 2023, primarily attributable to lower revenue.

Total Other Income, Net

Total other income, net decreased \$1.5 million, to income of \$0.5 million for the three months ended March 31, 2024, from income of \$2.0 million for the three months ended March 31, 2023, primarily driven by higher losses of \$1.2 million from remeasurement of transactions denominated in currencies other than the functional currencies. This decrease also reflected net unfavorable mark-to-market adjustments of \$0.8 million on the undesignated foreign exchange forward contracts used to manage our foreign currency exchange risk on net cash flows from our non-U.S. dollar denominated operations, as well as lower investment income of \$0.5 million. These decreases were partially offset by reduced interest expense of \$0.9 million due to the lower outstanding principal balance of Convertible Notes.

Benefit from Income Taxes

Benefit from income taxes was \$1.1 million for the three months ended March 31, 2024, compared to \$1.7 million for the three months ended March 31, 2023. Our effective tax rate decreased to 17.8% in the three months ended March 31, 2024, compared to 23.4% in the three months ended March 31, 2023, primarily due to a change in our uncertain tax positions.

A provision enacted as part of the 2017 Tax Cuts & Jobs Act requires companies to capitalize certain research and experimental expenditures for tax purposes in tax years beginning after December 31, 2021. As a result, we expect to pay higher cash taxes and have a lower effective tax rate due to a deduction related to foreign-derived intangible income in 2024.

Our future effective tax rate may be affected by the geographic mix of earnings in countries with different statutory rates. Additionally, our future effective tax rate may be affected by our ongoing assessment of the need for a valuation allowance on our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, tax planning initiatives, as well as certain discrete items.

Net Loss

As a result of the foregoing, we recorded net loss of \$5.0 million for the three months ended March 31, 2024, as compared to net loss of \$5.6 million for the three months ended March 31, 2023.

Adjusted EBITDA

Our Adjusted EBITDA increased \$0.7 million to \$1.4 million for the three months ended March 31, 2024 from \$0.7 million for the three months ended March 31, 2023, primarily due to lower operating expenses, as previously described. See “Non-GAAP Reconciliations” for the related definitions of Adjusted EBITDA and reconciliations to our net loss.

Non-GAAP Reconciliations

We present Ex-TAC Gross Profit, Adjusted EBITDA, Adjusted EBITDA as a percentage of Ex-TAC Gross Profit, and Free Cash Flow because they are key profitability measures used by our management and the Board to understand and evaluate our operating performance and trends, develop short-term and long-term operational plans, and make strategic decisions regarding the allocation of capital. Accordingly, we believe that these measures provide information to investors and the market in understanding and evaluating our operating results in the same manner as our management and the Board.

These non-GAAP financial measures are defined and reconciled to the corresponding U.S. GAAP measures below. These non-GAAP financial measures are subject to significant limitations, including those identified below. In addition, other companies in our industry may define these measures differently, which may reduce their usefulness as comparative measures. As a result, this information should be considered as supplemental in nature and is not meant as a substitute for revenue, gross profit, net loss or net cash provided by (used in) operating activities presented in accordance with U.S. GAAP.

Ex-TAC Gross Profit

Ex-TAC Gross Profit is a non-GAAP financial measure. Gross profit is the most comparable U.S. GAAP measure. In calculating Ex-TAC Gross Profit, we add back other cost of revenue to gross profit. Ex-TAC Gross Profit may fluctuate in the future due to various factors, including, but not limited to, seasonality and changes in the number of media partners and advertisers, advertiser demand or user engagements.

There are limitations on the use of Ex-TAC Gross Profit in that traffic acquisition cost is a significant component of our total cost of revenue but not the only component and, by definition, Ex-TAC Gross Profit presented for any period will be higher than gross profit for that period. A potential limitation of this non-GAAP financial measure is that other companies, including companies in our industry which have a similar business, may define Ex-TAC Gross Profit differently, which may make comparisons difficult. As a result, this information should be considered as supplemental in nature and is not meant as a substitute for revenue or gross profit presented in accordance with U.S. GAAP.

The following table presents the reconciliation of Ex-TAC Gross Profit to gross profit, the most directly comparable U.S. GAAP measure, for the periods presented:

	Three Months Ended March 31,	
	2024	2023
(In thousands)		
Revenue	\$ 216,964	\$ 231,774
Traffic acquisition costs	(164,810)	(179,576)
Other cost of revenue	(10,559)	(11,043)
Gross profit	41,595	41,155
Other cost of revenue	10,559	11,043
Ex-TAC Gross Profit	<u>\$ 52,154</u>	<u>\$ 52,198</u>

Adjusted EBITDA

We define Adjusted EBITDA as net loss before interest expense; interest income and other income, net; benefit for income taxes; depreciation and amortization; stock-based compensation, and other income or expenses that we do not consider indicative of our core operating performance, including, but not limited to regulatory matter costs, and severance costs related to our cost saving initiatives. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period.

We believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and the Board. However, our calculation of Adjusted EBITDA is not necessarily comparable to non-GAAP information of other companies. Adjusted EBITDA should be considered as a supplemental measure and should not be considered in isolation or as a substitute for any measures of our financial performance that are calculated and reported in accordance with U.S. GAAP.

The following table presents the reconciliation of Adjusted EBITDA to net loss, the most directly comparable U.S. GAAP measure, for the periods presented:

	Three Months Ended March 31,	
	2024	2023
(In thousands)		
Net loss	\$ (5,041)	\$ (5,605)
Interest expense	937	1,867
Interest income and other income, net	(1,405)	(3,860)
Benefit from income taxes	(1,088)	(1,712)
Depreciation and amortization	4,900	5,941
Stock-based compensation	2,927	2,611
Regulatory matter costs, net of recoveries	—	610
Severance and related costs	167	843
Adjusted EBITDA	<u>\$ 1,397</u>	<u>\$ 695</u>
Net loss as % of gross profit	(12.1)%	(13.6)%
Adjusted EBITDA as % of Ex-TAC Gross Profit	2.7%	1.3%

Free Cash Flow

Free cash flow is defined as cash flow provided by (used in) operating activities, less capital expenditures and capitalized software development costs. Free cash flow is a supplementary measure used by our management and the Board to evaluate our ability to generate cash and we believe it allows for a more complete analysis of our available cash flows. Free cash flow should be considered as a supplemental measure and should not be considered in isolation or as a substitute for any measures of our financial performance that are calculated and reported in accordance with U.S. GAAP.

The following table presents the reconciliation of free cash flow to net cash provided by (used in) operating activities.

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net cash provided by (used in) operating activities	\$ 8,605	\$ (20,478)
Purchases of property and equipment	(1,335)	(3,749)
Capitalized software development costs	(2,627)	(2,853)
Free cash flow	<u>\$ 4,643</u>	<u>\$ (27,080)</u>

LIQUIDITY AND CAPITAL RESOURCES

We regularly evaluate the cash requirements for our operations, commitments, development activities and capital expenditures and manage our liquidity risk in a manner consistent with our corporate priorities. Our current investment program is focused on achieving maximum returns within our investment policy parameters, while preserving capital and maintaining sufficient liquidity.

We believe that our operating cash flow, cash and cash equivalents and investments will be sufficient to fund our anticipated operating expenses, capital expenditures, interest payments on our long-term debt, and planned share repurchases for at least the next 12 months and the foreseeable future. However, there are multiple factors that could impact our future liquidity, including our business performance, our ability to collect payments from our advertisers, having to pay our media partners even if our advertisers default on their payments, or other factors described under Item 1A “Risk Factors” included in our 2023 Form 10-K.

Sources of Liquidity

Our primary sources of liquidity are cash receipts from our advertisers, our cash and cash equivalents, investments in marketable securities, and the available capacity under our revolving credit facility discussed below.

While our collections in the prior year were negatively impacted by the closure of Silicon Valley Bank (“SVB”), we have historically experienced higher cash collections during our first quarter due to seasonally strong fourth quarter sales, and, as a result, our working capital needs typically decrease during the first quarter. We generally expect these trends to continue in future periods.

As of March 31, 2024, our available liquidity was follows:

	March 31, 2024
	(In thousands)
Cash and cash equivalents ⁽¹⁾	\$ 71,362
Short-term investments	91,909
Long-term investments	68,349
Revolving Credit Facility ⁽²⁾	58,136
Total	<u>\$ 289,756</u>

⁽¹⁾ As of March 31, 2024, approximately \$35.7 million of our cash and cash equivalents was held outside of the United States by our non-U.S. subsidiaries. We currently do not have any plans to repatriate our earnings from our foreign subsidiaries. We intend to continue to reinvest our earnings from foreign operations for the foreseeable future, and do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

⁽²⁾ Our Second Amended and Restated Loan and Security Agreement, as amended by the First Amendment thereto, with Silicon Valley Bank, a division of First Citizens Bank & Trust Company, provides, subject to borrowing availability and certain other conditions, for revolving loans in an aggregate principal amount of up to \$75.0 million (the “Facility”), with a \$15.0 million sub-facility for letters of credit. Our borrowing availability under the Facility is calculated by reference to a borrowing base which is determined by specified percentages of eligible accounts receivable, based on the defined borrowing formula. The Facility will terminate on the earlier of (i) November 2, 2026 or (ii) 120 days prior to the maturity date of the Convertible Notes, unless all of the Convertible Notes have been converted to our common equity securities.

The Facility contains representations and warranties, including, without limitation, with respect to collateral; accounts receivable; financials; litigation, indictment and compliance with laws; disclosure and no material adverse effect, each of which is a condition to funding. Additionally, the Facility includes events of default and customary affirmative and negative covenants applicable to us and our subsidiaries, including, without limitation, restrictions on liens, indebtedness, investments, fundamental changes, dispositions, restricted payments, and prepayment of the Convertible Notes and of junior indebtedness. The Facility contains a financial covenant that requires, in the event that credit extensions under the Facility equal or exceed 85% of the lesser of the available commitments under the Facility or upon the occurrence of an event of default, our Company to maintain a minimum consolidated monthly fixed charge coverage ratio of 1.00. We were in compliance with all of the financial covenants under the Facility as of March 31, 2024 and December 31, 2023. See Note 8 to the accompanying condensed consolidated financial statements for additional information relating to the Facility.

Material Cash Requirements

Our primary uses of liquidity are payments to our media partners, our operating expenses, capital expenditures, our long-term debt and the related interest payments, and repurchases under our \$30 million share repurchase program. We may also use our available cash to make acquisitions or investments in complementary companies or technologies.

We primarily use our operating cash for payments due to media partners and vendors, as well as for personnel costs, and other employee-related expenditures. Our contracts with media partners are generally variable based on volume or guarantee a minimum rate of payment if the media partner reaches certain performance targets. See “Definitions of Financial and Performance Measures —Traffic Acquisition Costs.”

Long-Term Debt

As of March 31, 2024 and December 31, 2023, we had \$118.0 million principal amount of Convertible Notes, which mature on July 27, 2026, unless earlier converted, redeemed, or repurchased. Interest on the Convertible Notes is payable semi-annually in arrears on January 27 and July 27 of each year, at a rate of 2.95% per year.

See Note 8 to the accompanying condensed consolidated financial statements for additional information relating to our Convertible Notes.

Other Contractual Cash Obligations

See “Contractual Cash Obligations” disclosure within “Liquidity and Capital Resources” section of our 2023 Form 10-K for detailed disclosures of our other material cash obligations as of December 31, 2023.

Share Repurchases

On December 14, 2022, our Board approved a new stock repurchase program, authorizing us to repurchase up to \$30 million of our common stock, par value \$0.001 per share, with no requirement to purchase any minimum number of shares. The manner, timing, and actual number of shares repurchased under the program will depend on a variety of factors, including price, general business and market conditions, and other investment opportunities. Shares may be repurchased through privately negotiated transactions or open market purchases, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Exchange Act. The repurchase program may be commenced, suspended, or terminated at any time at our discretion without prior notice. During the three months ended March 31, 2024 and 2023 we repurchased 945,947 shares and 1,313,073 shares, respectively, with a fair value of \$3.9 million and \$6.1 million, respectively, under our share repurchase program. As of March 31, 2024, the remaining availability under our \$30 million share repurchase program was \$8.6 million.

In addition, we periodically withhold shares to satisfy employee tax withholding obligations arising in connection with the vesting of restricted stock units and exercise of options and warrants in accordance with the terms of our equity incentive plans and the underlying award agreements. During the three months ended March 31, 2024 and 2023, we withheld 37,492 shares and 48,202 shares, respectively, with a fair value of \$0.2 million and \$0.2 million, respectively, to satisfy the minimum employee tax withholding obligations.

Capital Expenditures

Our cash flow from investing activities primarily consists of capital expenditures and capitalized software development costs. We spent \$1.3 million in capital expenditures during the three months ended March 31, 2024. We currently anticipate that our capital expenditures will be between \$8 million and \$10 million in 2024, primarily relating to expenditures for servers and related equipment and other equipment. However, actual amounts may vary from these estimates.

Cash Flows

The following table summarizes the major components of our net cash flows for the periods presented:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net cash provided by (used in) operating activities	\$ 8,605	\$ (20,478)
Net cash used in investing activities	(4,229)	(4,039)
Net cash used in financing activities	(4,270)	(7,411)
Effect of exchange rate changes	363	(436)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 469</u>	<u>\$ (32,364)</u>

Operating Activities

Net cash from operating activities increased \$29.1 million, to net cash provided by operating activities of \$8.6 million for the three months ended March 31, 2024, as compared to net cash used in operating activities of \$20.5 million for the three months ended March 31, 2023. This increase was primarily driven by a \$30.6 million favorable change in our working capital, largely due to lower accounts receivable due to higher collections during the three months ended March 31, 2024, compared to the prior year period, which was negatively impacted by delays in collections of customer payments as we were transitioning to alternative bank accounts due to the sudden closure of SVB in March 2023, as well as a \$1.2 million increase in net income after non-cash adjustments during the three months ended March 31, 2024, compared to the same prior year period.

Our free cash flow for the three months ended March 31, 2024 was \$4.6 million, as compared to use of cash of \$27.1 million for the three months ended March 31, 2023, primarily reflecting higher cash collections and lower capital expenditures. Free cash flow is a supplemental non-GAAP financial measure. See “Non-GAAP Reconciliations” for the related definition and a reconciliation to net cash provided by operating activities.

Investing Activities

Net cash used in activities increased \$0.2 million to \$4.2 million in the three months ended March 31, 2024, from \$4.0 million in the three months ended March 31, 2023, primarily driven by the \$2.9 million decline in net proceeds from our investments in marketable securities, largely offset by lower capital expenditures of \$2.4 million in the three months ended March 31, 2024, compared to the prior year period.

Financing Activities

Net cash used in financing activities decreased \$3.1 million to \$4.3 million in the three months ended March 31, 2024, from \$7.4 million in the three months ended March 31, 2023. This favorable change was primarily attributable to lower treasury share repurchases of \$2.3 million in the three months ended March 31, 2024, compared to the prior year period, as well as to \$0.5 million of contingent consideration paid during the three months ended March 31, 2023 in connection with our acquisition of video intelligence AG.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

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 2023 Form 10-K.

Recently Issued Accounting Pronouncements

See Note 1 to the accompanying condensed consolidated financial statements for recently issued accounting standards, which may have an impact on our financial statements upon adoption.

JOBS Act Transition Period

We are an emerging growth company as defined in the JOBS Act. The JOBS Act provides that an emerging growth company may take advantage of an extended transition period for complying with new or revised accounting standards, delaying the adoption of some accounting standards until they would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act for the adoption of certain accounting standards until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our consolidated financial statements may not be comparable to companies that have adopted new or revised accounting pronouncements as of public company effective dates.

Off-Balance Sheet Arrangements

We do not currently engage in off-balance sheet financing arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both in the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks include foreign exchange, interest rate, inflation and credit risks.

Foreign Currency Risk

Our consolidated results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The majority of our revenue and cost of revenue are denominated in U.S. Dollars, with the remainder in other currencies. Our operating expenses are generally denominated in the currencies in which our operations are located. A majority of our operating expenses are denominated in U.S. Dollars, with the remainder denominated primarily in New Israeli Shekels and to a lesser extent British pound sterling and Euros. We evaluate periodically the various currencies to which we are exposed and, from time to time, may enter into foreign currency forward exchange contracts to manage our foreign currency risk and reduce the potential adverse impact from the appreciation or the depreciation of our non-U.S. dollar-denominated operations, as appropriate.

Changes in U.S. Dollar against the currencies of the countries in which we operate impact our operating results, as further described in Item 2, “Results of Operations.” The effect of a hypothetical 10% increase or decrease in our weighted-average exchange rates on our revenue, cost of revenue and operating expenses denominated in foreign currencies would result in a \$2.2 million unfavorable or favorable change to our operating income for the three months ended March 31, 2024.

Interest Rate Risk

Our exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of the interest rates in the United States. Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents, investments and any future borrowings under the Facility. There have been no amounts outstanding under the Facility since we amended and restated our loan agreement in November 2021. Long-term debt recorded on our condensed consolidated balance sheets as of March 31, 2024 and December 31, 2023 was \$118.0 million, and bears a fixed rate of interest.

As of March 31, 2024, our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents of \$71.4 million and our investments in marketable securities of \$160.3 million under our investment program, which consist of U.S. Treasuries, U.S. government bonds, commercial paper, U.S. corporate bonds and municipal bonds, with maturities from three months to two years from the date of purchase. The primary objectives of our investment program are focused on achieving maximum returns within our investment policy parameters, while preserving capital and maintaining sufficient liquidity. We plan to actively monitor our exposure to the fair value of our investment portfolio in accordance with our policies and procedures, which include monitoring market conditions, to minimize investment risk.

A 100-basis point change in interest rates as of March 31, 2024 would change the fair value of our investment portfolio by approximately \$1.4 million. Since our debt investments are classified as available-for-sale, the unrealized gains and losses related to fluctuations in market volatility and interest rates are reflected within accumulated other comprehensive income (loss) within stockholders’ equity in our audited consolidated balance sheets.

Inflation Risk

Our business is subject to risk associated with inflation. We continue to monitor the impact of inflation to minimize its effects. If our costs, including wages, were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs which could negatively impact our business, financial condition, and results of operations. Inflation throughout the broader economy has and could lead to reduced ad spend and indirectly harm our business, financial condition and results of operations. See Item 1A, “Risk Factors” in our 2023 Form 10-K.

Credit Risk

Financial instruments that subject us to concentration of credit risk are cash and cash equivalents, investments and receivables. As part of our ongoing procedures, we monitor the credit levels and the financial condition of our customers in order to minimize our credit risk and require certain customers with higher potential credit risk to prepay for their campaigns. See Item 1A, “Risk Factors” in our 2023 Form 10-K under “*We are subject to payment-related risks that may adversely affect our business, working capital, financial condition and results of operations.*” We do not factor our accounts receivables, nor do we maintain credit insurance to manage the risk of credit loss. We are also exposed to a risk that the counterparty to our foreign currency forward exchange contracts will fail to meet its contractual obligations. In order to mitigate this risk, we perform an evaluation of our counterparty credit risk and our forward contracts have a term of no more than 12 months.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act), as of March 31, 2024. Based on such evaluation, our CEO and CFO have concluded that as of March 31, 2024, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that 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 the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the three months ended March 31, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected.

Part II Other Information

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 10 in the accompanying notes to the condensed consolidated financial statements included in Part I, Item 1 “Financial Statements” of this Report, under “Legal Proceedings and Other Matters,” which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in Item 1A of Part I of the Company’s 2023 Form 10-K, which are incorporated herein by reference.

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

Purchases of Equity Securities by the Issuer

On December 14, 2022, our Board approved a share repurchase program authorizing us to repurchase up to \$30 million of our common stock, with no requirement to purchase any minimum number of shares. The manner, timing, and actual number of shares repurchased under the program will depend on a variety of factors, including price, general business and market conditions, and other investment opportunities. Shares may be repurchased through privately negotiated transactions or open market purchases, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The repurchase program may be commenced, suspended, or terminated at any time at our discretion without prior notice.

In addition, we may from time to time withhold shares in connection with tax obligations related to vesting of restricted stock units in accordance with the terms of our equity incentive plans and the underlying award agreements. The below table sets forth the repurchases of our common stock for the three months ended March 31, 2024:

Period	(a) Total number of shares (or units) purchased ⁽¹⁾	(b) Average price paid per share (or unit) ⁽²⁾	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands) ⁽²⁾
January 2024	414,879	\$4.08	395,941	\$10,831
February 2024	281,090	\$4.20	279,302	\$9,663
March 2024	287,470	\$3.88	270,704	\$8,615
TOTAL	983,439	\$4.06	945,947	

⁽¹⁾ Total number of shares purchased includes shares repurchased under our \$30 million share repurchase program, as well as shares withheld to satisfy employee tax withholding obligations arising in connection with the vesting and settlement of restricted stock units under our 2007 Omnibus Securities and Incentive Plan and our 2021 Long-Term Incentive Plan.

⁽²⁾ The average price paid per share under the share repurchase program includes commissions, but excludes the 1% excise tax accrued on our share repurchases as a result of the Inflation Reduction Act of 2022. Commission costs associated with share repurchases and excise taxes do not reduce the remaining authorized amount under our repurchase programs.

Item 5. Other Information.

None

EXHIBIT INDEX

Exhibit No.	Description
31.1*	<u>Certification of Principal Executive Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Principal Financial Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1*❖	<u>Certification of the Principal Executive Officer and Principal Financial Officer Pursuant To 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

❖ This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on May 9, 2024.

OUTBRAIN INC.

By: /s/ David Kostman

Name: David Kostman

Title: *Chief Executive Officer*

By: /s/ Jason Kiviat

Name: Jason Kiviat

Title: *Chief Financial Officer*

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Kostman, certify that:

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

Date: May 9, 2024

By: /s/ David Kostman
Name: David Kostman
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jason Kiviat, certify that:

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

Date: May 9, 2024

By: /s/ Jason Kiviat
Name: Jason Kiviat
Title: Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, David Kostman, Chief Executive Officer (Principal Executive Officer) of Outbrain Inc. (the “Company”), and Jason Kiviat, Chief Financial Officer (Principal Financial Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. The Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 (the “Report”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2024

By: /s/ David Kostman
Name: David Kostman
Title: Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jason Kiviat
Name: Jason Kiviat
Title: Chief Financial Officer
(Principal Financial Officer)