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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from ___ to ___

Commission file number 001-40643

Outbrain Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-5391629**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x No o

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

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

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

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

As of October 31, 2022, Outbrain Inc. had 52,555,760 shares of common stock outstanding.

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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," "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 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 conflict between Russia and Ukraine, supply chain issues, inflationary pressures, labor market volatility, and the pace of recovery or any resurgences of the COVID-19 pandemic;
- significant fluctuations in currency exchange rates;
- any failure of our recommendation engine to accurately predict user 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 continue to innovate, and adoption by our advertisers and media partners of our expanding solutions;
- our ability to meet demands on our infrastructure and resources due to future growth or otherwise;
- our ability to extend our reach into evolving digital media platforms;
- our ability to maintain and scale our technology platform;
- our ability to grow our business and manage growth effectively;
- the success of our sales and marketing investments, which may require significant investments and may involve long sales cycles;
- the risk that our research and development efforts may not meet the demands of a rapidly evolving technology market;
- the loss of one or more of our large media partners, and our ability to expand our advertiser and media partner relationships;
- our ability to compete effectively against current and future competitors;
- failures or loss of the hardware, software and infrastructure on which we rely, or security breaches;
- our ability to maintain our revenues or profitability despite quarterly fluctuations in our results, whether due to seasonality, large cyclical events, or other causes;
- political and regulatory risks in the various markets in which we operate; the challenges of compliance with differing and changing regulatory requirements; and
- the risks 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 Securities and Exchange Commission, and those included 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)

	September 30, 2022 (Unaudited)	December 31, 2021
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 137,871	$ 455,397
Short-term investments in marketable securities	136,263	—
Accounts receivable, net of allowances	165,526	192,814
Prepaid expenses and other current assets	42,551	27,873
Total current assets	482,211	676,084
Non-current assets:		
Long-term investments in marketable securities	70,803	—
Property, equipment and capitalized software, net	35,059	28,008
Operating lease right-of-use assets, net	11,927	—
Intangible assets, net	25,976	5,719
Goodwill	63,063	32,881
Deferred tax assets	41,254	32,867
Other assets	22,906	20,331
TOTAL ASSETS	$ 753,199	$ 795,890
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 128,622	$ 160,790
Accrued compensation and benefits	15,487	23,331
Accrued and other current liabilities	115,695	99,590
Deferred revenue	6,105	4,784
Total current liabilities	265,909	288,495
Non-current liabilities:		
Long-term debt	236,000	236,000
Operating lease liabilities, non-current	9,012	—
Other liabilities	17,297	14,620
TOTAL LIABILITIES	$ 528,218	$ 539,115
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, par value of $0.001 per share — 1,000,000,000 shares authorized; 59,883,784 shares issued and 53,583,382 shares outstanding as of September 30, 2022 and 58,015,075 shares issued and 56,701,394 shares outstanding as of December 31, 2021	$ 60	$ 58
Preferred stock, par value of $0.001 per share — 100,000,000 shares authorized, none issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Additional paid-in capital	452,558	434,945
Treasury stock, at cost, 6,300,402 shares as of September 30, 2022 and 1,313,681 shares as of December 31, 2021	(42,394)	(16,504)
Accumulated other comprehensive loss	(11,161)	(4,474)
Accumulated deficit	(174,082)	(157,250)
TOTAL STOCKHOLDERS' EQUITY	$ 224,981	$ 256,775
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 753,199	$ 795,890

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Condensed Consolidated Statements of Operations
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Unaudited)		(Unaudited)	
Revenue	$ 229,017	$ 250,784	$ 734,116	$ 725,961
Cost of revenue:				
Traffic acquisition costs	176,347	182,669	558,597	530,606
Other cost of revenue	10,756	7,846	30,955	22,555
Total cost of revenue	187,103	190,515	589,552	553,161
Gross profit	41,914	60,269	144,564	172,800
Operating expenses:				
Research and development	9,911	10,659	30,858	27,561
Sales and marketing	26,852	26,047	82,369	67,101
General and administrative	12,224	29,979	41,215	52,619
Total operating expenses	48,987	66,685	154,442	147,281
(Loss) income from operations	(7,073)	(6,416)	(9,878)	25,519
Other income (expense), net:				
Charges related to exchange of senior notes upon IPO	—	(42,049)	—	(42,049)
Interest expense	(1,924)	(1,656)	(5,748)	(2,015)
Interest income and other (expense) income, net	3,199	1,218	(1,710)	(1,978)
Total other income (expense), net	1,275	(42,487)	(7,458)	(46,042)
Loss before (benefit) provision for income taxes	(5,798)	(48,903)	(17,336)	(20,523)
(Benefit) provision for income taxes	(1,174)	5,003	(504)	7,436
Net loss	$ (4,624)	$ (53,906)	$ (16,832)	$ (27,959)
Weighted average shares outstanding:				
Basic	55,232,611	47,859,056	56,679,302	27,645,471
Diluted	55,232,611	47,859,056	56,679,302	27,645,471
Net loss per common share:				
Basic	($0.08)	($1.13)	($0.30)	($1.01)
Diluted	($0.08)	($1.13)	($0.30)	($1.01)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Unaudited)			
Net loss	$ (4,624)	$ (53,906)	$ (16,832)	$ (27,959)
Other comprehensive loss:				
Foreign currency translation adjustments	(2,013)	(1,187)	(4,750)	(1,027)
Change in unrealized losses on available-for-sale investments in debt securities (net of tax of $447, 0, $447, 0	(1,937)	—	(1,937)	—
Total other comprehensive loss	(3,950)	(1,187)	(6,687)	(1,027)
Comprehensive loss	$ (8,574)	$ (55,093)	$ (23,519)	$ (28,986)

See Accompanying Notes to Condensed Consolidated Financial Statements.

OUTBRAIN INC.
Condensed Consolidated Statements of Convertible Preferred Stock and 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, 2022	58,015,075	$ 58	$ 434,945	(1,313,681)	$ (16,504)	$ (4,474)	$ (157,250)	$ 256,775
Exercise of employee stock options, warrants and restricted stock awards, net of shares withheld for taxes	411,855	1	2,273	(95,138)	(1,425)	—	—	849
Vesting of restricted stock units, net of shares withheld for taxes	211,713	—	—	(22,499)	(293)	—	—	(293)
Acquisition consideration	355,786	—	4,190	—	—	—	—	4,190
Stock-based compensation	—	—	2,810	—	—	—	—	2,810
Other comprehensive loss	—	—	—	—	—	(741)	—	(741)
Net loss	—	—	—	—	—	—	(1,890)	(1,890)
Balance – March 31, 2022	58,994,429	59	444,218	(1,431,318)	(18,222)	(5,215)	(159,140)	261,700
Exercise of employee stock options, net of shares withheld for taxes	284,130	—	1,479	—	—	—	—	1,479
Vesting of restricted stock units, net of shares withheld for taxes	264,098	1	(1)	(38,864)	(353)	—	—	(353)
Shares repurchased under the share repurchase program	—	—	—	(1,388,317)	(7,501)	—	—	(7,501)
Stock-based compensation	—	—	3,586	—	—	—	—	3,586
Other comprehensive loss	—	—	—	—	—	(1,996)	—	(1,996)
Net loss	—	—	—	—	—	—	(10,318)	(10,318)
Balance – June 30, 2022	59,542,657	60	449,282	(2,858,499)	(26,076)	(7,211)	(169,458)	246,597
Exercise of employee stock options, net of shares withheld for taxes	88,966	—	191	—	—	—	—	191
Vesting of restricted stock units, net of shares withheld for taxes	252,161	—	—	(47,577)	(240)	—	—	(240)
Shares repurchased under the share repurchase program	—	—	—	(3,394,326)	(16,078)	—	—	(16,078)
Stock-based compensation	—	—	3,085	—	—	—	—	3,085
Other comprehensive loss	—	—	—	—	—	(3,950)	—	(3,950)
Net loss	—	—	—	—	—	—	(4,624)	(4,624)
Balance – September 30, 2022	59,883,784	$ 60	$ 452,558	(6,300,402)	$ (42,394)	$ (11,161)	$ (174,082)	$ 224,981

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

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance – January 1, 2021	27,652,449	$ 162,444	17,439,488	$ 17	$ 95,055	(280,686)	$ (2,350)	$ (4,290)	$ (168,245)	$ (79,813)
Exercise of employee stock options, net of shares withheld for taxes	—	—	129,490	1	544	(26,344)	(249)	—	—	296
Vesting of restricted stock units	—	—	105,101	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,539	—	—	—	—	1,539
Other comprehensive income	—	—	—	—	—	—	—	1,220	—	1,220
Net income	—	—	—	—	—	—	—	—	10,746	10,746
Balance – March 31, 2021	27,652,449	162,444	17,674,079	18	97,138	(307,030)	(2,599)	(3,070)	(157,499)	(66,012)
Exercise of employee stock options, net of shares withheld for taxes	—	—	292,745	—	1,238	—	—	—	—	1,238
Vesting of restricted stock units	—	—	104,470	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,500	—	—	—	—	1,500
Other comprehensive income	—	—	—	—	—	—	—	(1,060)	—	(1,060)
Net income	—	—	—	—	—	—	—	—	15,201	15,201
Balance – June 30, 2021	27,652,449	162,444	18,071,294	18	99,876	(307,030)	(2,599)	(4,130)	(142,298)	(49,133)
Conversion of convertible preferred stock to common stock	(27,652,449)	(162,444)	28,091,267	28	162,416	—	—	—	—	162,444
Issuance of common stock from initial public offering, net of issuance costs	—	—	8,000,000	8	145,097	—	—	—	—	145,105
Exercise of employee stock options, net of shares withheld for taxes	—	—	1,458,797	1	3,209	(29,918)	(417)	—	—	2,793
Vesting of restricted stock units	—	—	182,805	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	18,448	—	—	—	—	18,448
Other comprehensive income	—	—	—	—	—	—	—	(1,187)	—	(1,187)
Net loss	—	—	—	—	—	—	—	—	(53,906)	(53,906)
Balance – September 30, 2021	—	$ —	55,804,163	$ 55	$ 429,046	(336,948)	$ (3,016)	$ (5,317)	$ (196,204)	$ 224,564

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2022	2021
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (16,832)	$ (27,959)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Charges related to exchange of senior notes upon IPO	—	42,049
Depreciation and amortization of property and equipment	8,061	5,068
Amortization of capitalized software development costs	7,061	6,241
Amortization of intangible assets	4,694	2,687
Stock-based compensation	8,795	21,396
Non-cash operating lease expense	3,224	—
Provision for credit losses	2,209	2,190
Deferred income taxes	(8,363)	(918)
Other	1,339	2,002
Changes in operating assets and liabilities:		
Accounts receivable	16,793	602
Prepaid expenses and other current assets	(8,954)	(10,386)
Other assets	1,890	(191)
Accounts payable and accrued and other current liabilities	(32,417)	17,516
Operating lease liabilities	(3,042)	—
Deferred revenue	1,904	31
Other	371	749
Net cash (used in) provided by operating activities	(13,267)	61,077
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired	(45,151)	—
Purchases of property and equipment	(10,851)	(3,885)
Capitalized software development costs	(9,493)	(7,434)
Purchases of marketable securities	(209,004)	—
Other	(83)	(41)
Net cash used in investing activities	(274,582)	(11,360)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from IPO issuance of common stock, net of underwriting costs	—	148,800
Payment of initial public offering transaction costs	—	(3,695)
Proceeds from issuance of debt	—	200,000
Payment of deferred financing costs	—	(6,067)
Proceeds from exercise of stock options and warrants	3,944	4,993
Treasury stock repurchases and share withholdings on vested awards	(25,890)	(666)
Principal payments on finance lease obligations	(2,582)	(3,322)
Net cash (used in) provided by financing activities	(24,528)	340,043
Effect of exchange rate changes	(5,175)	(978)
Net (decrease) increase in cash, cash equivalents and restricted cash	(317,552)	388,782
Cash, cash equivalents and restricted cash — Beginning	455,592	94,067
Cash, cash equivalents and restricted cash — Ending	138,040	482,849
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO THE CONDENSED CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	137,871	482,447
Restricted cash, included in other assets	169	402
Total cash, cash equivalents, and restricted cash	$ 138,040	$ 482,849

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2022	2021
	(Unaudited)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 4,101	$ 3,485
Cash paid for interest	$ 7,356	$ 476
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Stock consideration issued for acquisition of a business	$ 4,190	$ —
Purchases of property and equipment included in accounts payable	$ 2,357	$ 3
Acquisition consideration payable	$ 1,195	$ —
Stock-based compensation capitalized for software development costs	$ 686	$ 134
Conversion of preferred stock to common stock	$ —	$ 162,444
Unpaid deferred offering costs in accounts payable and accrued expenses	$ —	$ 2,484
Property and equipment financed under capital obligation arrangements	$ —	$ 1,837

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Organization, Description of Business, Basis of Presentation, Use of Estimates and Recently Adopted Accounting Pronouncements

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 recommendation platform powering the open web. The Company’s platform provides personalized recommendations that appear as links to content, advertisements and videos on media owners’ online properties. The Company generates revenue from marketers through user engagements with promoted recommendations 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 recommendations are shown. The Company’s advertiser solutions are mainly priced using a performance-based model based on the actual number of engagements generated by users, which is highly dependent on its ability to generate trustworthy and interesting recommendations to individual users 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 user 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, 2021, filed with the Securities and Exchange Commission on March 18, 2022 (“2021 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 and 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.

Reclassifications

Certain reclassifications have been made to the prior periods’ financial information in order to conform to the current period’s presentation.

Cash and Cash Equivalents and Investments

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash on hand and highly liquid investments in money market funds, U.S. government bonds and commercial paper.

The Company's investments in debt securities are classified as available-for-sale and recorded at fair value. The Company classifies its investments in debt securities as short-term or long-term, based on each security's maturity date. Unrealized gains and losses on available-for-sale securities are recognized in other comprehensive income (loss) ("OCI"), net of taxes. Although the Company does not have intent to sell its debt investments, the Company may sell them prior to their maturities for a variety of reasons, including portfolio diversification, credit quality, yields, and liquidity requirements. Any realized gains and losses on the sale of investments are determined based on a specific identification method and recorded within other income (expense), net in the Company's condensed consolidated statements of operations.

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 its accounts receivable. No single marketer accounted for 10% or more of the Company's total revenue for the three and nine months ended September 30, 2022 or 2021, or for 10% or more of its gross accounts receivable balance as of September 30, 2022 or December 31, 2021.

During the three and nine months ended September 30, 2022, none of the Company's media owners accounted for 10% or more of its total traffic acquisition costs. For the three months ended September 30, 2021, two media owners each individually accounted for approximately 10% of the Company's total traffic acquisition costs, and individually accounted for approximately 10% and 11% of the Company's total traffic acquisition costs for the nine months ended September 30, 2021.

Segment Information

The Company has one operating and reporting segment. The Company's chief operating decision maker is its Co-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 and can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards 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 emerging growth company or until the Company affirmatively and irrevocably opts out of the extended transition period.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-02, "*Leases (Topic 842)*," which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). This comprehensive new standard amends and supersedes existing lease accounting guidance and is intended to increase transparency and comparability by recognizing right-of-use ("ROU") lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. In July 2018, this guidance was amended to allow companies to use the beginning of the period in which this standard is adopted as the date of initial application.

The Company adopted ASU 2016-02 on January 1, 2022 using the transition election allowing it not to restate prior periods. As such, results for reporting periods beginning on January 1, 2022 are presented under Accounts Standards Codification ("ASC") 842, while prior period amounts continue to be reported in accordance with the Company's historical accounting treatment under ASC 840, "Leases." The Company elected the package of practical expedients permitted under the transition guidance, which allows it not to reassess its prior conclusions about lease identification, lease classification and initial direct costs. In addition, the Company elected not to separate the lease and non-lease components for its real estate leases and not to recognize lease assets and liabilities for operating leases with initial terms of 12 months or less. The Company did not elect the "hindsight" practical expedient. The Company uses its incremental borrowing rate to determine the present value of lease payments, as the Company's leases do not have a readily determinable implicit discount rate. The incremental borrowing rate is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term and amount in a similar economic environment.

Upon adoption, the Company recognized operating right-of-use assets of $14.8 million and operating lease liabilities of $15.2 million in its consolidated balance sheet as of January 1, 2022. In addition, the Company reclassified deferred rent and lease incentives as a component of operating right-of-use assets. The adoption of the new lease standard did not have a material impact the Company's results of operations or cash flows and there was no cumulative-effect adjustment to the opening balance of retained earnings.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326)*," which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires consideration of forward-looking information to calculate credit loss estimates. These changes result in an earlier recognition of credit losses. The Company's financial assets held at amortized cost include accounts receivable. The amendments in ASU 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities," deferred the effective date for Topic 326 to fiscal years beginning after December 15, 2022. The Company early adopted ASU 2016-13 as of January 1, 2022, using the adoption method based on the aging schedules of accounts receivable. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

See Note 1 to the Company's audited consolidated financial statements for the year ended December 31, 2021 in the Company's 2021 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 marketers are physically located:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
USA	$ 76,728	$ 94,599	$ 247,384	$ 265,677
Europe, the Middle East and Africa (EMEA)	125,766	125,102	405,734	377,680
Other	26,523	31,083	80,998	82,604
Total revenue	$ 229,017	$ 250,784	$ 734,116	$ 725,961

Contract Balances

There were no contract assets as of September 30, 2022 or December 31, 2021. Contract liabilities primarily relate to advance payments and consideration received from customers. As of September 30, 2022 and December 31, 2021, the Company's contract liabilities were recorded as deferred revenue in the condensed consolidated balance sheets.

3. Acquisition

On November 19, 2021, the Company entered into a definitive agreement, by and among the Company and the shareholders of video intelligence AG (“vi”), a Swiss-based contextual video technology company for digital media owners, for the acquisition of all of the outstanding shares of vi for a purchase price of approximately $55 million. The acquisition was completed on January 5, 2022. The purchase price was paid in the form of cash and Outbrain common stock, with the first installment of $37.3 million in cash and the equity portion paid at closing, and an additional $10.6 million paid in the third quarter of 2022. The equity portion of the purchase price was comprised of 355,786 shares of the Company’s common stock with a fair value of $4.2 million, and is subject to a post-closing adjustment based on market price of the Company’s stock to be determined one year from closing, at which time any required adjustment is to be paid in cash. Aggregate consideration for the acquisition of vi will not exceed approximately $55 million in total. This acquisition expanded the Company’s video product offerings to include in-stream high-quality video content, delivering a better user experience and more value to its advertisers.

The following table summarizes the total purchase consideration as of the acquisition date:

	January 5, 2022 (In thousands)
Cash consideration paid on acquisition date	$ 37,311
Fair value of deferred consideration payable in cash	10,936
Fair value of contingent consideration payable	547
Stock consideration	4,190
Total consideration	$ 52,984

This acquisition was accounted for as a business combination under the acquisition method of accounting and the results of operations of vi have been included in the Company’s results of operations as of the acquisition date. The Company incurred transaction costs relating to the vi acquisition of $0.2 million during the three months ended March 31, 2022, which were included in general and administrative expenses in the Company’s condensed consolidated statements of operations. The Company allocated the purchase price to identifiable assets acquired based on their estimated fair values at acquisition date, which required management to use significant judgment and estimates, including valuation methodologies, estimates of future revenue, costs and cash flows, discount rates, and identifying comparable companies. The Company engaged third-party valuation specialists to assist in determining the fair values of the acquired assets and liabilities. During the nine months ended September 30, 2022, the Company recorded an expense of $0.4 million in its condensed consolidated statement of operations, to adjust the contingent consideration payable to its estimated fair value of approximately $0.9 million as of September 30, 2022. The allocation of the purchase price to the identifiable assets and liabilities based on their estimated fair values as of the acquisition date was as follows:

	January 5, 2022 (In thousands)
Cash and cash equivalents	$ 2,787
Accounts receivable	3,849
Prepaid expenses and other current assets	995
Property and equipment, net	43
Publisher relationships	10,783
Customer relationships	732
Content provider relationships	284
Technology intangibles	9,985
Tradenames	3,704
Accounts payable	(2,571)
Accrued and other liabilities	(2,768)
Deferred tax liability	(5,021)
Net assets acquired	22,802
Goodwill	30,182
Total	$ 52,984

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The fair values of the publisher relationships were determined using the multi-period excess earnings income approach and the fair values of the customer and content provider relationships were determined using the cost approach. The fair value of tradenames and technology was determined using the relief-from-royalty method. Identifiable intangible assets acquired are amortized on a straight-line basis over their estimated useful lives. The Company estimated useful lives of acquired publisher relationships and technology to be 8 years, and tradenames to be 9 years, and other relationships to be 5 years. Amortization expense for amortizable intangible assets is included within sales and marketing expense and other cost of revenue in the Company's condensed consolidated statements of operations.

The excess of the purchase price over the aggregate fair value of the identifiable assets acquired was recorded as goodwill and is primarily attributable to expected synergies and increased offerings to customers the Company expects from future growth and potential monetization opportunities. Goodwill is not amortized but will be evaluated for impairment at least annually, or more frequently if there are indicators of impairment. The goodwill is not deductible for tax purposes.

4. 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.

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:

	September 30, 2022			
	Level I	Level II	Level III	Total
	(In thousands)			
Financial Assets:				
Cash equivalents and investments[1]	$ 71,287	$ 234,865	$ —	$ 306,152
Restricted time deposit [2]	$ —	$ 169	$ —	$ 169
Severance pay fund deposits [2]	$ —	$ 5,346	$ —	$ 5,346
Total financial assets	$ 71,287	$ 240,380	$ —	$ 311,667
Financial Liabilities:				
Foreign currency forward contract [3]	$ —	$ 2,908	$ —	$ 2,908
Total financial liabilities	$ —	$ 2,908	$ —	$ 2,908

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	December 31, 2021			
	Level I	Level II	Level III	Total
	(In thousands)			
Financial Assets:				
Restricted time deposit [2]	$ —	$ 195	$ —	$ 195
Severance pay fund deposits [2]	$ —	$ 6,086	$ —	$ 6,086
Foreign currency forward contract [4]	$ —	$ 741	$ —	$ 741
Total financial assets	$ —	$ 7,022	$ —	$ 7,022

(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, corporate bonds and municipal 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 5 for additional detail of our fixed income securities by balance sheet location.

(2) Recorded within other assets

(3) Recorded within accrued and other current liabilities

(4) Recorded within prepaid expenses and other current assets

The Company's 2.95% Convertible Senior Notes due 2026 ("Convertible Notes") are recorded within long-term debt in its 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 Company's Convertible Notes, based on Level II measurements of the fair value hierarchy:

	September 30, 2022		December 31, 2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Convertible Notes	$ 236,000	$ 183,679	$ 236,000	$ 234,348

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. During the three and nine months ended September 30, 2022, the Company recognized gains of $0.4 million and losses of $3.6 million, respectively, related to mark-to-market adjustments on its undesignated foreign currency forward contacts. The Company recorded corresponding gains of $0.1 million and losses of $0.5 million, respectively, during the three and nine months ended September 30, 2021.

5. Balance Sheet Components

Cash Equivalents and Investments

In July 2022, the Company initiated a new investment program. All of the Company's debt securities are classified as available for sale. The Company's cash equivalents and investments as of September 30, 2022 consisted of the following:

		September 30, 2022						
(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	$ 71,287	$ —	$ —	$ 71,287	$ 71,287	$ —	$ —
U.S. Treasuries	2	41,070	—	(325)	40,745	—	30,106	10,639
U.S. government bonds	2	92,878	—	(806)	92,072	10,978	42,688	38,406
Commercial paper	2	41,794	—	(127)	41,667	16,821	24,846	—
U.S. Corporate bonds	2	61,060	—	(679)	60,381	—	38,623	21,758
Total cash equivalents and investments		$ 308,089	$ —	$ (1,937)	$ 306,152	$ 99,086	$ 136,263	$ 70,803

[1] The amortized cost of debt securities excludes accrued interest of $0.7 million as of September 30, 2022.

Total estimated fair value of debt securities in an unrealized loss position as of September 30, 2022 was $234.9 million, all of which has been in an unrealized loss position for less than three months. The aggregate amount of unrealized losses as of September 30, 2022 was $1.9 million. 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 September 30, 2022.

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

	September 30, 2022 (in thousands)
Within 1 year	$ 235,349
After 1 year through 2 years	70,803
Total fair value	$ 306,152

Accounts Receivable and Allowance for Credit Losses

The allowance for credit losses is based on the best estimate of the amount of probable credit losses in accounts receivable. The allowance for credit losses is determined based on historical collection experience, reasonable and supportable forecasted information, and any applicable market conditions. The allowance for credit losses also takes into consideration the Company's current customer information, collection history, and other relevant data. The Company reviews the allowance for credit losses on a quarterly basis. Account balances are written off against the allowance when it is deemed probable that the receivable will not be recovered.

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

	September 30, 2022	December 31, 2021
	(In thousands)	
Accounts receivable	$ 170,654	$ 197,216
Allowance for credit losses	(5,128)	(4,402)
Accounts receivable, net of allowance for credit losses	$ 165,526	$ 192,814

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The allowance for credit losses consists of the following activity:

	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
	(In thousands)	
Allowance for credit losses, beginning balance	$ 4,402	$ 4,174
Provision for credit losses, net of recoveries	1,913	2,601
Write-offs	(1,187)	(2,373)
Allowance for credit losses, ending balance	$ 5,128	$ 4,402

Prepaid Expenses and Other Current Assets

At September 30, 2022 and December 31, 2021, prepaid expenses and other current assets of $42.6 million and $27.9 million, respectively, included prepaid traffic acquisition costs of $22.5 million and $12.5 million, respectively.

Property, Equipment and Capitalized Software, Net

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

	September 30, 2022	December 31, 2021
	(In thousands)	
Computer equipment	$ 54,092	$ 43,316
Capitalized software development costs	64,412	54,233
Software	2,407	2,817
Leasehold improvements	855	1,547
Furniture and fixtures	216	83
Property, equipment and capitalized software, gross	121,982	101,996
Less: accumulated depreciation and amortization	(86,923)	(73,988)
Total property, equipment and capitalized software, net	$ 35,059	$ 28,008

Accrued and Other Current Liabilities

Accrued and other current liabilities consists of the following:

	September 30, 2022	December 31, 2021
	(In thousands)	
Accrued traffic acquisition costs	$ 70,282	$ 60,274
Accrued tax liabilities	13,105	9,240
Accrued agency commissions	9,648	10,639
Accrued professional fees	4,623	6,569
Operating lease obligations, current	3,646	—
Foreign currency forward contract	2,908	—
Interest payable	1,334	3,094
Finance lease obligations, current	2,004	3,069
Other	8,145	6,705
Total accrued and other current liabilities	$ 115,695	$ 99,590

In addition to accrued traffic acquisition costs, accounts payable as of September 30, 2022 and December 31, 2021 included traffic acquisition costs of $117.8 million and $147.4 million, respectively.

6. 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 2031. These arrangements require the Company to pay certain operating expenses, such as taxes, repairs and insurance and contain renewal and escalation clauses. The Company's options to extend or terminate a lease are not included in the lease terms, unless the Company is reasonably certain it will exercise that option. The Company's leases generally do not contain any material restrictive covenants.

The Company's minimum lease payments include fixed payments for non-lease components included in the lease agreement, but exclude variable lease payments that are not dependent on an index or rate, such as common area maintenance, operating expenses, utilities, or other costs that are subject to fluctuations from period to period. Non-lease components that are variable in nature are recorded as variable lease expenses in the period incurred.

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

	Condensed Consolidated Balance Sheet Location	September 30, 2022
		(In thousands)
Lease assets		
Operating leases	Operating lease right-of-use assets, net	$ 11,927
Finance leases	Property, equipment and capitalized software, net	2,416
Total lease assets		$ 14,343
Lease liabilities		
Current liabilities:		
Operating leases	Accrued and other current liabilities	$ 3,646
Finance leases	Accrued and other current liabilities	2,004
Non-current liabilities:		
Operating leases	Operating lease liabilities, non-current	9,012
Finance leases	Other liabilities	593
Total lease liabilities		$ 15,255

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

	Condensed Consolidated Statements of Operations Location	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
		(In thousands)	
Operating lease cost			
Fixed lease costs	Cost of revenue and operating expenses	$ 1,091	$ 3,224
Variable lease costs	Operating Expenses	54	116
Short-term lease costs	Cost of revenue and operating expenses	137	411
Financing lease cost:			
Depreciation	Cost of revenue	657	2,403
Interest	Interest expense	56	215
Total lease cost		$ 1,995	$ 6,369

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As of September 30, 2022, 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 2022	$ 1,415	$ 630
2023	3,675	1,741
2024	3,250	257
2025	2,900	—
2026	1,724	—
Thereafter	1,173	—
Total minimum payments required	$ 14,137	$ 2,628
Less: imputed interest	(1,479)	(31)
Total present value of lease liabilities	$ 12,658	$ 2,597

As of September 30, 2022, the Company entered into three new operating lease agreements that have not yet commenced. Future leases payments for the operating leases are approximately $2.2 million. The leases will commence in the fourth quarter of 2022 and 2023 and have lease terms between one and ten years.

The following table summarizes weighted-average lease terms and discount rates for the Company’s leases:

	September 30, 2022
Weighted-average remaining lease term (in years)	
Operating leases	3.99 years
Finance leases	1.25 years
Weighted-average discount rate	
Operating leases	5.81%
Finance leases	7.35%

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended September 30, 2022
	(In thousands)
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows from operating leases	$ 3,042
Cash flows from finance leases	$ 2,582
New operating lease assets obtained in exchange for new lease obligations	$ 1,153

As of December 31, 2021, prior to the adoption of ASU 2016-02, future minimum lease payments under the Company's non-cancelable operating leases and capital leases were as follows:

Year Ending December 31:	Operating Leases	Capital Leases
	(In thousands)	
2022	$ 4,214	$ 3,329
2023	3,128	1,741
2024	2,768	257
2025	2,630	—
2026	1,399	—
Thereafter	929	—
Total minimum payments required	$ 15,068	$ 5,327

7. Goodwill and Intangible Assets

The changes in the carrying value of the Company's goodwill balance was as follows:

	September 30, 2022	December 31, 2021
	(In thousands)	
Goodwill, opening balance	$ 32,881	$ 32,881
Acquisition of vi	30,182	—
Goodwill, closing balance	$ 63,063	$ 32,881

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:

	As of September 30, 2022			
	Weighted Average Amortization Period	Gross Value	Accumulated Amortization	Net Carrying Value
		(In thousands)		
Developed technology	5.8 years	$ 18,411	$ (9,340)	$ 9,071
Customer relationships	4.1 years	5,518	(4,445)	1,073
Publisher relationships	6.3 years	18,053	(7,349)	10,704
Tradenames	8.7 years	5,144	(932)	4,212
Content Provider Relationships	5.0 years	284	(42)	242
Other	14.0 years	883	(209)	674
Total intangible assets, net		$ 48,293	$ (22,317)	$ 25,976

	As of December 31, 2021			
	Weighted Average Amortization Period	Gross Value	Accumulated Amortization	Net Carrying Value
	(In thousands)			
Developed technology	3.2 years	$ 8,425	$ (8,425)	$ —
Customer relationships	4.0 years	5,345	(4,050)	1,295
Publisher relationships	4.0 years	8,403	(5,777)	2,626
Tradenames	8.0 years	1,665	(572)	1,093
Other	14.0 years	876	(171)	705
Total intangible assets, net		$ 24,714	$ (18,995)	$ 5,719

No impairment charges were recorded during the three and nine months ended September 30, 2022 and 2021.

As of September 30, 2022, estimated amortization related to the Company's identifiable acquisition-related intangible assets in future periods was as follows:

Year	Amount
	(In thousands)
Remainder of 2022	$ 1,540
2023	4,125
2024	3,446
2025	3,446
2026	3,446
Thereafter	9,973
Total	$ 25,976

8. Long-Term Debt

Convertible Notes

On July 1, 2021, the Company completed the sale of $200 million aggregate principal amount of senior subordinated secured notes due July 1, 2026 (the "Notes") in a private placement to institutional investors affiliated with the funds managed by The Baupost Group, L.L.C. (the "Baupost Investors"), pursuant to a Senior Subordinated Secured Note Purchase Agreement dated July 1, 2021 (the "Note Purchase Agreement"). Upon issuance of the Notes, the Company recorded a $36.0 million discount in connection with the embedded conversion feature, as well as deferred financing costs of $6.0 million in its consolidated balance sheet. The Notes, which were exchanged and cancelled upon the IPO, bore interest that accrued at the rate of (i) prior to July 1, 2024, 10.0% per annum and (ii) on and after July 1, 2024, 14.5% per annum, payable quarterly and were guaranteed by certain of the Company's wholly-owned subsidiaries and secured by a second priority lien on all of the Company's and its subsidiaries' tangible and intangible assets, subject to certain excluded assets, permitted liens and customary exceptions.

On July 27, 2021, in connection with the closing of the Company's IPO and pursuant to the terms of the Note Purchase Agreement, the Company exchanged $200 million aggregate principal amount of its senior subordinated secured notes due July 1, 2026 (the "Notes") for $236 million aggregate principal amount of 2.95% Convertible Senior Notes due 2026 (the "Convertible Notes"), pursuant to an indenture, dated as of July 27, 2021 (the "Indenture"), between the Company and The Bank of New York Mellon, as trustee. Upon the issuance of such Convertible Notes, the Notes and the obligations of the Company and the guarantee thereunder have been canceled and extinguished. The Convertible Notes will mature on July 27, 2026, unless earlier converted, redeemed or repurchased. In connection with the exchange of Notes to Convertible Notes, the Company recognized accelerated amortization of the unamortized discount and deferred issuance costs relating to the Notes totaling $42.0 million, which was recorded within charges related to exchange of senior notes upon IPO in the Company's condensed consolidated statement of operations for the three months and nine months ended September 30, 2021. Deferred financing costs related to Convertible Notes were not material.

Interest on the Convertible Notes accrues from July 27, 2021 and 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.

The Company may not redeem the Convertible Notes prior to July 27, 2024. On or after July 27, 2024, the Company may redeem for cash all or any portion of the Convertible Notes, at its option, if the last reported sale price of the common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date. In addition, calling any Convertible Note for redemption will constitute a "make-whole fundamental change" (as defined in the Indenture) with respect to that Convertible Note, in which case the conversion rate applicable to the conversion of that Convertible Note will be increased if it is converted by holders after it is called for redemption.

Holders may convert all or any portion of their Convertible Notes, in multiples of $1,000 principal amount, into shares of the Company's common stock at any time until the second scheduled trading day immediately preceding the maturity date, at the conversion rate then in effect. The Company will settle conversions of the Convertible Notes by paying or delivering, as the case may be, cash, shares of common stock, or a combination thereof, at its election.

Upon the occurrence of a fundamental change (as defined in the Indenture), subject to certain conditions, holders of the Convertible Notes may require the Company to repurchase for cash all or any portion of their Convertible Notes in principal amounts of $1,000 or an integral multiple thereof, at a repurchase price of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. In addition, following certain corporate events that occur prior to the maturity date or if the Company delivers a notice of redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such a corporate event or convert its Convertible Notes called for redemption during the related redemption period, as the case may be. The Indenture contains customary covenants and events of default.

The Company was not required to bifurcate the embedded conversion feature and the Convertible Notes were not issued with a substantial premium. As such, the Company accounted for the Convertible Notes as a liability under the no proceeds allocated model. The Company calculates earnings per share using the if-converted method.

Revolving Credit Facility

On November 2, 2021, the Company entered into the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank ("SVB") (the "2021 Revolving Credit Facility"), which 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 Company's 2.95% Convertible Senior Notes due 2026, unless the Convertible Notes have been converted to common equity securities of the Company.

Outstanding loans under the Facility accrue interest, at the Company's option, 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) LIBOR plus an applicable margin of 1.5% to 2.0% per annum, in each case based upon borrowing availability under the Facility. 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 2021 Revolving Credit 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 2021 Revolving Credit 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 2021 Revolving Credit Facility contains a financial covenant that requires, in the event that credit extensions under the Facility equal or exceed 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 financial covenants under its 2021 Revolving Credit Facility as of September 30, 2022. As of September 30, 2022 and December 31, 2021, the Company had no borrowings outstanding under its revolving credit facilities and its available borrowing capacity was $66.6 million and $75.0 million, respectively, based on the defined borrowing formula. Other assets in the Company’s condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021 included deferred financing costs of $0.5 million, which are being amortized over the term of the 2021 Revolving Credit Facility.

9. Income Taxes

The Company’s interim provision for 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 and nine months ended September 30, 2022 was 20.2% and 2.9%, respectively. The Company’s effective tax rate for the three months ended September 30, 2022 was lower than the U.S. federal statutory tax rate of 21%, primarily due to an uncertain tax position relating to a foreign tax jurisdiction, partially offset by the geographic mix of earnings. The Company’s effective tax rate for the nine months ended September 30, 2022 was lower than the U.S. federal statutory tax rate of 21%, primarily due 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 rates for the three and nine months ended September 30, 2021 was (10.2)% and (36.2)%, respectively. The effective tax rate for the three and nine months ended September 30, 2021 was lower than the U.S. federal statutory tax rate of 21%, primarily due to full valuation allowance recorded against the Company’s deferred tax assets in the U.S. during the period, the majority of which was released during the fourth quarter of 2021.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022, which among other things implements a 15% minimum tax on adjusted financial statement income of certain large corporations and a 1% excise tax on net stock repurchases. Based on the Company’s current analysis of the provisions, this legislation is not expected to have a material impact on its consolidated financial statements.

In addition, 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, the Company currently expects its net operating loss utilization to increase in 2022 as compared to prior years, unless this provision is repealed or deferred prior to year-end.

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.

On April 29, 2021, the Company was notified that the Antitrust Division of the U.S. Department of Justice is conducting a criminal investigation into the hiring practices in its industry that includes the Company. The Company is continuing to cooperate with the Antitrust Division. While there can be no assurance regarding the ultimate resolution of this matter, the Company does not believe that its conduct violated applicable law.

11. Stockholders' Equity

Share Repurchases

On February 28, 2022, the Company's Board of Directors (the "Board") approved a stock repurchase program under which the Company is authorized to purchase up to $30 million of the Company's 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 by the Company at its discretion without prior notice. The Company's repurchases under its $30 million share repurchase program were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands, except share information)			
Shares repurchased	3,394,326	—	4,782,643	—
Fair value of shares repurchased	$ 16,078	$ —	$ 23,579	$ —

As of September 30, 2022, the remaining availability under our $30 million share repurchase program was $6.4 million.

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 and nine months ended September 30, 2022, the Company withheld 47,577 shares and 204,078 shares, respectively, with a fair value of $0.2 million and $2.3 million, respectively, to satisfy the employee tax withholding obligations. During the three and nine months ended September 30, 2021, the Company withheld 29,918 shares and 56,262 shares, respectively, with a fair value of $0.1 million and $0.7 million, respectively.

Initial Public Offering

On July 22, 2021, the Company's Form S-1, filed on June 29, 2021, as amended, was declared effective by the U.S. Securities and Exchange Commission (the "SEC") in connection with the Company's initial public offering ("IPO") of the Company's common stock and its common stock began trading on The Nasdaq Stock Market LLC ("Nasdaq") on July 23, 2021. On July 27, 2021, the Company closed its IPO and issued 8,000,000 shares of its common stock at an initial offering price of $20.00 per share, receiving aggregate net proceeds of $145.1 million, after deducting underwriting discounts, commissions and other offering costs.

Deferred offering costs of $3.7 million primarily consisted of accounting, legal and other transaction costs directly related to the IPO. Prior to the IPO, deferred offering costs were recorded within prepaid expenses and other current assets on the Company's consolidated balance sheet. Upon the Company's IPO, such costs were reclassified to additional paid-in capital within stockholders' equity (deficit) and recorded against the proceeds of the offering.

In connection with the IPO, all of the shares of the Company's convertible preferred stock outstanding automatically converted into an aggregate of 28,091,267 shares of the Company's common stock, with all series converted on a one-to-one basis, with the exception of Series F, which was converted at 1.14-to-1, based on the terms of the Series F agreement and the IPO price. The total carrying value of convertible preferred stock of $162.4 million was reclassified to stockholders' equity (deficit).

12. Stock-based Compensation

In July 2021, the Board and the Company's stockholders approved the 2021 Long-Term Incentive Plan (the "2021 LTIP"), which became effective in connection with the closing of the Company's IPO. The 2021 LTIP may be used to grant, among other award types, stock options and restricted stock units ("RSUs"). The number of shares of common stock reserved for future issuance under the 2021 Plan will also 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 September 30, 2022, approximately 6,068,000 and 270,000 shares were available for grant under the 2021 LTIP and the 2007 Plan, respectively.

The Company recognizes stock-based compensation for stock-based awards, including stock options, RSUs and stock appreciation rights ("SARs") 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 is the fair value of the Company's common stock on the date of grant.

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Research and development	$ 447	$ 1,685	$ 1,740	$ 2,379
Sales and marketing	1,153	5,587	3,736	6,926
General and administrative	1,105	11,176	3,319	12,091
Total stock-based compensation	$ 2,705	$ 18,448 [(1)]	$ 8,795	$ 21,396 [(1)]

[(1)] Includes $16.5 million of stock-based compensation expense recorded during the three months ended September 30, 2021, in connection with the Company's stock option awards, restricted stock awards, RSUs and SARs for which the service condition has been met and a performance condition was satisfied upon the Company's IPO, which was a qualifying liquidity event. Stock-based compensation expense for unvested awards will be recognized over the remainder of the requisite service period.

As of September 30, 2022, the Company's unrecognized stock-based compensation expense was $2.5 million for unvested stock options and $28.9 million for unvested RSUs.

The following table summarizes stock option activity for the nine months ended September 30, 2022:

	Stock Options	
	Number of Shares	Weighted-Average Exercise Price
Outstanding—December 31, 2021	3,482,900	$8.11
Granted	—	$—
Exercised	(596,716)	$4.15
Forfeited	(112,386)	$8.46
Outstanding—September 30, 2022	2,773,798	$8.95
Exercisable	2,220,626	$8.43

The following table summarizes RSU activity for the nine months ended September 30, 2022:

	RSUs	
	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding—December 31, 2021	1,848,142	$11.61
Granted	2,066,513	$9.39
Vested	(727,972)	$10.78
Forfeited	(243,041)	$11.14
Outstanding—September 30, 2022	2,943,642	$10.32

As of September 30, 2022 and December 31, 2021, 3,390 SARs awards were outstanding, which are accounted for as liability awards.

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 2024 and 2026. As of September 30, 2022 and December 31, 2021, the Company had 188,235 and 376,470 warrants outstanding, respectively, with a weighted exercise price of $7.57 as of September 30, 2022. During the nine months ended September 30, 2022, 188,235 warrants were exercised.

Employee Stock Purchase Plan

In July 2021, the Board and the Company's stockholders approved a new 2021 Employee Stock Purchase Plan (the "ESPP"), which became effective in connection with the closing of the Company's IPO. A total of approximately 1,830,000 shares of the Company's common stock have been reserved for issuance under the ESPP, which is subject to annual automatic evergreen increases. As of September 30, 2022, no shares have been purchased under the ESPP as it is not yet effective.

13. Net Loss Per Common Share

The following table sets forth basic and diluted net loss per share for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands, except share and per share data)			
Numerator:				
Net loss	$ (4,624)	$ (53,906)	$ (16,832)	$ (27,959)
Denominator:				
Basic and diluted weighted-average shares	55,232,611	47,859,056	56,679,302	27,645,471
Net loss per share:				
Basic	$ (0.08)	$ (1.13)	$ (0.30)	$ (1.01)
Diluted	$ (0.08)	$ (1.13)	$ (0.30)	$ (1.01)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Convertible preferred stock	—	6,612,542	—	20,562,077
Options to purchase common stock	2,773,798	4,510,385	2,773,798	5,056,939
Warrants	188,235	434,454	188,235	558,194
Restricted stock units	2,943,642	3,933,167	2,943,642	4,161,050
Convertible notes	9,440,000	7,182,609	9,440,000	2,420,513
Total shares excluded from diluted (loss) income per share	15,345,675	22,673,157	15,345,675	32,758,773

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 our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission ("SEC") on March 18, 2022 ("2021 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. 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."

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 and has wholly-owned subsidiaries in Israel, Europe, Asia, Brazil and Australia.

Outbrain is a leading recommendation platform powering the open web. Our technology provides personalization, engagement and monetization solutions to thousands of digital media properties, including many of the world's most prestigious publishers. Through powering discovery feeds on the open web, Outbrain helps over a billion unique users on a monthly basis discover content, offers, services and products they might be interested in. For tens of thousands of advertisers around the world, Outbrain helps attract new customers and grow their businesses, driving measurable results and return on investment.

Over the past decade, consumers have become increasingly accustomed to seeing highly curated digital content and ads that align with their unique interests. Similar to the way in which social media and search have simplified discovery by synthesizing billions of consumer data points to offer personalized feeds, we provide media partners with a platform that encompasses data at scale as well as prediction and recommendation capabilities, helping them deliver a discovery feed personalized to their users, based on context and each user's unique interests and preferences. Our platform is built for user engagement and, as a mobile-first company, is designed to be highly effective on mobile devices. Our technology is deployed on the mobile apps and websites of most of our media partners, generating 68% of our revenue in 2021.

Since inception, we have been guided by the same core principles pertaining to our three constituents: media partners, users, and advertisers.

Media Partners. We are committed to the long-term success of our media partners. Consistent with this philosophy, we focus on establishing a true win-win partnership. We strive to develop trusted, transparent, multi-year contracts with media partners, which are typically exclusive with us. Our media partners include both traditional publishers and companies in new and rapidly evolving categories such as mobile device manufacturers and web browsers.

Users. We believe that by focusing on improving the user experience we are able to cultivate user behavior patterns that compound engagement over time, delivering superior long-term monetization for ourselves and for our media partners.

Advertisers. We strive to grow our advertising business by increasing overall user engagement, rather than price per engagement. Our emphasis on user engagement helps us improve advertisers' return on ad spend ("ROAS") thus unlocking more advertising spend and attracting more advertisers. In turn this enables us to better match ads to users and further grow user engagement and overall monetization.

Through our direct, usually exclusive, integrations with media partners, we have become one of the largest online advertising platforms on the open web. In 2021, we provided personalized feeds and ads to over 1 billion monthly unique users, delivering on average over 10 billion recommendations to content, services and products per day, with over 24,000 advertisers directly using our platform.

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

- Our revenue decreased $21.8 million, or 8.7%, to $229.0 million for the three months ended September 30, 2022, compared to $250.8 million for the three months ended September 30, 2021, including net unfavorable foreign currency effects of approximately $14.0 million, and decreased $7.8 million, or 3.1% on a constant currency basis. Our revenue increased $8.1 million, or 1.1%, to $734.1 million for the nine months ended September 30, 2022, compared to $726.0 million for the nine months ended September 30, 2021, including net unfavorable foreign currency effects of approximately $31.1 million, and increased $39.2 million, or 5.4% on a constant currency basis.

- Our gross profit was $41.9 million and our gross margin was 18.3% for the three months ended September 30, 2022, compared to gross profit of $60.3 million and gross margin of 24.0% for the three months ended September 30, 2021. Our gross profit was $144.6 million and our gross margin was 19.7% for the nine months ended September 30, 2022, compared to gross profit of $172.8 million and gross margin of 23.8% for the nine months ended September 30, 2021.
- Our Ex-TAC Gross Profit[(1)] decreased 22.7% to $52.7 million for the three months ended September 30, 2022, from $68.1 million for the three months ended September 30, 2021. Our Ex-TAC Gross Profit[(1)] decreased 10.2% to $175.5 million for the nine months ended September 30, 2022, compared to $195.4 million for the nine months ended September 30, 2021.
- Our net loss was $4.6 million, or (11.0)% of gross profit, for the three months ended September 30, 2022, compared to net loss of $53.9 million, or (89.4)% of gross profit, for the three months ended September 30, 2021. For the nine months ended September 30, 2022, our net loss was $16.8 million, or (11.6)% of gross profit, compared to net loss of $28.0 million, or (16.2)% of gross profit, for the nine months ended September 30, 2021. Net loss for the three and nine months ended September 30, 2021 included one-time charges of $42.0 million (pre-tax) to recognize the unamortized discount and deferred financing costs on our senior subordinated secured notes that were exchanged for convertible notes upon our IPO, as well as $16.5 million of one-time incremental cumulative stock-based compensation expense (pre-tax) for awards with an IPO performance condition.
- Our Adjusted EBITDA[(1)] was $1.7 million for the three months ended September 30, 2022, compared to $19.9 million for the three months ended September 30, 2021. Adjusted EBITDA[(1)] was 3.2% and 29.2% of Ex-TAC Gross Profit[(1)] for the three months ended September 30, 2022 and 2021, respectively. Our Adjusted EBITDA[(1)] was $19.2 million for the nine months ended September 30, 2022, compared to $65.0 million for the nine months ended September 30, 2021. Adjusted EBITDA[(1)] was 10.9% and 33.3% of Ex-TAC Gross Profit[(1)] for the nine months ended September 30, 2022 and 2021, respectively.

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(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.

Acquisition of video intelligence AG

On November 19, 2021, we entered into a definitive agreement, by and among our Company and the shareholders of video intelligence AG (“vi”), a Swiss-based contextual video technology company for digital media owners, for the acquisition of all of the outstanding shares of vi for a purchase price of approximately $55 million. The acquisition was completed on January 5, 2022. The purchase price was paid in the form of cash and Outbrain common stock, with the first installment of $37.3 million in cash and the equity portion paid at closing, and an additional $10.6 million paid in the third quarter of 2022. The equity portion of the purchase price was comprised of 355,786 shares of our common stock with a fair value of $4.2 million, and is subject to a post-closing adjustment based on market price of our stock to be determined one year from closing, at which time any required adjustment is to be paid in cash. Aggregate consideration for the acquisition of vi will not exceed approximately $55 million in total. This acquisition expanded our video product offerings to include in-stream high-quality video content, delivering a better user experience and more value to our advertisers. This acquisition was accounted for as a business combination and the results of the acquired entity have been included in our results of operations beginning as of the acquisition date.

Macroeconomic Environment

General worldwide economic conditions have recently experienced significant instability as well as volatility and disruption in the financial markets, resulting from factors such as the effects of the Russia-Ukraine conflict, the COVID-19 pandemic, and general economic uncertainty. The current macroeconomic environment, with variables such as inflation, recessionary concerns, currency exchange rate fluctuations, global supply chain disruptions, and labor shortages and stoppages, has negatively impacted our advertisers. Accordingly, these conditions have adversely impacted our business during the nine months ended September 30, 2022, 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, which would harm 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 for our ability to increase revenue through expanding their use of our platform. 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; (ii) effectively managing our supply and demand; and (iii) expanding the adoption of our enhanced products by media partners.

Our relationships with media partners are typically long-term, exclusive and strategic in nature. Our top 20 media partners, based on our 2021 revenue, have been using our platform for an average of over seven years, despite their typical contract length being two to three 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 81% and 90%, respectively, for the three months and nine months ended September 30, 2022, as we have experienced lower yields mainly due to weaker demand on our platform, primarily as a result of the current macroeconomic conditions and the related impact on advertising spend, as well as due to unfavorable foreign currency effects.

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 11% to revenue growth for each of the three months and nine months ended September 30, 2022.

User Engagement with Relevant Media and Advertising Content

We believe that engagement is a key pillar of the overall value that our platform provides to users, media partners and advertisers. Our algorithms enable effective engagement of users by facilitating the discovery of content, products and services that they find most interesting, as well as connecting them to personalized ads that are relevant to them. 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 may be the case with some of our competitors. Given this view, we do not focus on cost-per-click or cost-per-impression as key performance indicators for the business. Consequently, we have a differentiated approach to monetization as we optimize our algorithms for the overall user experience rather than just for the price of each individual user engagement.

Growth in user engagement is driven by several factors, including enhancements to our recommendation engine, growth in the breadth and depth of our data assets, the increase in size and quality of our content and advertising index, user engagement, expansion on existing media partner properties where our recommendations can be served and the adoption of our platform by new media partners. As we grow user engagement, we are able to collect more data, enabling us to further enhance our algorithms, which in turn helps us make smarter recommendations and further grow user engagement, providing our platform and our business with a powerful growth flywheel. We measure the impact of this growth flywheel on our business by reviewing the growth of Click Through Rate ("CTR") for ads on our platform. CTR improvements increase the number of clicks on our platform. We believe that we have a significant opportunity to further grow user engagement, and thus our business, as today CTR on our platform is less than 1% of recommendations served.

Advertiser Retention and Growth

We focus on serving ads that are most likely to deliver engagement, rather than on the price of the ads, which leads to better ROAS for advertisers. Our growth is partially driven by retaining and expanding the amount of spend by advertisers on our platform, as well as acquiring new advertisers. Improving our platform with functionality and features that increase engagement and ROAS increases the attractiveness of our platform to existing and new advertisers while also growing our share of their advertising budgets. We continuously invest in enhancing our technological capabilities to deliver better ROAS and transparency on ad spend, and market these attributes to grow our advertiser base and share of wallet.

Prices paid by advertisers on our platform fluctuate period to period for a variety of reasons, including supply and demand, competition, macroeconomic conditions, and seasonality. Movements in average prices do not necessarily correlate to our revenue or Ex-TAC Gross Profit trends. 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 user engagement and ROAS for advertisers, not on optimizing for price.

For the year ended December 31, 2021, over 24,000 unique advertisers were active on our platform. In addition, we continue to grow our programmatic partnerships, enabling us to grow our advertiser base efficiently.

Expansion Into New Environments, New Content Experiences and New Ad Formats

The accelerating pace of technological innovation and adoption, combined with continuously evolving user behavior and content consumption habits, presents multiple opportunities for growth. The emergence of new devices, platforms and environments in which users spend time consuming content is one area of expansion for us. Similarly, the formats in which content can or will be consumed continue to evolve, as do user-friendly and impactful ad formats that can be delivered in or alongside that content. Fundamentally, we plan to continue making our platform available for media partners on all types of devices and platforms, and all formats of media, that carry their content.

Examples of new environments in which content consumption is expected to grow include connected TVs (“CTV”), screens for autonomous vehicles and public transport, pre-installed applications on new smartphones, smartphone native content feeds, push notifications and email newsletters. We are developing solutions that allow media partners, service providers and manufacturers to provide better curated, personalized and more engaging content feeds and recommendations in these environments. Through our acquisition of vi in the first quarter of 2022, we expanded our video product offerings to new formats and environments, including In-Stream video ads and CTV environments.

The development and deployment of new ad formats allow us to better serve users, media partners and, ultimately, advertisers who seek to target and engage users at scale; 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 algorithms help us deliver more relevant ads, driving higher user engagement, thereby improving ROAS for advertisers and increasing monetization for our media partners. 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”), ensuring a more personalized and engaging feed experience. We continue to invest in media partner and advertiser focused tools, technology and products as well as privacy-centric solutions, most recently announcing the launch of Keystone™, designed as a total business optimization platform for media owners.

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 an average of 300 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 the general market conditions. Digital advertising is a rapidly evolving and growing industry, with growth that has outpaced the growth of the broader advertising industry. Content consumption is increasingly shifting online, requiring media owners to adapt in order to successfully attract, engage and monetize their users. Given the large and growing volume of content being generated online, content curation tools are increasingly becoming a necessity for users and media owners alike. Advertisers increasingly rely on digital advertising platforms that deliver highly targeted ads and measurable performance. Regulators across most developed markets are increasingly focused on enacting and enforcing user privacy rules as well as tighter oversight of 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 cookies within its Chrome web browser. See Item 1A, “Risk Factors” in our 2021 Form 10-K for additional information regarding changing industry dynamics with respect to industry participants and the regulatory environment. Given our focus on innovation, 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 believe that our strength in delivering engagement and clear outcomes for advertisers aligns well with the ongoing market shift towards increased accountability and expectations of ROAS from digital advertising spend generally.

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 to promote their content to users across 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 daily 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 spend with us on an unlimited basis, 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, subject to a maximum guarantee. 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 implementation of the Sarbanes-Oxley Act requirements.

Other Income (Expense), Net

Other income (expense), net is comprised of charges related to exchange of senior notes upon IPO, interest expense and other expense, net and interest income.

Charges related to exchange of senior notes upon IPO. Charges for the three and nine months ended September 30, 2021 include a one-time charge of $42.0 million related to accelerated amortization of the unamortized discount and deferred issuance costs on the $200 million aggregate principal amount of senior subordinated secured notes issued on July 1, 2021 and exchanged to Convertible Notes upon our IPO.

Interest Expense. Interest expense consists of interest expense on our 2.95% Convertible Senior Notes due 2026 (the “Convertible Notes”), our revolving credit facility and capital leases. Interest expense may increase if we incur borrowings periodically under our revolving credit facility or if we enter into new debt facilities or capital leasing arrangements.

Interest Income and Other (Expense) Income, net. Interest income and other (expense) income, net primarily consists of interest earned on our cash and cash equivalents and investments in marketable securities, discount amortization relating to 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) Provision for Income Taxes

(Benefit) provision for income taxes consists of federal and state income taxes in the United States (U.S.) 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Condensed Consolidated Statements of Operations:	(in thousands)			
Revenue	$ 229,017	$ 250,784	$ 734,116	$ 725,961
Cost of revenue:				
Traffic acquisition costs	176,347	182,669	558,597	530,606
Other cost of revenue	10,756	7,846	30,955	22,555
Total cost of revenue	187,103	190,515	589,552	553,161
Gross profit	41,914	60,269	144,564	172,800
Operating expenses:				
Research and development	9,911	10,659	30,858	27,561
Sales and marketing	26,852	26,047	82,369	67,101
General and administrative	12,224	29,979	41,215	52,619
Total operating expenses	48,987	66,685	154,442	147,281
(Loss) income from operations	(7,073)	(6,416)	(9,878)	25,519
Other income (expense), net:				
Charges related to exchange of senior notes upon IPO	—	(42,049)	—	(42,049)
Interest expense	(1,924)	(1,656)	(5,748)	(2,015)
Interest income and other (expense) income, net	3,199	1,218	(1,710)	(1,978)
Total other income (expense), net	1,275	(42,487)	(7,458)	(46,042)
Loss before (benefit) provision for income taxes	(5,798)	(48,903)	(17,336)	(20,523)
(Benefit) provision for income taxes	(1,174)	5,003	(504)	7,436
Net loss	$ (4,624)	$ (53,906)	$ (16,832)	$ (27,959)
Other Financial Data:				
Research and development as % of revenue	4.3 %	4.3 %	4.2 %	3.8 %
Sales and marketing as % of revenue	11.7 %	10.4 %	11.2 %	9.2 %
General and administrative as % of revenue	5.3 %	12.0 %	5.6 %	7.2 %
Non-GAAP Financial Data: [1]				
Ex-TAC Gross Profit	$ 52,670	$ 68,115	$ 175,519	$ 195,355
Adjusted EBITDA	$ 1,686	$ 19,857	$ 19,158	$ 65,021

[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 September 30, 2022 Compared to the Three Months Ended September 30, 2021

Revenue

Revenue decreased $21.8 million, or 8.7%, to $229.0 million for the three months ended September 30, 2022 from $250.8 million for the three months ended September 30, 2021. Revenue for the three months ended September 30, 2022 included net unfavorable foreign currency effects of approximately $14.0 million, and decreased $7.8 million, or 3.1%, on a constant currency basis, compared to the prior year period. Our reported revenue decreased approximately $47.8 million due to net revenue retention of 81% on existing media partners, as we have experienced lower yields mainly due to weaker demand on our platform, primarily as a result of the current macroeconomic conditions and the related impact on advertising spend, as well as due to unfavorable foreign currency effects. This decrease was partially offset by growth of approximately 11%, or $27.6 million, from new media partners, including our recently acquired vi business.

See "Non-GAAP Reconciliations" for information regarding the constant currency measures provided in this discussion and below to supplement our reported results.

Cost of Revenue and Gross Profit

Traffic acquisition costs decreased $6.4 million, or 3.5%, to $176.3 million for the three months ended September 30, 2022 compared to $182.7 million in the prior year period. Traffic acquisition costs for the three months ended September 30, 2022 included net favorable foreign currency effects of approximately $12.3 million, and increased $5.9 million, or 3.2%, on a constant currency basis, compared to the prior year period. The decrease in traffic acquisition costs was lower than the decrease in our revenue due to an unfavorable revenue mix and lower performance from certain deals. As a percentage of revenue, traffic acquisition costs increased to 77.0% for the three months ended September 30, 2022, from 72.8% in the three months ended September 30, 2021.

Other cost of revenue increased $3.0 million, or 37.1%, to $10.8 million for the three months ended September 30, 2022 compared to $7.8 million for the three months ended September 30, 2021, primarily due to increased depreciation expense on server equipment, higher hosting fees due to continued platform improvements, including increased data processing capacity, and higher network security related costs. This increase also includes costs from the newly acquired vi business, including the related amortization expense for intangible assets associated with developed technology. As a percentage of revenue, other cost of revenue increased to 4.7% for the three months ended September 30, 2022, from 3.1% for the three months ended September 30, 2021.

Gross profit decreased $18.4 million, or 30.5%, to $41.9 million for the three months ended September 30, 2022 compared to $60.3 million for the three months ended September 30, 2021, which was attributable to the decrease in revenue exceeding the decrease in cost of revenue, as previously described. Gross profit for the three months ended September 30, 2022 included net unfavorable foreign currency effects of approximately $1.7 million, and decreased $16.7 million, or 27.7%, on a constant currency basis, compared to the prior year period.

Ex-TAC Gross Profit

Our Ex-TAC Gross Profit decreased $15.4 million, or 22.7%, to $52.7 million for the three months ended September 30, 2022, from $68.1 million for the three months ended September 30, 2021. Ex-TAC Gross Profit for the three months ended September 30, 2022 included net unfavorable foreign currency effects of approximately $1.7 million, and decreased $13.7 million, or 20.2%, on a constant currency basis, compared to the prior year period. The decrease in Ex-TAC Gross Profit was primarily driven by an unfavorable revenue mix and lower performance from certain deals. See “Non-GAAP Reconciliations” for the related definition and reconciliations to our gross profit.

Operating Expenses

Operating expenses decreased by $17.7 million, or 26.5%, to $49.0 million for the three months ended September 30, 2022 from $66.7 million for the three months ended September 30, 2021. Operating expenses for the three months ended September 30, 2022 included net favorable foreign currency effects of approximately $3.8 million, and decreased $13.9 million, or 20.8%, on a constant currency basis, compared to the prior year period. Operating expenses for the three months ended September 30, 2021 included approximately $16.5 million of one-time incremental cumulative stock-based compensation expense for awards that had a service condition and a performance condition that was met upon our IPO (“IPO-contingent awards”). In addition, regulatory matter costs decreased by $4.6 million during the three months ended September 30, 2022, which included a partial insurance recovery in the current period. These declines in reported operating expenses were partially offset by increased costs of $3.4 million, primarily comprised of expanded digital service taxes in Europe, higher marketing costs, amortization of certain intangible assets recorded in connection with our acquisition of vi, and increased costs related to the transition from a largely remote to a post-COVID hybrid environment.

The components of operating expenses are discussed below:

- ***Research and development expenses*** — decreased $0.7 million, largely driven by $1.2 million of one-time incremental cumulative stock-based compensation expense recognized during the three months ended September 30, 2021 for IPO-contingent awards, offset in part by an increase in other personnel-related costs to invest in our technology.

- ***Sales and marketing expenses*** — increased $0.8 million, primarily driven by higher expenses of $5.0 million, which include higher personnel-related costs of $2.1 million, increased marketing costs of $0.9 million, and expanded digital service taxes of $0.8 million. These increases were largely offset by $4.2 million of one-time incremental cumulative stock-based compensation expense recorded during the three months ended September 30, 2021 for IPO-contingent awards.

- ***General and administrative expenses*** — decreased $17.8 million, primarily due to lower personnel-related costs of $13.4 million, largely driven by $11.1 million of one-time incremental cumulative stock-based compensation expense recognized during the three months ended September 30, 2021 for IPO-contingent awards. This decrease also reflected lower regulatory costs of $4.6 million, which included a partial insurance recovery during the current period.

Operating expenses as a percentage of revenue decreased to 21.4% for the three months ended September 30, 2022, from 26.6% for the three months ended September 30, 2021, largely reflecting a 6.6% decrease in operating expenses as a result of the absence of the one-time incremental cumulative stock-based compensation expense of $16.5 million recognized during the three months ended September 30, 2021 for IPO-contingent awards. During 2022, we implemented cost saving initiatives to address the current macroeconomic environment, and a continuing to focus efficiencies and cost reduction opportunities.

Total Other Income (Expense), Net

Total other income (expense), net increased $43.8 million, to income of $1.3 million for the three months ended September 30, 2022, compared to expense of $42.5 million for the three months ended September 30, 2021. This increase was primarily attributable to $42.0 million of one-time charges related to the exchange and cancellation of senior notes upon IPO recorded during the three months ended September 30, 2021 to recognize the unamortized discount and deferred issuance costs on senior subordinated secured notes issued on July 1, 2021, upon our IPO and convertible senior notes issuance, as well as $1.5 million of income in connection with our new investment program initiated in July 2022. See Notes 5 and 8 to the accompanying condensed consolidated financial statements for additional information.

(Benefit) Provision for Income Taxes

Benefit from income taxes was $1.2 million for the three months ended September 30, 2022, compared to provision for income taxes of $5.0 million for the three months ended September 30, 2021, primarily due to lower global pre-tax profitability in the current year and the geographic mix of earnings, including lower tax expense from inclusion of foreign subsidiaries' income in the U.S. In addition, we recorded a tax benefit associated with our pre-tax losses in the U.S. during the three months ended September 30, 2022 due to the release of the majority of the valuation allowance against our deferred tax assets in the U.S. during the fourth quarter of 2021. This benefit was partially offset by an uncertain tax position relating to a foreign tax jurisdiction recorded during the three months ended September 30, 2022. Our effective tax rate was 20.2% for the three months ended September 30, 2022, compared to (10.2)% for the three months ended September 30, 2021, reflecting the cumulative impact of the change in the annual estimated tax rate.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022, which among other things implements a 15% minimum tax on adjusted financial statement income of certain large corporations and a 1% excise tax on net stock repurchases. Based on our current analysis of the provisions, this legislation is not expected to have a material impact on our consolidated financial statements.

In addition, 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 currently expect our net operating loss utilization to increase in 2022 as compared to prior years, unless this provision is repealed or deferred prior to year-end.

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, as well as certain discrete items.

Net Loss

As a result of the foregoing, we recorded net loss of $4.6 million for the three months ended September 30, 2022, as compared to net loss of $53.9 million for the three months ended September 30, 2021. As previously discussed, net loss for the three months ended September 30, 2021 included $42.0 million of one-time charges related to exchange of senior notes upon IPO (pre-tax), as well as $16.5 million of one-time incremental cumulative stock-based compensation expense (pre-tax) for awards with an IPO performance condition.

Adjusted EBITDA

Our Adjusted EBITDA decreased $18.2 million to $1.7 million for the three months ended September 30, 2022 from $19.9 million for the three months ended September 30, 2021, which was primarily attributable to lower Ex-TAC Gross Profit and higher other costs of revenue, as previously described. Adjusted EBITDA included net favorable foreign currency effects of approximately $1.9 million. See "Non-GAAP Reconciliations" for the related definitions and reconciliations to our net income.

Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021

Revenue

Revenue increased by $8.1 million, or 1.1%, to $734.1 million for the nine months ended September 30, 2022 from $726.0 million for the nine months ended September 30, 2021. Revenue for the nine months ended September 30, 2022 included net unfavorable foreign currency effects of approximately $31.1 million, and increased $39.2 million, or 5.4%, on a constant currency basis, compared to the prior year period. Our reported revenue grew approximately 11%, or $79.3 million, from new media partners, including our recently acquired vi business, partially offset by a decrease of $71.2 million due to net revenue retention of 90% on existing media partners, as we have experienced lower yields mainly due to weaker demand on our platform, primarily as a result of the current macroeconomic conditions and the related impact on advertising spend, as well as due to unfavorable foreign currency effects.

Cost of Revenue and Gross Profit

Traffic acquisition costs increased $28.0 million, or 5.3%, to $558.6 million for the nine months ended September 30, 2022 compared to $530.6 million in the prior year period. Traffic acquisition costs for the nine months ended September 30, 2022 included net favorable foreign currency effects of approximately $25.9 million, and increased $53.9 million, or 10.2%, on a constant currency basis, compared to the prior year period. Traffic acquisition costs grew more than revenue due to an unfavorable revenue mix and lower performance from certain deals. As a percentage of revenue, traffic acquisition costs were 76.1% for the nine months ended September 30, 2022 and 73.1% for the nine months ended September 30, 2021.

Other cost of revenue increased $8.4 million, or 37.2%, to $31.0 million for the nine months ended September 30, 2022 compared to $22.6 million in the prior year period, primarily due to increased depreciation expense on server equipment, higher hosting fees due to continued platform improvements, including increased data processing capacity, and higher network security related costs. This increase also includes costs from the newly acquired vi business, including the related amortization expense for intangible assets associated with developed technology. As a percentage of revenue, other cost of revenue was 4.2% for the nine months ended September 30, 2022 and 3.1% for the nine months ended September 30, 2021.

Gross profit decreased $28.2 million, or 16.3%, to $144.6 million for the nine months ended September 30, 2022, compared to $172.8 million for the nine months ended September 30, 2021, which was primarily attributable to the increase in cost of revenue exceeding the increase in revenue, as previously described. Gross profit for the nine months ended September 30, 2022 included net unfavorable foreign currency effects of approximately $5.1 million, and decreased $23.1 million, or 13.4%, on a constant currency basis, compared to the prior year period.

Ex-TAC Gross Profit

Our Ex-TAC Gross Profit decreased $19.9 million, or 10.2%, to $175.5 million for the nine months ended September 30, 2022, from $195.4 million for the nine months ended September 30, 2021. Our Ex-TAC Gross Profit for the nine months ended September 30, 2022 included net unfavorable foreign currency effects of approximately $5.1 million, and decreased $14.8 million, or 7.5%, on a constant currency basis, compared to the prior year period. The decrease in Ex-TAC Gross Profit was primarily driven by unfavorable revenue mix and lower performance from certain deals, partially offset by our revenue growth. See "Non-GAAP Reconciliations" for the related definition and reconciliations to our gross profit.

Operating Expenses

Operating expenses increased by $7.1 million, or 4.9%, to $154.4 million for the nine months ended September 30, 2022 from $147.3 million for the nine months ended September 30, 2021. Operating expenses for the nine months ended September 30, 2022 included net favorable foreign currency effects of approximately $6.7 million, and increased $13.8 million, or 9.4%, on a constant currency basis, compared to the prior year period. Reported operating expenses reflected $16.5 million of one-time incremental cumulative stock-based compensation expense recorded during the three months ended September 30, 2021 for IPO-contingent awards, as well as lower regulatory costs of $6.0 million, which included a partial insurance recovery in the current year. Such decreases were more than offset by a $29.6 million increase in other operating expenses, which was primarily comprised of higher other personnel-related costs of $15.0 million, increased public company costs of $4.2 million, expanded digital services taxes in Europe of $2.8 million, increased costs related to the transition from a largely remote to a post-COVID hybrid environment of $2.0 million, and higher marketing costs of $1.8 million.

The components of operating expenses for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021 are discussed below:

- ***Research and development expenses*** — increased $3.3 million, primarily due to higher personnel-related costs to invest in our technology, offset in part by $1.2 million of one-time incremental cumulative stock-based compensation expense recorded during the three months ended September 30, 2021 for IPO-contingent awards.

- ***Sales and marketing expenses*** — increased $15.2 million, which was primarily due to higher personnel-related costs of $10.8 million, expanded digital services taxes of $2.8 million, increased marketing costs of $1.8 million, amortization of certain intangible assets recorded in connection with our acquisition of $1.4 million, and increased costs related to the transition from a largely remote to a hybrid environment of $1.3 million. These increases were partially offset by $4.2 million of one-time incremental cumulative stock-based compensation expense recorded during the three months ended September 30, 2021 for IPO-contingent awards.

- ***General and administrative expenses*** — decreased $11.4 million, primarily due to $11.1 million of one-time incremental cumulative stock-based compensation expense recorded during the three months ended September 30, 2021 for IPO-contingent awards, as well as lower regulatory costs of $6.0 million, which included a partial insurance recovery in the current year. These decreases were partially offset by higher public company costs of $4.2 million and increased costs related to the transition from a largely remote to a hybrid environment.

Operating expenses as a percentage of revenue increased to 21.0% for the nine months ended September 30, 2022, from 20.3% for the nine months ended September 30, 2021, reflecting a higher rate of increase in operating expenses than revenues, partially offset by the impact of the $16.5 million one-time incremental cumulative stock-based compensation expense for IPO-contingent awards recorded during the three months ended September 30, 2021.

Total Other Income (Expense), Net

Total other income (expense), net, decreased $38.5 million to net expense of $7.5 million for the nine months ended September 30, 2022, compared to a net expense of $46.0 million for the nine months ended September 30, 2021. This decrease in expenses was primarily attributable to $42.0 million of one-time charges related to the exchange and cancellation of senior notes upon IPO recorded during the three months ended September 30, 2021 to recognize the unamortized discount and deferred issuance costs on senior subordinated secured notes issued on July 1, 2021, upon our IPO and convertible senior notes issuance. In addition, we recorded $1.5 million of income in connection with our new investment program initiated in July 2022. These decreases in expenses were partially offset by higher interest expense of $3.8 million on our convertible notes issued in July 2021, as well as higher net unfavorable mark-to-market adjustments of $3.1 million on 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, largely driven by the strengthening of the U.S. Dollar versus the Israeli Shekel during the nine months ended September 30, 2022. See Notes 5 and 8 to the accompanying condensed consolidated financial statements for additional information.

(Benefit) Provision for Income Taxes

Benefit from income taxes was $0.5 million for the nine months ended September 30, 2022, compared to provision from income taxes of $7.4 million for the nine months ended September 30, 2021, primarily due to lower global pre-tax profitability in the current year and the geographic mix of earnings, including lower tax expense from inclusion of foreign subsidiaries' income in the U.S. In addition, we recorded a tax benefit associated with our pre-tax losses in the U.S. during the nine months ended September 30, 2022 due to the release of the majority of the valuation allowance against our deferred tax assets in the U.S. during the fourth quarter of 2021. These benefits were partially offset by an increase in uncertain tax positions, compared to the prior year period. Our effective tax rate was 2.9% for the nine months ended September 30, 2022, compared to (36.2)% for the nine months ended September 30, 2021.

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, as well as certain discrete items.

Net Loss

As a result of the foregoing, we recorded net loss of $16.8 million for the nine months ended September 30, 2022, as compared to net loss of $28.0 million for the nine months ended September 30, 2021. As previously discussed, net loss for the nine months ended September 30, 2021 included $42.0 million of one-time charges related to exchange of senior notes upon IPO (pre-tax), as well as $16.5 million of one-time incremental cumulative stock-based compensation expense (pre-tax) for awards with an IPO performance condition.

Adjusted EBITDA

Our Adjusted EBITDA decreased $45.8 million to $19.2 million for the nine months ended September 30, 2022 from $65.0 million for the nine months ended September 30, 2021, due to lower Ex-TAC Gross Profit and increased operating expenses and other costs of revenue, as previously described. Our Adjusted EBITDA for the nine months ended September 30, 2022 included net favorable foreign currency effects of approximately $1.1 million. See “Non-GAAP Reconciliations” for the related definitions of Adjusted EBITDA and reconciliations to our net income.

Non-GAAP Reconciliations

Because we are a global company, the comparability of our operating results is affected by foreign exchange fluctuations. We calculate certain constant currency measures and foreign currency impacts by translating the current year’s reported amounts into comparable amounts using prior year’s exchange rates. All constant currency financial information being presented is non-GAAP and should be used as a supplement to our reported operating results. We believe that this information is helpful to our management and investors to assess our operating performance on a comparable basis. However, these measures are not intended to replace amounts presented in accordance with U.S. GAAP and may be different from similar measures calculated by other companies.

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) income or net cash (used in) provided by 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 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Revenue	$ 229,017	$ 250,784	$ 734,116	$ 725,961
Traffic acquisition costs	(176,347)	(182,669)	(558,597)	(530,606)
Other cost of revenue	(10,756)	(7,846)	(30,955)	(22,555)
Gross profit	41,914	60,269	144,564	172,800
Other cost of revenue	10,756	7,846	30,955	22,555
Ex-TAC Gross Profit	$ 52,670	$ 68,115	$ 175,519	$ 195,355

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before charges related to the exchange of senior notes upon IPO; interest expense; interest income and other income (expense), net; (benefit) provision 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, IPO and public company implementation costs, merger and acquisition costs, 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, Adjusted EBITDA is a non-GAAP financial measure and how we calculate 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net loss	$ (4,624)	$ (53,906)	$ (16,832)	$ (27,959)
Charges related to exchange of senior notes upon IPO	—	42,049	—	42,049
Interest expense	1,924	1,656	5,748	2,015
Interest income and other income (expense), net	(3,199)	(1,218)	1,710	1,978
(Benefit) provision for income taxes	(1,174)	5,003	(504)	7,436
Depreciation and amortization	6,792	4,801	19,816	13,996
Stock-based compensation	2,705	18,448	8,795	21,396
Regulatory matter costs, net of recoveries	(1,938)	2,663	(2,199)	3,810
Merger and acquisition, public company implementation costs [(1)]	618	361	2,042	300
Severance costs	582	—	582	—
Adjusted EBITDA	$ 1,686	$ 19,857	$ 19,158	$ 65,021
Adjusted EBITDA as % of Ex-TAC Gross Profit	3.2 %	29.2 %	10.9 %	33.3 %

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(1) Primarily includes costs related to our initial public offering, public company implementation costs and costs related to our acquisition of vi in January 2022.

Free Cash Flow

Free cash flow is defined as cash flow provided by 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 (used in) provided by operating activities.

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash (used in) provided by operating activities	$ (13,267)	$ 61,077
Purchases of property and equipment	(10,851)	(3,885)
Capitalized software development costs	(9,493)	(7,434)
Free cash flow	$ (33,611)	$ 49,758

Liquidity and Capital Resources

Our primary sources of liquidity are our cash and cash equivalents, investments in marketable securities, cash from our operations, cash generated from our IPO and from the offering of our Convertible Notes, as well as available capacity under our revolving credit facility.

As of September 30, 2022, we had cash, cash equivalents and investments of $345.0 million, which consisted of cash and cash equivalents of $137.9 million, short-term investments in marketable securities of $136.3 million and long-term investments in marketable securities of $70.8 million. Approximately $28.9 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.

Our primary source of operating cash flows is cash receipts from advertisers. 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. 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 expect these trends to continue as we continue to grow our business.

Our cash flow used in investing activities primarily consists of capital expenditures and capitalized software development costs. We spent $10.9 million in capital expenditures during the nine months ended September 30, 2022 and currently anticipate that our capital expenditures for 2022 will be approximately $15 million, primarily including expenditures for servers and related equipment, leasehold improvements, and office equipment. However, actual expenditures may vary from these estimates.

We believe that the net proceeds from our IPO and the offering of the senior notes (exchanged to convertible notes upon our IPO), together with our cash and cash equivalents, investments, and borrowings available to us, will be sufficient to fund our anticipated operating expenses, capital expenditures, and interest payments on our long-term debt for at least the next 12 months and the foreseeable future. During the third quarter of 2022, we initiated a new investment program, which is focused on achieving maximum returns within our investment policy parameters, while preserving capital and maintaining sufficient liquidity. In addition, we may use our available cash to make acquisitions or investments in complementary companies or technologies. We also expect to use our available cash to complete share repurchases under our $30 million stock repurchase program. 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 incorporated by reference in Part II, Item 1A of this Report and included elsewhere in this Report.

The following table presents a summary of our debt obligation and our borrowing capacity as of September 30, 2022 and December 31, 2021.

	September 30, 2022	December 31, 2021
	(in thousands)	
Long-term debt		
Convertible Notes due July 1, 2026	$ 236,000	$ 236,000
Total long-term debt	$ 236,000	$ 236,000
2021 Revolving Credit Facility with Silicon Valley Bank [1]		
Total availability (up to $75.0 million with $15.0 million for letters of credit)	$ 66,610	$ 75,000
Borrowings outstanding	—	—
Remaining availability	$ 66,610	$ 75,000

[1] The 2021 Revolving Credit Facility will terminate on the earlier of (i) November 2, 2026 or (ii) 120 days prior to the maturity date of the Company's 2.95% Convertible Senior Notes due 2026, unless the Convertible Notes have been converted to common equity securities of the Company. Our obligations and the obligations of the other subsidiary co-borrowers under the 2021 Revolving Credit Facility are secured by a first-priority lien on substantially all our assets and the assets such other subsidiary co-borrowers.

The 2021 Revolving Credit 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 2021 Revolving Credit 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 2021 Revolving Credit 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 defaults, 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 2021 Revolving Credit Facility as of September 30, 2022 and December 31, 2021.

See Note 8 to the accompanying condensed consolidated financial statements for detailed information relating to our Convertible Notes and our 2021 Revolving Credit Facility.

Treasury Share Repurchases

On February 28, 2022, our Board of Directors (the "Board") approved a stock repurchase program under which we are authorized to purchase 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 by the Company at its discretion without prior notice. During the three and nine months ended September 30, 2022, we paid $16.1 million and $23.6 million, respectively, (including commissions) to repurchase 3,394,326 and 4,782,643 shares, respectively, under our stock repurchase program. As of September 30, 2022, the remaining availability under our $30 million share repurchase program was $6.4 million. An additional 1,040,772 shares were repurchased for $4.2 million in October 2022.

In addition, we 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 our equity incentive plans and the underlying award agreements. During the three and nine months ended September 30, 2022, we withheld 47,577 shares and 204,078 shares, respectively, with a fair value of $0.2 million and $2.3 million, respectively, to satisfy the employee tax withholding obligations. During the three and nine months ended September 30, 2021, we withheld 29,918 shares and 56,262 shares, respectively, with a fair value of $0.1 million and $0.7 million, respectively.

Cash Flows

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

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash (used in) provided by operating activities	$ (13,267)	$ 61,077
Net cash used in investing activities	(274,582)	(11,360)
Net cash (used in) provided by financing activities	(24,528)	340,043
Effect of exchange rate changes	(5,175)	(978)
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (317,552)	$ 388,782

Operating Activities

Net cash from operating activities decreased $74.4 million, to net cash used in operating activities of $13.3 million during the nine months ended September 30, 2022, as compared to $61.1 million of cash provided by operating activities during the nine months ended September 30, 2021, which was primarily driven by a $42.6 million decrease in our net income after non-cash adjustments, as well as lower net cash due to changes in our working capital of $33.5 million, primarily due to lower accounts payable and accrued and other current liabilities, partially offset by a favorable change in accounts receivable, largely attributable to lower profitability in the current year.

Our free cash flow for the nine months ended September 30, 2022 was use of cash of $33.6 million, as compared to free cash flow of $49.8 million for the nine months ended September 30, 2021, due to lower operating cash flow and higher capital expenditures during the nine months ended September 30, 2022. 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

Cash used in investing activities increased to $274.6 million for the nine months ended September 30, 2022 from cash used in investing activities of $11.4 million in the same prior year period, primarily due to $209.0 million of purchases of marketable securities under our new investment program initiated in July 2022, $45.2 million of consideration paid, net of cash acquired for our acquisition of vi, as well as higher capital expenditures of $7.0 million, primarily attributable to our purchases of servers and related equipment during the nine months ended September 30, 2022.

Financing Activities

Cash used in financing activities was $24.5 million for the nine months ended September 30, 2022, primarily comprised of treasury stock repurchases of $25.9 million, including $23.6 million in repurchases under our $30 million share repurchase program and the remainder related to shares withheld to satisfy employee tax withholding obligations on vested stock-based compensation awards. Cash provided by financing activities was $340.0 million for the nine months ended September 30, 2021, which primarily included net proceeds from common stock issuance upon our IPO of $145.1 million and net proceeds from issuances of our long-term debt of $193.9 million.

Contractual Obligations

Except as disclosed in Note 6, Leases, to the accompanying condensed consolidated financial statements included in Part I, Item 1 of this Report, there were no material changes outside of the ordinary course of business in our commitments and contractual obligations for the nine months ended September 30, 2022 from the commitments and contractual obligations disclosed in our 2021 Form 10-K.

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 2021 Form 10-K.

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.

Recently Issued Accounting Pronouncements

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 condensed consolidated financial statements may not be comparable to companies that have adopted new or revised accounting pronouncements as of public company effective dates.

See Note 1 to the accompanying condensed consolidated financial statements for recently adopted accounting standards, and the impact on our financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosure 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 and interest rate risks.

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."

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.

During the three and nine months ended September 30, 2022, the U.S. Dollar strengthened against most of the currencies of the countries in which we operate, which had an unfavorable impact on our operations, 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 $2.8 million unfavorable or favorable change to our operating income for the three months ended September 30, 2022, and a $6.9 million unfavorable or favorable change to our operating loss for the nine months ended September 30, 2022.

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 our 2021 Revolving Credit Facility. There have been no amounts outstanding under our revolving credit facility since we amended and restated our loan agreement in November 2021. Long-term debt recorded on our condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021 was $236.0 million and bears a fixed rate of interest.

As of September 30, 2022, our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents of $137.9 million and our investments in marketable securities of $207.1 million under our new investments program initiated during the third quarter of 2022, 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 September 30, 2022 would change the fair value of investment portfolio by approximately $1.7 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 condensed consolidated balance sheets.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our co-Chief Executive Officers (“co-CEOs”) 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 Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of September 30, 2022. Based on such evaluation, our co-CEOs and CFO have concluded that as of September 30, 2022, 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 co-CEOs 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 September 30, 2022 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 co-CEOs 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 2021 Form 10-K, as updated in Item 1A of Part II of the Company’s Quarterly Reports on Forms 10-Q for the quarters ended March 31, 2022 and June 30, 2022, which are incorporated herein by reference.

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

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds

On July 27, 2021, we sold 8,000,000 shares of our common stock in connection with our IPO, at a public offering price of $20.00 per share for an aggregate offering price of $160.0 million. The proceeds from the sale were $145.1 million, after deducting underwriting discounts and commissions and offering expenses payable by us. The offer and sale of all of the shares in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-257525), which was declared effective by the SEC on July 22, 2021.

A portion of the net proceeds from our IPO has been used for working capital and general corporate purposes. In January 2022, $37.3 million was used to fund the first installment of the purchase price to acquire video intelligence AG and in July 2022, $10.6 million was used to fund the second installment of the purchase price.

There has been no material change in the planned use of proceeds from our IPO as described in our Prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act.

(c) Purchases of Equity Securities by the Issuer

On February 28, 2022, our Board approved a stock repurchase program under which we are authorized to purchase 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.

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 September 30, 2022:

Period	(a) Total number of shares (or units) purchased [(1)]	(b) Average price paid per share (or unit) [(2)]	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (in thousands)
July 2022	983,391	$5.33	951,057	$17,498
August 2022	1,071,048	$5.25	1,066,854	$11,835
September 2022	1,387,464	$3.94	1,376,415	$6,421
TOTAL	3,441,903		3,394,326	

(1) Total number of shares purchased includes shares repurchased under our $30 million stock 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 the Company's 2007 Omnibus Securities and Incentive Plan.

(2) The average price paid per share under the stock repurchase program includes commissions, which do not reduce the remaining authorized amount under the $30 million stock repurchase program.

In October 2022, we repurchased an additional 1,040,772 shares at an average price of $4.08 per share, totaling $4.2 million, including commissions. As of October 31, 2022, the remaining availability under our $30.0 million stock repurchase program was 2.2 million.

Item 5. Other Information.

None.

EXHIBIT INDEX

Exhibit No.	Description
10.1	Executive Employment Agreement, dated August 3, 2022, by and between the Company and Jason Kiviat (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K/A filed with the SEC on August 5, 2022).
10.2*	First Amendment to Amended and Restated Employment Agreement, dated August 25, 2022, by and between the Company and Elise Garofalo.
31.1*	Certification of Principal Executive Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Executive Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3*	Certification of Principal Financial Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*v	Certification of the Principal Executive Officers 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
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)

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* Filed herewith.

v 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 November 10, 2022.

OUTBRAIN INC.

By: /s/ David Kostman
Name: David Kostman
Title: *Co-Chief Executive Officer*

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

FIRST AMENDMENT TO
AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This FIRST AMENDMENT TO THE AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Amendment") is entered into effective as of August 25, 2022, by and between Outbrain Inc., a Delaware corporation (the "Company"), and Elise Garofalo, a natural person and resident of the State of Connecticut ("Employee").

W I T N E S S E T H :

The Company and Employee are parties to a certain Employment Agreement dated as of March 23, 2014, as thereafter amended and restated effective July 19, 2021 (the "Agreement");

Employee provided the Company with notice of her intention to resign from the position of Chief Financial Officer and principal accounting officer effective June 30, 2022 and to remain as a non-executive employee of the Company in a special advisory role to the Chief Executive Officer and new Chief Financial Officer with responsibilities primarily relating to the transition of her role to the new Chief Financial Officer until December 31, 2022 (the "Transition");

The Parties desire to amend the Agreement to reflect the Transition as more fully set forth herein;

The Company desires to continue to employ Employee, and Employee desires to continue Employee's employment with the Company, through December 31, 2022 in accordance with the terms and conditions of the Agreement, as amended by this Amendment.

In consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in the Agreement, as amended by this Amendment, the parties accordingly agree as follows:

1. As of July 1, 2022, the first sentence of Section 2.1 of the Agreement is amended in its entirety to read as follows: "Notwithstanding any other terms of this Agreement, the term of this Agreement shall begin as of the Commencement Date and shall continue thereafter until December 31, 2022 (the "Term"), unless otherwise sooner terminated pursuant to Sections 5.2 or 5.3."

2. The first two sentences of Section 2.2 of the Agreement is amended in its entirety to read as follows:

(a) Employee shall be employed as Chief Financial Officer and principal accounting officer through June 30, 2022 and shall report to the Company's Chief Executive Officer and/or Board of Directors (the "Board"). During this time, Employee shall perform and discharge conscientiously and faithfully the duties which may be assigned to Employee from time to time by the Company's Chief Executive Officer and/or the Board in connection with the conduct of the Company's business, as well as those duties which are normally and customarily vested in a Chief Financial Officer of a corporation."

3. The following provision shall be amended as new Section 2.2(b):

(b) *Special Advisory Role:* Effective June 30, 2022, Employee shall step down as the Company's Chief Financial Officer and principal accounting officer and will assume a special advisory role as a non-executive employee of the Company until December 31, 2022 to assist with the orderly transition of her duties.

4. Section 3.1 of the Agreement is amended in its entirety to read as follows:

3.1 Base Salary. Employee shall be paid a base salary ("Base Salary") through June 30, 2022 at the annual rate of Four Hundred Thousand Dollars ($430,000) and from July 1, 2022 through December 31, 2022 at an annual rate of Three Hundred Thousand Dollars ($300,000). During the Employment Period, the Company may review the rate of Base Salary and may increase, but not decrease, such annual rate as it determines, in its sole discretion.

5. Section 3.3(a) of the Agreement is amended in its entirety to read as follows:

(a) Employee shall be eligible for an annual incentive bonus award determined by the Board in respect of each whole or partial fiscal year of the Company ("Fiscal Year") during the Employment Period (the "Annual Bonus"). For the avoidance of doubt, and notwithstanding any terms of the bonus plan document to the contrary, if Employee's employment with the Company terminates for any reason other than for Cause during a given Fiscal Year, Employee shall be entitled to receive a pro-rated Annual Bonus for such partial Fiscal Year based on the portion of such Fiscal Year Employee was employed. The target Annual Bonus for each full Fiscal Year shall be no less than sixty percent (60%) of the Base Salary rate then in effect. For 2022, Employee's target Annual Bonus will be prorated to reflect her reduction in Base Salary rate determined as follows: 60% of $215,000 for the period from January 1, 2022 through June 30, 2022 and 60% of $150,000 for the period from July 1, 2022 through December 31, 2022. The actual Annual Bonus payable in respect of each Fiscal Year shall be based upon the level of achievement of Company and individual performance objectives, as determined by the Board in consultation with Employee, and as such Company and individual performance objectives may be updated by the chief executive officer from time to time.

6. The first sentence of Section 5.6 is amended in its entirety to read as follows:

Notwithstanding any provision herein to the contrary, the payment of any amount pursuant to Section 5.1 (other than the Accrued Benefits) after notice of termination and/or after December 31, 2022 is given is conditioned on Employee's prior execution, no later than seventy five (75) days following the effective date of termination of employment and in advance of any payments due upon such separation, of a separation agreement and general release in substantially the same form as attached hereto as Exhibit A, and such separation agreement and general release becoming effective pursuant to its terms no later than the end of such seventy-five-day period.

7. For purposes the Agreement,

6.1. The Transaction bonus contemplated by Section 3.6(a) and Section 5.4(v) has already been paid to Employee.

6.2. For purposes of Section 3.6(b) of the Agreement, the stock options granted to the Employee in September 2014 have fully vested; the Exit Event has already occurred; and the Qualifying Date is June 30, 2022; and

6.3. For purposes of Section 3.6(c) of the Agreement, any entitlement to payment for excise taxes expired upon the consummation of the Company's initial public offering.

8. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. This Amendment shall become effective upon delivery to each party of an executed counterpart or the earlier delivery to each party of original, photocopied, or electronically transmitted signature pages that together (but need not individually) bear the signatures of all other parties.

9. The parties acknowledge that the Agreement is being modified only as stated herein and agree that nothing else in the Agreement shall be affected by this Amendment.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first set forth above.

COMPANY		**EMPLOYEE**
Outbrain Inc.		
By:	/s/ David Kostman	/s/ Elise Garofalo
Name:	David Kostman	Elise Garofalo
Title:	CO-CEO	

EXHIBIT A

TO EMPLOYMENT AGREEMENT

Separation Agreement and Release of Claims

(a) Elise Garofalo ("Employee"), for herself and her family, heirs, executors, administrators, legal representatives and their respective successors and assigns, as an express condition of, and in exchange for the consideration contained in, Section 5.4 of the Employment Agreement to which this release is attached as Exhibit A (the "Employment Agreement"), which Employee acknowledges is in addition to any amounts to which she would have otherwise been entitled but for the Employment Agreement and execution of this Separation Agreement and Release of Claims, effective the date hereof, do fully and forever release, remise and discharge Outbrain Inc. (the "Company"), its direct and indirect parents, subsidiaries and Affiliates, together with their respective officers, directors, partners, shareholders, members, managers, employees and agents (collectively, and with the Company, the "Group") from any and all claims which Employee had, may have had, or now has against the Group, for or by reason of any matter, cause or thing whatsoever occurring from the beginning of time through the date Employee executes this Separation Agreement and Release of Claims, including any claim arising out of or attributable to Employee's employment or the termination of Employee's employment with the Company, any claims of breach of contract, wrongful termination, unjust dismissal , defamation, libel or slander, or under any federal, state or local law dealing with discrimination based on age, race, sex, national origin, handicap, religion, disability or sexual preference. This Separation Agreement and Release of Claims includes , but is not limited to, all claims arising under the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, the Age Discrimination in Employment Act ("ADEA"), Older Workers Benefit Protection Act of 1990, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Act of 1866, 42 U.S .C. § 1981, the Rehabilitation Act, the Labor Management Relations Act, the Equal Pay Act, the Americans with Disabilities Act, the Fair Labor Standards Act, the Employment Retirement Income Security Act, the Sarbanes-Oxley Act of 2002, the New York Labor Law, the New York State Human Rights Law, the New York City Human Rights Law, each as may be amended from time to time, and all other federal, state and local employment, labor and anti-discrimination laws, the common law and any other purported restriction on an employer's right to terminate the employment of employees. As used in this Separation Agreement and Release of Claims, the term "claims" will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, obligations, debts, accounts, attorneys' fees, judgments, losses and liabilities, of whatsoever kind or nature, in law, equity or otherwise. Employee specifically releases all claims relating to Employee's employment and its termination under the ADEA, a United States federal statute that, among other things, prohibits discrimination on the basis of age in employment and employee benefit plans. Notwithstanding any provision of this paragraph 1 to the contrary, by executing this Agreement, Employee is not releasing any claims relating to (i) Employee's rights to enforce the Company's obligations under this Separation Agreement and Release of Claims, Article V or Section 9.2 of the Employment Agreement (in each case, subject to the terms and conditions contained therein) or any equity agreement between Employee and the Company, (ii) any claim that may not be waived as a matter of law, or (iii) Employee's right, pursuant to the Older Workers Benefit Protection Act, to seek a judicial determination of this validity of the Agreement's waiver of claims under the Age Discrimination in Employment Act. Employee acknowledges that she is releasing unknown claims and waiving all rights she has or may have under any statute or common law principle of similar effect; provided that Employee is not waiving any rights or claims that may arise out of acts or events that occur after the date on which she signs this Agreement. Notwithstanding anything in the foregoing to the contrary, Employee acknowledges that the Company's exercise of its rights under and in accordance with this Agreement shall not give rise to any legal claims.

(b) Employee represents that Employee has not filed or permitted to be filed against the Group, individually or collectively, any complaints, charges or lawsuits arising out of Employee's employment, or any other matter arising on or prior to the date hereof, and Employee covenants and agrees that Employee will never individually or with any other person file, or commence the filing of, any lawsuits against the Group with respect to the subject matter of this Separation Agreement and Release of Claims and claims released pursuant to this Separation Agreement and Release of Claims (including, without limitation, any claims relating to the termination of Employee's employment), except as may be necessary to seek a determination of the validity of the waiver of Employee's rights under the ADEA. In addition, to the extent permitted by applicable law, Employee agrees that Employee will not voluntarily participate or assist in any judicial, administrative, arbitral or other proceedings of any nature or description against the Group brought by or on behalf of any Person, including, without limitation, any current or former employees or service providers of the Group, other than pursuant to a valid judicial subpoena or court order. Nothing in this Agreement shall be construed to prohibit Employee from filing a charge or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission ("EEOC") or a comparable state or local agency. To the extent any proceeding or charge may be brought by a Person (including the EEOC) from which Employee otherwise could receive an award, Employee expressly waives any claim to any form of monetary or other damages, or any other form of recovery or relief in connection with any such action.

(c) Except as expressly provided in this Separation Agreement and Release of Claims, the Employment Agreement is hereby terminated and of no further force and effect and any and all of Employee's right to compensation and employee benefit programs under the Employment Agreement are hereby cancelled, terminated and discharged and the Parties expressly agree that Employee shall not accrue or be entitled to any further compensation or rights under, or have any interest in, any of the foregoing programs. Notwithstanding anything in this Agreement to the contrary, the provisions of Article V (Termination of Employment), Article VI (Restrictive Covenants) and Article IX (Miscellaneous) of the Employment Agreement shall remain in full force and effect in accordance with their terms and Employee hereby ratifies and confirms her obligations thereunder.

(d) Employee agrees that she will not make, or cause to be made, any disparaging, negative or adverse remarks whatsoever, whether in public or private, and whether written, oral or otherwise, concerning the Company, its subsidiaries and Affiliates and their respective businesses, products or services.

(e) Employee agrees to assist and to cooperate with the Company in connection with the defense or prosecution of any claim that may be made against or by the Company, or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company, including any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including testifying in any proceeding to the extent such claims, investigations or proceedings relate to services performed or required to be performed by Employee, pertinent knowledge in Employee's possession, or any act or omission by Employee or where the Company believes Employee's personal knowledge, attendance, and participation are reasonably necessary. Employee's obligations under this paragraph include the obligation to provide truthful testimony by testimony, affidavit, or otherwise in connection with an investigation, arbitration, hearing, trial, or similar proceeding. Employee will also perform all reasonable acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this paragraph. The Company will reimburse Employee for reasonable expenses she incurs in fulfilling her obligations under this paragraph.

(f) Employee agrees that the terms and conditions of this Separation Agreement and Release of Claims (including the fact/existence of this Separation Agreement and Release of Claims) shall remain confidential and shall not be disclosed to anyone, except as required by law or to

Employee's immediate family members, attorneys, accountants and/or tax advisors, each of whom shall be advised of, and agree to, said agreement of confidentiality prior to disclosure of such information by Employee.

(g) Employee hereby acknowledges that the Company has informed her that she has up to 21 days to sign this Separation Agreement and Release of Claims and she may knowingly and voluntarily waive that 21 day period by signing this Separation Agreement and Release of Claims earlier. Employee also understands that she shall have 7 days following the date on which she signs this Separation Agreement and Release of Claims within which to revoke it by providing a written notice of her revocation to the Company. This Separation Agreement and Release of Claims shall take effect on the eighth day following Employee's execution of this Separation Agreement and Release of Claims unless Employee's written revocation is delivered to the Company within 7 days after such execution.

(h) Employee acknowledges that this Separation Agreement and Release of Claims will be governed by and construed and enforced in accordance with the laws of the State of New York, without regard to the conflict of law principles thereof. Employee agrees that any dispute concerning or arising out of this Separation Agreement and Release of Claims shall be tried exclusively in an appropriate state or federal court in New York, New York.

(i) Employee acknowledges that she has read this Separation Agreement and Release of Claims, that it is written in a manner that she understands, that she has been advised that she should consult with an attorney before she executes this general release of claims and has had an opportunity to do so, and that she understands all of its terms and executes it voluntarily without any duress or undue influence and with full knowledge of its significance and the consequences thereof.

(j) This Separation Agreement and Release of Claims, together with the surviving terms of the Employment Agreement, constitutes the entire agreement between the parties concerning any and all matters addressed herein. The parties acknowledge that they have not executed this Separation Agreement and General in reliance on any representation, inducement, promise, agreement or warranty that is not contained in this Separation Agreement and General Release or the Employment Agreement. Any amendments to or changes in the obligations created by this Separation Agreement and Release of Claims shall not be effective unless reduced to writing and signed by all parties.

(k) No term or condition of this Separation Agreement and Release of Claims shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Separation Agreement and Release of Claims except by written instrument signed by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(l) If any provision of this Separation Agreement and Release of Claims is held to be invalid, the remaining provisions shall remain in full force and effect. However, the invalidity of any such provision shall have no effect upon, and shall not impair the enforceability of the release language set forth in paragraph 1 above, provided that, upon a finding by a court of competent jurisdiction that the release language found in paragraph 1 is unenforceable, the Company shall rewrite paragraph 1 to cure the defect and Employee shall re execute the release upon request, and Employee shall not be entitled to any additional monies, benefits and/or compensation therefor.

COMPANY	**EMPLOYEE**
Outbrain Inc.	
By:	______________________
Name:	Elise Garofalo
Title:	

Exhibit 31.1

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

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

    c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

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

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

Date: November 10, 2022

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

Exhibit 31.2

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, Yaron Galai, 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. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

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

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

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

Date: November 10, 2022

By: /s/ Yaron Galai
Name: Yaron Galai
Title: Co-Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.3

**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. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    c. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

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

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICERS 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 and Yaron Galai, Co-Chief Executive Officers (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 or her knowledge:

1. The Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 (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: November 10, 2022

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

By: /s/ Yaron Galai
Name: Yaron Galai
Title: Co-Chief Executive Officer
(Principal Executive Officer)

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