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, 2024

OR

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

For the transition period from ___ to ___

Commission file number 001-40643

Outbrain Inc.

(Exact name of registrant as specified in its charter)

Delaware	**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, 2024, Outbrain Inc. had 49,649,359 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, and statements relating to the Transaction to acquire Teads, as such terms are defined below. You can generally identify forward-looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "foresee," "potential" or "continue" or the negative of these terms or other similar expressions that concern our expectations, strategy, plans or intentions or are not statements of historical fact. We have based these forward-looking statements largely on our expectations and projections regarding future events and trends that we believe may affect our business, financial condition, and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors including, but not limited to:

- the risk that the conditions to the consummation of the Transaction will not be satisfied (or waived);
- uncertainty as to the timing of the consummation of the Transaction and Outbrain's and Teads' ability to complete the Transaction;
- the occurrence of any event, change or other circumstance or condition that could give rise to the termination of the Share Purchase Agreement, as defined below;
- the failure to obtain, or delays in obtaining, required regulatory approvals or clearances;
- the risk that any such approval may result in the imposition of conditions that could adversely affect Outbrain or Teads, or the expected benefits of the Transaction;
- the effect of the announcement or pendency of the Transaction on Outbrain's or Teads' operating results and business generally;
- risks that the Transaction disrupts current plans and operations or diverts management's attention from its ongoing business;
- the initiation or outcome of any legal proceedings that may be instituted against Outbrain or Teads, or their respective directors or officers, related to the Transaction;
- unexpected costs, charges or expenses resulting from the Transaction;
- the risk that Outbrain's stock price may decline significantly if the Transaction is not consummated;
- the effect of the announcement of the Transaction on the ability of Outbrain and Teads to retain and hire key personnel and maintain relationships with their customers, suppliers and others with whom they do business;
- the ability of Outbrain to successfully integrate Teads' operations, technologies and employees;
- the ability to realize anticipated benefits and synergies of the Transaction, including the expectation of enhancements to Outbrain's services, greater revenue or growth opportunities, operating efficiencies and cost savings;
- overall advertising demand and traffic generated by our media partners;
- factors that affect advertising demand and spending, such as the continuation or worsening of unfavorable economic or business conditions or downturns, instability or volatility in financial markets, and other events or factors outside of our control, such as U.S. and global recession concerns, geopolitical concerns, including the ongoing war between Ukraine-Russia and conditions in Israel and the Middle East, supply chain issues, inflationary pressures, labor market volatility, bank closures or disruptions, the impact of challenging economic conditions, political and policy uncertainties in connection with the U.S. presidential election, and other factors that have and may further impact advertisers' ability to pay;
- our ability to continue to innovate, and adoption by our advertisers and media partners of our expanding solutions;
- the success of our sales and marketing investments, which may require significant investments and may involve long sales cycles;
- our ability to grow our business and manage growth effectively;

- our ability to compete effectively against current and future competitors;
- the loss or decline of one or more of our large media partners, and our ability to expand our advertiser and media partner relationships;
- conditions in Israel, including the ongoing war between Israel and Hamas and other terrorist organizations, may limit our ability to market, support and innovate on our products due to the impact on our employees as well as our advertisers and their advertising markets;
- our ability to maintain our revenues or profitability despite quarterly fluctuations in our results, whether due to seasonality, large cyclical events, or other causes;
- the risk that our research and development efforts may not meet the demands of a rapidly evolving technology market;
- any failure of our recommendation engine to accurately predict attention or engagement, any deterioration in the quality of our recommendations or failure to present interesting content to users or other factors which may cause us to experience a decline in user engagement or loss of media partners;
- limits on our ability to collect, use and disclose data to deliver advertisements;
- our ability to extend our reach into evolving digital media platforms;
- our ability to maintain and scale our technology platform;
- our ability to meet demands on our infrastructure and resources due to future growth or otherwise;
- our failure or the failure of third parties to protect our sites, networks and systems against security breaches, or otherwise to protect the confidential information of us or our partners;
- outages or disruptions that impact us or our service providers, resulting from cyber incidents, or failures or loss of our infrastructure;
- significant fluctuations in currency exchange rates;
- political and regulatory risks in th e various markets in which we operate;
- the challenges of compliance with differing and changing regulatory requirements;
- the timing and execution of any cost-saving measures and the impact on our business or strategy; and
- the risks described in the section entitled “Risk Factors” in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) for the year ended December 31, 2023, in the Form 10-Q filed with the SEC for the quarter ended June 30, 2024, in our definitive proxy statement filed with the SEC on October 31, 2024, and subsequent reports filed with the SEC, and elsewhere in this Report.

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

Part I Financial Information

Item 1. Financial Statements

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

	September 30, 2024	December 31, 2023
	(Unaudited)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 57,061	$ 70,889
Short-term investments in marketable securities	73,467	94,313
Accounts receivable, net of allowances	157,542	189,334
Prepaid expenses and other current assets	38,133	47,240
Total current assets	326,203	401,776
Non-current assets:		
Long-term investments in marketable securities	—	65,767
Property, equipment and capitalized software, net	43,934	42,461
Operating lease right-of-use assets, net	15,791	12,145
Intangible assets, net	17,834	20,396
Goodwill	63,063	63,063
Deferred tax assets	42,166	38,360
Other assets	21,140	20,669
TOTAL ASSETS	$ 530,131	$ 664,637
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 123,355	$ 150,812
Accrued compensation and benefits	18,721	18,620
Accrued and other current liabilities	124,053	119,703
Deferred revenue	6,598	8,486
Total current liabilities	272,727	297,621
Non-current liabilities:		
Long-term debt	—	118,000
Operating lease liabilities, non-current	12,634	9,217
Other liabilities	17,614	16,735
TOTAL LIABILITIES	$ 302,975	$ 441,573
Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY:		
Common stock, par value of $ 0.001 per share − one billion shares authorized; 63,029,098 shares issued and 49,654,192 shares outstanding as of September 30, 2024; 61,567,520 shares issued and 49,726,518 shares outstanding as of December 31, 2023	63	62
Preferred stock, par value of $ 0.001 per share − 100,000,000 shares authorized, none issued and outstanding as of September 30, 2024 and December 31, 2023	—	—
Additional paid-in capital	480,440	468,525
Treasury stock, at cost − 13,374,906 shares as of September 30, 2024 and 11,841,002 shares as of December 31, 2023	(74,079)	(67,689)
Accumulated other comprehensive loss	(9,942)	(9,052)
Accumulated deficit	(169,326)	(168,782)
TOTAL STOCKHOLDERS' EQUITY	227,156	223,064
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 530,131	$ 664,637

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue	$ 224,177	$ 230,015	$ 655,289	$ 687,589
Cost of revenue:				
Traffic acquisition costs	164,483	173,224	487,484	524,024
Other cost of revenue	10,825	10,401	31,765	31,999
Total cost of revenue	175,308	183,625	519,249	556,023
Gross profit	48,869	46,390	136,040	131,566
Operating expenses:				
Research and development	9,053	8,681	27,646	28,033
Sales and marketing	23,201	21,472	71,762	73,116
General and administrative	19,564	13,617	51,805	44,766
Total operating expenses	51,818	43,770	151,213	145,915
(Loss) income from operations	(2,949)	2,620	(15,173)	(14,349)
Other income (expense):				
Gain on convertible debt	8,782	—	8,782	22,594
Interest expense	(1,444)	(1,456)	(2,950)	(4,428)
Interest income and other income, net	3,536	358	7,687	5,733
Total other income (expense), net	10,874	(1,098)	13,519	23,899
Income (loss) before income taxes	7,925	1,522	(1,654)	9,550
Provision (benefit) for income taxes	1,229	1,014	(1,110)	3,365
Net income (loss)	$ 6,696	$ 508	$ (544)	$ 6,185
Weighted average shares outstanding:				
Basic	49,325,518	50,881,194	49,171,414	51,178,127
Diluted	53,908,058	51,240,968	53,701,925	57,696,222
Net income (loss) per common share:				
Basic	$ 0.14	$ 0.01	$ (0.01)	$ 0.12
Diluted	$ 0.01	$ 0.01	$ (0.10)	$ (0.15)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income (loss)	$ 6,696	$ 508	$ (544)	$ 6,185
Other comprehensive income (loss):				
Foreign currency translation adjustments	21	(6)	(1,024)	(2,667)
Unrealized gains on available-for-sale investments in debt securities (net of taxes of $ 132 and $64 for the three months ended September 30, 2024 and 2023, respectively and $ 39 and $232 for the nine months ended September 30, 2024 and 2023, respectively)	444	212	134	782
Total other comprehensive income (loss)	465	206	(890)	(1,885)
Comprehensive income (loss)	$ 7,161	$ 714	$ (1,434)	$ 4,300

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders’ Equity
	Shares	Amount		Shares	Amount			
Balance – January 1, 2024	61,567,520	$ 62	$ 468,525	(11,841,002)	$ (67,689)	$ (9,052)	$ (168,782)	$ 223,064
Vesting of restricted stock units, net of shares withheld for taxes	348,151	—		(37,492)	(153)	—	—	(153)
Shares repurchased under the share repurchase program	—	—	—	(945,947)	(3,862)	—	—	(3,862)
Stock-based compensation	—	—	3,068	—	—	—	—	3,068
Other comprehensive loss	—	—	—	—	—	(148)	—	(148)
Net loss	—	—	—	—	—	—	(5,041)	(5,041)
Balance – March 31, 2024	61,915,671	$ 62	$ 471,593	(12,824,441)	$ (71,704)	$ (9,200)	$ (173,823)	$ 216,928
Vesting of restricted stock units, net of shares withheld for taxes	635,263	1	(1)	(47,088)	(207)	—	—	(207)
Shares repurchased under the share repurchase program	—	—	—	(464,054)	(2,000)	—	—	(2,000)
Stock-based compensation	—	—	4,661	—	—	—	—	4,661
Other comprehensive loss	—	—	—	—	—	(1,207)	—	(1,207)
Net loss	—	—	—	—	—	—	(2,199)	(2,199)
Balance – June 30, 2024	62,550,934	$ 63	$ 476,253	(13,335,583)	$ (73,911)	$ (10,407)	$ (176,022)	$ 215,976
Vesting of restricted stock units, net of shares withheld for taxes	478,164	—	—	(39,323)	(187)	—	—	(187)
Excise taxes on repurchased shares	—	—	—	—	19	—	—	19
Stock-based compensation	—	—	4,187	—	—	—	—	4,187
Other comprehensive income	—	—	—	—	—	465	—	465
Net income	—	—	—	—	—	—	6,696	6,696
Balance – September 30, 2024	63,029,098	$ 63	$ 480,440	(13,374,906)	$ (74,079)	$ (9,942)	$ (169,326)	$ 227,156

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance – January 1, 2023	60,175,020	$ 60	$ 455,831	(7,948,275)	$ (49,168)	$ (9,913)	$ (179,024)	$ 217,786
Vesting of restricted stock units, net of shares withheld for taxes	281,469	—	—	(48,202)	(213)	—	—	(213)
Shares repurchased under the share repurchase program	—	—	—	(1,313,073)	(6,142)	—	—	(6,142)
Stock-based compensation	—	—	2,895	—	—	—	—	2,895
Other comprehensive loss	—	—	—	—	—	(800)	—	(800)
Net loss	—	—	—	—	—	—	(5,605)	(5,605)
Balance – March 31, 2023	60,456,489	$ 60	$ 458,726	(9,309,550)	$ (55,523)	$ (10,713)	$ (184,629)	$ 207,921
Vesting of restricted stock units, net of shares withheld for taxes	400,139	1	(1)	(42,065)	(189)	—	—	(189)
Shares repurchased under the share repurchase program	—	—	—	(200,000)	(988)	—	—	(988)
Stock-based compensation	—	—	3,484	—	—	—	—	3,484
Other comprehensive loss	—	—	—	—	—	(1,291)	—	(1,291)
Net income	—	—	—	—	—	—	11,282	11,282
Balance – June 30, 2023	60,856,628	$ 61	$ 462,209	(9,551,615)	$ (56,700)	$ (12,004)	$ (173,347)	$ 220,219
Vesting of restricted stock units, net of shares withheld for taxes	362,857	—	—	(37,776)	(193)	—	—	(193)
Shares repurchased under the share repurchase program	—	—	—	(1,031,100)	(5,526)	—	—	(5,526)
Stock-based compensation	—	—	3,192	—	—	—	—	3,192
Other comprehensive income	—	—	—	—	—	206	—	206
Net income	—	—	—	—	—	—	508	508
Balance – September 30, 2023	61,219,485	$ 61	$ 465,401	(10,620,491)	$ (62,419)	$ (11,798)	$ (172,839)	$ 218,406

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (544)	$ 6,185
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Gain on convertible debt	(8,782)	(22,594)
Depreciation and amortization of property and equipment	4,654	5,195
Amortization of capitalized software development costs	7,281	7,261
Amortization of intangible assets	2,559	3,301
Amortization of discount on marketable securities	(1,839)	(2,875)
Stock-based compensation	11,487	9,153
Non-cash operating lease expense	3,825	3,361
Provision for credit losses	2,951	6,077
Deferred income taxes	(4,431)	(2,834)
Other	(618)	(234)
Changes in operating assets and liabilities:		
Accounts receivable	31,434	3,993
Prepaid expenses and other current assets	9,121	(1,566)
Accounts payable and other current liabilities	(30,563)	(28,355)
Operating lease liabilities	(3,869)	(3,279)
Deferred revenue	(2,051)	97
Other non-current assets and liabilities	5,283	5,383
Net cash provided by (used in) operating activities	25,898	(11,731)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of a business, net of cash acquired	(181)	(312)
Purchases of property and equipment	(4,668)	(7,870)
Capitalized software development costs	(7,592)	(7,864)
Purchases of marketable securities	(56,166)	(86,885)
Proceeds from sales and maturities of marketable securities	144,257	186,650
Other	(81)	(9)
Net cash provided by investing activities	75,569	83,710
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt obligations	(109,740)	(96,170)
Payment of deferred financing costs	(501)	—
Treasury stock repurchases and share withholdings on vested awards	(6,390)	(13,251)
Principal payments on finance lease obligations	(263)	(1,477)
Payment of contingent consideration liability up to acquisition-date fair value	—	(547)
Net cash used in financing activities	(116,894)	(111,445)
Effect of exchange rate changes	2,034	(1,568)
Net decrease in cash, cash equivalents and restricted cash	(13,393)	(41,034)
Cash, cash equivalents and restricted cash — Beginning	71,079	105,765
Cash, cash equivalents and restricted cash — Ending	$ 57,686	$ 64,731
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO THE CONDENSED CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	$ 57,061	$ 64,549
Restricted cash, included in other assets	$ 625	$ 182
Total cash, cash equivalents, and restricted cash	$ 57,686	$ 64,731

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

	Nine Months Ended September 30,	
	2024	2023
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 11,112	$ 7,548
Cash paid for interest	$ 4,263	$ 6,240
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment included in accounts payable	$ 2,219	$ 2,439
Operating lease right-of-use assets obtained in exchange for lease obligations	$ 6,445	$ 4,505
Acquisition consideration payable	$ —	$ 258
Stock-based compensation capitalized for software development costs	$ 423	$ 418
Unpaid deferred financing costs in accounts payable and accrued expenses	$ 2,855	$ —

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

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

Organization and Description of Business

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

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

Basis of Presentation

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

Use of Estimates

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

Reclassifications

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

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.

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

The Company generally does not require collateral to secure accounts receivable, with the exception of certain customers with higher potential credit risk who are required to prepay for their campaigns. No single advertiser accounted for 10% or more of the Company's total revenue for the three and nine months ended September 30, 2024 or 2023, or 10% or more of its gross accounts receivable balance as of September 30, 2024 and December 31, 2023.

During the three and nine months ended September 30, 2024 and 2023, none of the Company's media owners accounted for 10% of its total traffic acquisition costs.

Segment Information

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

New Accounting Pronouncements

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

Recently Issued Accounting Pronouncements

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

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

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

2. Revenue Recognition

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
USA	$ 63,978	$ 70,018	$ 183,250	$ 211,123
Europe, the Middle East and Africa (EMEA)	134,469	136,085	401,012	404,325
Other	25,730	23,912	71,027	72,141
Total revenue	$ 224,177	$ 230,015	$ 655,289	$ 687,589

Contract Balances. There were no contract assets as of September 30, 2024 or December 31, 2023. Contract liabilities primarily relate to advance payments and consideration received from customers. As of September 30, 2024 and December 31, 2023, the Company's contract liabilities were recorded as deferred revenue in its condensed consolidated balance sheets.

3. Acquisition

On August 1, 2024, the Company entered into a definitive share purchase agreement (the “Agreement”) with Altice Teads S.A. (the “Seller” or “Altice”), a public limited liability company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg and the sole shareholder of Teads S.A., a public limited liability company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg (“Teads”), and Teads. Pursuant to the Agreement, Outbrain agreed to acquire all of the issued and outstanding share capital of Teads upon the terms and subject to the conditions set forth in the Agreement (the “Transaction”).

The Agreement provides for the following consideration to be paid to the Seller at closing of the Transaction (the “Closing”): (1) a cash payment of $ 725.0 million, subject to certain customary adjustments as set forth in the Agreement (the “Cash Consideration”), (2) 35.0 million newly issued shares of the Company’s common stock, par value $ 0.001 (the “Common Stock”; such newly issued shares of Common Stock, the “Consideration Common Stock”), and (3) 10.5 million newly issued shares of the Company’s Series A Convertible Preferred Stock, par value $0.001 (the “Series A Preferred Stock” and, together with the Consideration Common Stock, the “Consideration Stock”). Additionally, the Seller will be entitled to a deferred cash payment in an amount equal to $25.0 million payable in one or more installments subject to compliance with the covenants of any of the debt financing(s) described below. Following the Closing, the Seller will own approximately 41% of the Company’s issued and outstanding shares of Common Stock, or 48% assuming conversion of the Series A Preferred Stock (based on the amount of issued and outstanding shares of Common Stock as of September 30, 2024).

Subject to certain conditions, either the Company or the Seller may terminate the Agreement if the Closing has not occurred by the date which is nine months after the date of the Agreement, which date may be extended for three additional periods of three months each if the reason for not closing is that the regulatory conditions have not been satisfied.

The Agreement contains customary representations, warranties and covenants for a transaction of this type. Closing under the Agreement is subject to customary conditions, including (1) approval of the Company’s stockholders of the issuance of the Consideration Stock in accordance with the rules and regulations of the Nasdaq Stock Market and the Company’s organizational documents (the “Stockholder Approval”), (2) the absence of any law or order issued by any governmental authority prohibiting or preventing the consummation of the Transaction, (3) obtaining certain regulatory approvals, including the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (4) subject to certain exceptions, the accuracy of the representations and warranties of, and compliance with covenants by, each of the parties to the Agreement, and (5) the absence of a Material Adverse Event (as defined in the Agreement).

Pursuant to the Agreement, the Company will file a certificate of designation (the “Certificate of Designation”) with the Delaware Secretary of the State at Closing designating the rights, preferences and limitations of the shares of the Series A Preferred Stock. The Series A Preferred Stock will have a liquidation preference (the “Liquidation Preference”) of $10.00 per share (adjusted in the event of a stock dividend, stock split, stock distribution, recapitalization or combination with respect to the Series A Preferred Stock). Upon the occurrence of a Liquidation Event (as defined in the Certificate of Designation), the holders of the Series A Preferred Stock shall be entitled to the greater of (i) the Liquidation Preference plus the aggregate amount of all accrued and accumulated dividends on the Series A Preferred Stock and (ii) the consideration that a holder of Series A Preferred Stock would have received if it had converted its stock into Common Stock immediately prior to the Liquidation Event.

Dividends on the Series A Preferred Stock will accrue on a quarterly basis at a rate of 10% per annum, payable in cash or payment-in-kind at Outbrain’s option. The holders of the Series A Preferred Stock shall have the right to convert all or a portion of the holder’s Series A Preferred Stock to a number of shares of Common Stock determined as the current Liquidation Preference of such Series A Preferred Stock to be converted plus an amount equal to the sum of all accrued and unpaid dividends for the then-current dividend period, divided by the conversion price of $10.00 per share, as may be subject to customary adjustments in accordance with the Certificate of Designation. The Company may elect to convert all or a portion of the Series A Preferred Stock that is at least 10% of the then outstanding Series A Preferred Stock to Common Stock after two years subject to the Common Stock achieving a certain price threshold. The Series A Preferred Stock may be redeemed by the Company in whole or part in cash prior to the five-year anniversary of its issuance, subject to payment of certain premiums, and after the fifth anniversary of issuance without premium. The Series A Preferred Stock will vote together with the Common Stock on an as-converted basis on all matters, and not as a separate class.

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The Agreement provides that the Company and Seller will enter into a stockholders agreement (the “Stockholders Agreement”) at Closing. Pursuant to the Stockholders Agreement, the number of directors on the Board of Directors of the Company (the “Company Board”) shall be increased by two, and the Seller shall have the right to nominate for election to the Company Board two persons, one of whom shall be non-affiliated with the Seller and must qualify as an independent director pursuant to the requirements of the Nasdaq Stock Market. The Seller shall have the right to nominate (1) two directors until the Seller and its affiliated stockholders cease to hold in the aggregate at least 25% of the total voting power of the outstanding capital stock of the Company and (2) one director until the Seller and its affiliated stockholders cease to hold in the aggregate at least 10% of the total voting power of the outstanding capital stock of the Company, in each case on an as-converted basis. Additionally, commencing on the third anniversary of the Closing, Seller shall have the right to nominate three directors until such time as the Seller and its affiliated stockholders cease to own at least 30% of the total voting power of the outstanding capital stock of the Company, on an as-converted basis.

The Stockholders Agreement also requires that until such time that the Seller and its affiliated stockholders hold in the aggregate less than 15% of the total voting power of the outstanding capital stock of the Company (the “15% Threshold”), on an as-converted basis, the Seller will take such action necessary to cause its affiliate stockholders to vote their shares at each meeting of the Company’s stockholders in the same manner as recommended by the Company Board. The Stockholders Agreement further provides that until such time that Seller and its affiliated stockholders hold less than the 15% Threshold in the aggregate, they will comply with customary standstill restrictions with respect to the Company. The Stockholders Agreement will include restrictions on the transferability of the Consideration Stock.

Under the Agreement, the Company and Seller will also enter into a registration rights agreement (the “Registration Rights Agreement”) at Closing, pursuant to which the Company will provide customary demand and piggyback registration rights to the holders of the Registrable Shares (as defined in the Registration Rights Agreement), which includes the Consideration Common Stock.

In connection with the execution of the Agreement, each of Viola Ventures III, L.P. and Yaron Galai (together, the “Company Stockholders”) in their respective capacities as stockholders of the Company, entered into a customary Stockholder Support Agreement (the “Support Agreement”) with the Company and Seller, pursuant to which the Company Stockholders agreed, among other things, to vote their respective shares of Common Stock in favor of the Stockholder Approval and any other proposals brought to a vote of stockholders of the Company in furtherance of the Transaction. Notwithstanding the foregoing, the Company Stockholders are permitted to take any action and participate in any discussions or negotiations regarding a Qualifying Purchaser Acquisition Proposal (as defined in the Agreement) to the same extent that the Company is permitted to pursuant to the Agreement. As of September 30, 2024, the Company Stockholders beneficially own an aggregate of approximately 20% of the Company’s issued and outstanding shares of Common Stock.

During the three and nine months ended September 30, 2024, the Company recorded acquisition-related costs of $ 5.6 million and $8.8 million, respectively. See Note 10 for financing arrangements associated with the Agreement.

4. Restructuring

On May 31, 2023, the Company announced a reduction in its global workforce of approximately 10%, to adjust to the continued macroeconomic uncertainty, create additional operating efficiencies, and support the Company’s strategic growth and profitability objectives. As a result, the Company recorded pre-tax charges of approximately $2.3 million for employee severance and related benefit costs in its condensed consolidated statement of operations for the second quarter of 2023, $1.5 million of which was recorded within sales and marketing expenses, $0.4 million within research and development expenses, and $ 0.4 million within general and administrative expenses. All of the associated costs were fully paid during the year ended December 31, 2023.

In addition, during the nine months ended September 30, 2024 and 2023, the Company recorded other severance and related benefit costs of $ 0.7 million and $0.8 million, respectively, in connection with restructuring activities taken during the respective periods.

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5. Investments in Marketable Securities

All of the Company's debt securities are classified as available-for-sale. The Company's cash equivalents and investments as of September 30, 2024 and December 31, 2023 consisted of the following:

		September 30, 2024						
(In thousands)	Fair Value Level	Amortized cost [1]	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash Equivalents	Short-term investments	Long-term investments
Money market funds	1	$ 21,671	$ —	$ —	$ 21,671	$ 21,671	$ —	$ —
U.S. Treasuries	2	7,435	17	—	7,452	—	7,452	—
U.S. Government bonds	2	7,448	17	(3)	7,462	—	7,462	—
Commercial paper	2	6,643	2	—	6,645	—	6,645	—
U.S. Corporate bonds	2	51,784	135	(11)	51,908	—	51,908	—
Total cash equivalents and investments		$ 94,981	$ 171	$ (14)	$ 95,138	$ 21,671	$ 73,467	$ —

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

[1] The amortized cost of debt securities excludes accrued interest of $ 0.8 million and $1.4 million, respectively, recorded within prepaid expenses and other current assets in the condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023.

In connection with the Company's repurchases of 2.95% Convertible Senior Notes due 2026 ("Convertible Notes") in September 2024 and April 2023 (see Note 10), the Company redeemed some of its available-for-sale marketable securities prior to their maturities to finance these debt repurchases. During the nine months ended September 30, 2024 and 2023, proceeds from the sales of securities were $53.0 million and $78.9 million, respectively, which included gross realized gains of $ 0.4 million and gross realized losses of $ 0.6 million, respectively, which were released from other comprehensive loss and recorded within interest income and other income, net in the Company's condensed consolidated statement of operations for these periods. The gross realized gains and losses were determined using the specific identification method.

As of September 30, 2024, all of the Company's available-for-sale securities with a fair value of $ 95.1 million mature within one year.

The following tables present the fair value of investments and gross unrealized losses recorded in other comprehensive loss, by investment category, all of which have been in an unrealized loss position for 12 months or more as of September 30, 2024:

	September 30, 2024	
	12 Months or More	
(In thousands)	Fair Value	Unrealized Loss
U.S. Government bonds	$ 1,998	$ (3)
U.S. Corporate bonds	18,968	(11)
Total	$ 20,966	$ (14)

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

For marketable securities in 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, 2024 and December 31, 2023.

6. Goodwill and Intangible Assets

The Company's goodwill balance as of September 30, 2024 and December 31, 2023 was $ 63.1 million. The Company has not recorded any accumulated impairments of goodwill.

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

	September 30, 2024						
	Weighted Average Amortization Period	Gross Value		Accumulated Amortization		Net Carrying Value	
	(In thousands)						
Developed technology	8.0 years	$	18,411	$	(11,837)	$	6,574
Customer relationships	5.0 years		6,027		(5,695)		332
Publisher relationships	8.0 years		19,086		(11,986)		7,100
Trade names	8.8 years		5,348		(2,255)		3,093
Content provider relationships	5.0 years		284		(155)		129
Other	15.8 years		928		(322)		606
Total intangible assets, net		$	50,084	$	(32,250)	$	17,834

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

No impairment charges were recorded for the Company's intangible assets subject to amortization during the three and nine months ended September 30, 2024 and 2023.

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As of September 30, 2024, estimated amortization related to the Company’s identifiable acquisition-related intangible assets in future periods was as follows:

	Amount
	(In thousands)
2024	$ 868
2025	3,471
2026	3,471
2027	3,117
2028	3,062
Thereafter	3,845
Total	$ 17,834

7. Balance Sheet Components

Accounts Receivable and Allowance for Credit Losses

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

	September 30, 2024	December 31, 2023
	(In thousands)	
Accounts receivable	$ 167,492	$ 199,714
Allowance for credit losses	(9,950)	(10,380)
Accounts receivable, net of allowance for credit losses	$ 157,542	$ 189,334

The allowance for credit losses consists of the following activity:

	Nine Months Ended September 30, 2024	Year Ended December 31, 2023
	(In thousands)	
Allowance for credit losses, beginning balance	$ 10,380	$ 5,512
Provision for credit losses	2,601	8,220
Write-offs	(3,031)	(3,352)
Allowance for credit losses, ending balance	$ 9,950	$ 10,380

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following:

	September 30, 2024	December 31, 2023
	(In thousands)	
Prepaid traffic acquisition costs	$ 16,360	$ 26,398
Prepaid taxes	13,194	11,371
Prepaid software licenses	2,380	2,224
Other prepaid expenses and other current assets	6,199	7,247
Total prepaid expenses and other current assets	$ 38,133	$ 47,240

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Property, Equipment and Capitalized Software, Net

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

	September 30, 2024	December 31, 2023
	(In thousands)	
Capitalized software development costs	$ 85,981	$ 78,389
Computer and equipment	66,637	61,529
Leasehold improvements	3,367	3,300
Software	2,916	3,221
Furniture and fixtures	1,213	1,098
Property, equipment, and capitalized software, gross	160,114	147,537
Less: accumulated depreciation and amortization	(116,180)	(105,076)
Total property, equipment and capitalized software, net	$ 43,934	$ 42,461

Accrued and Other Current Liabilities

Accrued and other current liabilities consists of the following:

	September 30, 2024	December 31, 2023
	(In thousands)	
Accrued traffic acquisition costs	$ 80,326	$ 75,870
Accrued agency commissions	14,840	12,376
Accrued professional fees	11,142	3,261
Accrued tax liabilities	6,795	15,596
Operating lease obligations, current	3,869	3,684
Interest payable	58	1,566
Other	7,023	7,350
Total accrued and other current liabilities	$ 124,053	$ 119,703

In addition to accrued traffic acquisition costs, accounts payable includes $ 108.1 million and $137.6 million of traffic acquisition costs as of September 30, 2024 and December 31, 2023, respectively.

8. 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 tables set 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, 2024			
	Level I	Level II	Level III	Total
	(In thousands)			
Financial Assets:				
Cash equivalents and investments [1]	$ 21,671	$ 73,467	$ —	$ 95,138
Restricted time deposit [2]	—	625	—	625
Severance pay fund deposits [2]	—	4,682	—	4,682
Foreign currency forward contract [3]	—	295	—	295
Total financial assets	$ 21,671	$ 79,069	$ —	$ 100,740
Financial Liabilities:				
Foreign currency forward contract [4]	—	266	—	266
Total financial liabilities	$ —	$ 266	$ —	$ 266

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

(1) Money market securities are valued using Level I of the fair value hierarchy, while the fair values of U.S. Treasuries, government bonds, commercial paper, and corporate bonds are considered Level II and are obtained from independent pricing services, which may use various methods, including quoted prices for identical or similar securities in active and inactive markets. See Note 5 for additional detail of the Company's fixed income securities by balance sheet location.

(2) Recorded within other assets.

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

(4) Recorded within accrued and other current liabilities.

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

By entering into foreign currency forward contracts, the Company is exposed to a potential credit risk that the counterparty to its contracts will fail to meet its contractual obligations. If a counterparty fails to perform, the Company's maximum credit risk exposure would be the positive fair value of the foreign currency forward contracts, or any asset balance, which represents the amount the counterparty owes to the Company. In order to mitigate the counterparty risk, the Company performs an evaluation of its counterparty credit worthiness, and its forward contracts have a term of no more than 18 months. During the three and nine months ended September 30, 2024, the Company recognized net gains of $ 0.4 million and net losses of $1.1 million, respectively, within interest income and other income, net in its condensed consolidated statements of operations, related to mark-to-market adjustments on its undesignated foreign currency forward contacts. The Company recorded corresponding net losses of $1.0 million and $1.2 million, respectively, for the three and nine months ended September 30, 2023.

There were no Convertible Notes outstanding as of September 30, 2024. Previously, Convertible Notes were recorded within long-term debt on the Company's condensed consolidated balance sheets at their carrying value, which may differ from their fair value. The fair value of Convertible Notes was estimated using external pricing data, including any available market data for other debt instruments with similar characteristics. The following table summarizes the carrying value and the estimated fair value of the Convertible Notes as of December 31, 2023, based on Level II measurements of the fair value hierarchy.

	December 31, 2023	
	Carrying Value	Estimated Fair Value
	(In thousands)	
Convertible Notes	$ 118,000	$ 95,958

9. Leases

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

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

	Condensed Consolidated Balance Sheets Location	September 30, 2024	December 31, 2023
		(In thousands)	
Lease assets:			
Operating leases	Operating lease right-of-use assets, net	$ 15,791	$ 12,145
Finance leases	Property, equipment and capitalized software, net	—	226
Total lease assets		$ 15,791	$ 12,371
Lease liabilities:			
Current liabilities:			
Operating leases	Accrued and other current liabilities	$ 3,869	$ 3,684
Finance leases	Accrued and other current liabilities	—	254
Non-current liabilities:			
Operating leases	Operating lease liabilities, non-current	12,634	9,217
Total lease liabilities		$ 16,503	$ 13,155

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Operating lease cost				
Fixed lease costs [(1)]	$ 1,339	$ 1,079	$ 3,825	$ 3,361
Variable lease costs [(2)]	74	98	270	256
Short-term lease costs [(1)]	141	157	386	459
Finance lease cost:				
Depreciation [(3)]	—	397	226	1,324
Interest [(4)]	—	16	3	75
Total lease cost	$ 1,554	$ 1,747	$ 4,710	$ 5,475

(1) Recorded within cost of revenue and operating expenses.
(2) Recorded within operating expenses.
(3) Recorded within cost of revenue.
(4) Recorded within interest expense.

As of September 30, 2024, the maturities of the Company's lease liabilities under operating leases were as follows:

Year	Operating Leases
	(In thousands)
Remainder of 2024	$ 1,274
2025	5,127
2026	4,300
2027	3,824
2028	2,462
Thereafter	3,618
Total minimum payments required	$ 20,605
Less: imputed interest	(4,102)
Total present value of lease liabilities	$ 16,503

10. Long-Term Debt

Commitment Letter

In connection with the entry into the Agreement with Altice, pursuant to which the Company agreed to acquire all of the issued and outstanding share capital of Teads (see Note 3), the Company entered into a debt commitment letter, dated August 1, 2024 (the "Commitment Letter"), with Goldman Sachs Bank USA, Jefferies Finance LLC and Mizuho Bank, LTD (collectively, the "Commitment Parties"), pursuant to which the Commitment Parties have committed to provide (i) a $100 million senior secured revolving credit facility (the "New Revolving Credit Facility") and (ii) a senior secured bridge facility in an aggregate principal amount of up to $750 million (the "Bridge Facility"). The Bridge Facility may be used to fund the cash consideration for the Transaction and to pay related fees and expenses. Additionally, up to $20 million of the New Revolving Credit Facility may be used to fund a portion of the cash consideration for the Transaction and to pay fees and expenses related thereto, and will otherwise be available, for working capital and general corporate purposes. The obligation of the Commitment Parties to provide the contemplated financings is subject to a number of customary conditions contained in the Commitment Letter, including the execution of definitive debt financing documentation contemplated by the Commitment Letter and the Transaction being consummated substantially contemporaneously with the initial funding of the Bridge Facility. As of September 30, 2024, there were no outstanding borrowings under the Bridge Facility. As of September 30, 2024, the Company recorded $1.8 million of deferred financing costs associated with the Bridge Facility, which are being amortized over the expected period until permanent financing is in place.

The Company expects to replace the Bridge Facility with permanent financing, which the Company currently expects to include the issuance of debt securities or term loans.

Convertible Notes

As of December 31, 2023, the Company had $ 118.0 million principal amount of Convertible Notes outstanding, pursuant to an indenture, dated as of July 27, 2021 (the "Indenture"), between the Company and The Bank of New York Mellon, as trustee. The Convertible Notes were scheduled to mature on July 27, 2026, unless earlier converted, redeemed, or repurchased. During the three months ended September 30, 2024, all of the outstanding Convertible notes were repurchased, as further described below.

On April 14, 2023, the Company repurchased $118.0 million aggregate principal amount of the Convertible Notes out of the initially issued principal balance of $236.0 million via a privately negotiated repurchase agreement with Baupost Group Securities, L.L.C. ("Baupost"), the sole holder of the Convertible Notes, for approximately $96.2 million in cash, including accrued interest, representing a discount of approximately 19% to the principal amount of the repurchased notes. As a result, the Company recorded a pre-tax gain of approximately $22.6 million within gain on convertible debt in the Company's consolidated statement of operations for the nine months ended September 30, 2023.

On September 19, 2024, the Company repurchased the remaining $118.0 million aggregate principal amount of the Convertible Notes via a privately negotiated repurchase agreement with Baupost, for approximately $109.7 million in cash, including accrued interest, representing a discount of approximately 7.5% to the principal amount of the repurchased notes. As a result, the Company recorded a pre-tax gain of approximately $8.8 million within gain on convertible debt in the Company's consolidated statement of operations for the nine months ended September 30, 2024.

Following the closing of the repurchases, the repurchased notes were cancelled by the Trustee, and there were no Convertible Notes outstanding as of September 30, 2024.

Interest on the Convertible Notes was 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 was 40 shares of the Common Stock per $1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of $25 per share of the Company's common stock), subject to adjustment.

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

Revolving Credit Facility

The Company's First Amendment to the Second Amended and Restated Loan and Security Agreement with Silicon Valley Bank, a division of First Citizens Bank & Trust Company, provides, subject to borrowing availability and certain other conditions, for revolving loans in an aggregate principal amount of up to $75.0 million (the "Facility"), with a $15.0 million sub-facility for letters of credit. The Company's borrowing availability under the Facility is calculated by reference to a borrowing base which is determined by specified percentages of eligible accounts receivable. The Facility will terminate on November 2, 2026.

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

The Facility contains representations and warranties, including, without limitation, with respect to collateral; accounts receivable; financials; litigation, indictment and compliance with laws; disclosure and no material adverse effect, each of which is a condition to funding. Additionally, the Facility includes events of default and customary affirmative and negative covenants applicable to the Company and its subsidiaries, including, without limitation, restrictions on liens, indebtedness, investments, fundamental changes, dispositions, restricted payments and prepayment of junior indebtedness. The Facility contains a financial covenant that requires, in the event that credit extensions under the Facility equal or exceed 85% of the available commitments under the Facility or upon the occurrence of an event of default, the Company to maintain a minimum consolidated monthly fixed charge coverage ratio of 1.00. The obligations of the Company, and the other subsidiary co-borrowers under the 2021 Revolving Credit Facility are secured by a first-priority lien on substantially all the assets of the Company and such other subsidiary co-borrowers.

The Company was in compliance with all of the related financial covenants as of September 30, 2024 and December 31, 2023. As of September 30, 2024 and December 31, 2023, the Company had no borrowings outstanding under the Facility and its available borrowing capacity was $ 73.9 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, 2024 and December 31, 2023 included deferred financing costs of $0.2 million and $0.3 million, respectively, which are being amortized over the term of the Facility.

11. Income Taxes

The Company's interim (benefit) 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, 2024 were 15.5% and 67.1%, respectively. The Company's effective tax rates for the three and nine months ended September 30, 2023 were 66.6% and 35.2%, respectively. The Company's effective tax rate for the three months ended September 30, 2024 was lower than the U.S. federal statutory tax rate of 21%, primarily due to a deduction related to foreign-derived intangible income and the favorable impact of uncertain tax positions, partially offset by the tax impact related to the profitability of non-U.S. jurisdictions and certain non-deductible stock-based compensation and transaction costs. For the nine months ended September 30, 2024, the Company's effective tax rate was higher than the U.S. federal statutory tax rate of 21%, primarily due to the unfavorable impact of uncertain tax positions (including resolution of a tax audit) and the change in the valuation allowance, partially offset by certain non-deductible stock-based compensation and transaction costs. The Company's effective tax rates for the three and nine months ended September 30, 2023 were higher than the United States federal statutory tax rate of 21%, primarily due to the tax impact related to the profitability of non-U.S. jurisdictions and certain non-deductible stock-based compensation expenses, partially offset by a deduction related to foreign-derived intangible income.

12. Commitments and Contingencies

Share Purchase Agreement

On August 1, 2024, the Company entered into the Agreement with Altice to acquire all of the issued and outstanding share capital of Teads. The Company intends to fund the cash consideration for the Transaction, and pay related fees and expenses, with the net proceeds from permanent financing and cash on hand. See Notes 3 and 10 for additional information.

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.

13. Stockholders' Equity

Share Repurchases

On December 14, 2022, the Company's Board of Directors (the "Board") approved a new share repurchase program, authorizing the Company to repurchase up to $30 million of its common stock, par value $0.001 per share, with no requirement to purchase any minimum number of shares. The manner, timing, and actual number of shares repurchased under the program will depend on a variety of factors, including price, general business and market conditions, and other investment opportunities. Shares may be repurchased through privately negotiated transactions or open market purchases, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. The repurchase program may be commenced, suspended, or terminated at any time by the Company at its discretion without prior notice. There were no share repurchases under the Company's share repurchase program during the three months ended September 30, 2024. During the nine months ended September 30, 2024, the Company repurchased 1,410,001 shares with a fair value of $5.8 million. During the three and nine months ended September 30, 2023, the Company repurchased 1,031,100 and 2,544,173 shares, respectively, with a fair value of $5.5 million and $12.7 million, respectively.

As of September 30, 2024, the remaining availability under the Company's $30 million share repurchase program was $6.6 million. Commission costs associated with share repurchases and excise taxes accrued as a result of the Inflation Reduction Act of 2022 do not reduce the remaining authorized amount under the repurchase programs.

In addition, the Company may periodically withhold shares to satisfy employee tax withholding obligations arising in connection with the vesting of restricted stock units and exercise of options and warrants in accordance with the terms of the Company's equity incentive plans and the underlying award agreements.

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During the three and nine months ended September 30, 2024, the Company withheld 39,323 and 123,903 shares, respectively, with a fair value of $0.2 million and $0.5 million, respectively, to satisfy the employee tax withholding obligations. For the three and nine months ended September 30, 2023, the Company withheld 37,776 shares and 128,043 shares, respectively, with a fair value of $0.2 million and $0.6 million, respectively.

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

	Foreign Currency Translation Loss	Unrealized (Loss) Gain on Investments in Marketable Securities	Total Accumulated Other Comprehensive Loss
		(In thousands)	
Balance–December 31, 2023	$ (9,039)	$ (13)	$ (9,052)
Other comprehensive (loss) income, net of tax:			
Other comprehensive (loss) income before reclassifications	(1,024)	403	(621)
Realized gains from sales of investments in marketable securities reclassified to earnings	—	(269)	(269)
Other comprehensive (loss) income, net of tax	(1,024)	134	(890)
Balance–September 30, 2024	$ (10,063)	$ 121	$ (9,942)

During the nine months ended September 30, 2023, $ 0.4 million of realized losses on investments in marketable securities, net of taxes, were released from accumulated other comprehensive loss to earnings, and recorded within interest income and other income, net in the Company's condensed consolidated statements of operations for the nine months ended September 30, 2023. The tax effects associated with the realized and unrealized gains (losses) on investments in marketable securities were not material.

14. Stock-based Compensation

Equity Incentive Plans

In July 2021, the Board and the Company's stockholders approved the 2021 Long-Term Incentive Plan (the "2021 Plan"), which may be used to grant, among other award types, stock options, restricted stock units ("RSUs") and performance stock units ("PSUs"). The number of shares of common stock reserved for future issuance under the 2021 Plan will be increased pursuant to provisions for annual automatic evergreen increases. The Company's previous awards issued under its 2007 Omnibus Securities and Incentive Plan, as amended and restated on January 21, 2009 (the "2007 Plan"), remain subject to the 2007 Plan. As of September 30, 2024, 5,241,254 and 1,413,765 shares were available for grant under the 2021 Plan and the 2007 Plan, respectively. The Company generally issues new shares for stock option exercises and vesting of RSUs.

The Company recognizes stock-based compensation expense for stock-based awards based on the estimated fair value of the awards, as further described below, and accounts for forfeitures as they occur. The following table summarizes stock-based compensation expense recognized in the Company's condensed consolidated statements of operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Research and development	$ 823	$ 787	$ 2,529	$ 2,326
Sales and marketing	1,324	1,100	4,094	3,348
General and administrative	1,905	1,159	4,864	3,479
Total stock-based compensation	$ 4,052	$ 3,046	$ 11,487	$ 9,153

As of September 30, 2024, the Company's remaining unrecognized stock-based compensation expense was $ 0.2 million for unvested stock options, $22.7 million for unvested RSUs and $2.6 million for unvested PSUs.

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The following table summarizes stock option, RSU and PSU activity for the nine months ended September 30, 2024:

	Stock Options [(1)]	RSUs	PSUs
Outstanding—December 31, 2023	2,409,553	3,417,083	90,000
Granted	—	2,710,487	1,136,600
Exercised/Vested	—	(1,461,578)	—
Forfeited	(615,924)	(332,150)	—
Outstanding—September 30, 2024	1,793,629	4,333,842	1,226,600

[(1)] December 31, 2023 balance includes 2,861 stock appreciation rights (SARs), which expired in September 2024.

Stock Options

The Company estimates the fair value of its stock option awards on the grant date using the Black-Scholes option pricing model. There were no stock options granted during the nine months ended September 30, 2024.

Service-based Restricted Stock Units

The Company grants service-based RSUs to its employees and non-employee directors, which generally vest over a period of three to four years. The fair values of service-based RSUs are based on the fair value of the Company's common stock on the date of grant. During the nine months ended September 30, 2024, the Company granted 2,710,487 service-based RSUs with a weighted average grant date fair value of $4.53 per share.

Performance Stock Units

The Company’s PSUs granted in 2023 vest over a period of three years, subject to the employee’s continued employment through the vesting date and satisfaction of certain pre-established performance targets based on Company financial metrics. Expense related to these PSUs is recognized ratably during the 3-year performance period, based on the probability of attaining the performance targets. The potential number of shares that may be earned is determined based on achievement of performance targets up to a maximum of 100% of the number of PSUs granted.

In June 2024, the Company granted market-based PSU awards to its senior executives, which are earned subject to achievement of specified stock price hurdles for 20 days out of a 30-trading day window during the 3-year performance period, as well as continued employment through the quarterly vesting dates over the 3-year period. The number of shares that are eligible to vest range from 0% to 100% of the number of PSUs granted based on achievement of the specified stock price hurdles, with half of our CEO’s PSU award subject to vesting based on two additional above-target stock price hurdles.

The Company uses a Monte Carlo simulation, which uses subjective assumptions and simulates multiple stock price paths of the Company's common stock to determine the fair value of market-based PSUs on the date of grant. Compensation expense is recognized using an accelerated attribution method over the greater of the derived service periods and explicit quarterly service periods. Compensation expense, net of forfeitures, is recorded regardless of whether the market condition will be ultimately satisfied.

The following assumptions are used to estimate the fair value of the Company’s market-based PSUs:

	Nine Months Ended September 30, 2024
Weighted average grant date fair value	$ 2.86
Expected volatility	60.68 %
Risk-free rate	4.53 %
Expected dividend yield	—

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Stock-Based Awards Granted Outside of Equity Incentive Plans

Warrants

The Company issued equity-classified warrants to purchase shares of common stock to certain third-party advisors, consultants, and financial institutions, which expire between November 2024 and September 2026. As of September 30, 2024 and December 31, 2023, 188,235 warrants were outstanding and exercisable with a weighted average exercise price of $7.57.

Employee Stock Purchase Plan

As of September 30, 2024, approximately 2,849,545 shares of Common Stock have been reserved for issuance under the Company's 2021 Employee Stock Purchase Plan (the "ESPP"), which is subject to annual automatic evergreen increases. There have been no shares purchased under the ESPP as it is not yet active.

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

15. Net Income (Loss) Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(Dollars in thousands)			
Numerator:				
Net income (loss) attributed to common stockholders - basic	$ 6,696	$ 508	$ (544)	$ 6,185
Adjustments related to convertible debt [(1)]	(6,173)	—	(4,834)	(14,588)
Net income (loss) attributable to common stockholders - diluted	$ 523	$ 508	$ (5,378)	$ (8,403)
Denominator:				
Basic weighted-average shares	49,325,518	50,881,194	49,171,414	51,178,127
Weighted-average dilutive share equivalents:				
Convertible debt	4,155,652	—	4,530,511	6,518,095
Restricted stock units	426,888	359,774	—	—
Diluted weighted-average shares	53,908,058	51,240,968	53,701,925	57,696,222
Net income (loss) per share:				
Basic	$ 0.14	$ 0.01	$ (0.01)	$ 0.12
Diluted	$ 0.01	$ 0.01	$ (0.10)	$ (0.15)

[(1)] The Company used the if-converted method to calculate the dilutive impact of the Convertible Notes, which assumes share settlement as of the beginning of the period if the effect is more dilutive than cash settlement.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Convertible debt	—	4,720,000	—	—
Options to purchase common stock	2,275,077	2,478,995	2,337,331	2,562,276
Warrants	188,235	188,235	188,235	188,235
Restricted stock units	794,716	1,511,114	3,854,406	3,158,901
Performance-based stock units	1,010,353	90,000	492,353	38,571
Total shares excluded from diluted loss per share	4,268,381	8,988,344	6,872,325	5,947,983

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

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

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

Business Overview

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

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

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

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

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

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

- Our revenue was $224.2 million in the three months ended September 30, 2024, compared to $230.0 million in the three months ended September 30, 2023, including net favorable foreign currency effects of approximately $1.3 million. Revenue for the nine months ended September 30, 2024 was $655.3 million, compared to $687.6 million for the nine months ended September 30, 2023.

- Our gross profit was $48.9 million and our gross margin was 21.8% for the three months ended September 30, 2024, compared to gross profit of $46.4 million and gross margin of 20.2% for the comparable period in 2023. Our gross profit was $136.0 million and our gross margin was 20.8% for the nine months ended September 30, 2024, compared to gross profit of $131.6 million and gross margin of 19.1% for the nine months ended September 30, 2023.

- Our Ex-TAC Gross Profit[(1)] was $59.7 million in the three months ended September 30, 2024, compared to $56.8 million in the three months ended September 30, 2023. Our Ex-TAC Gross Profit[(1)] was $167.8 million for the nine months ended September 30, 2024, compared to $163.6 million for the nine months ended September 30, 2023.

- Our net income was $6.7 million, or 13.7% of gross profit, in the three months ended September 30, 2024, compared to net income of $0.5 million, or 1.1% of gross profit, for the comparable period in 2023. For the nine months ended September 30, 2024, our net loss was $0.5 million, or (0.4)% of gross profit, compared to net income of $6.2 million, or 4.7% of gross profit, for the nine months ended September 30, 2023.

- Our Adjusted EBITDA[(1)] was $11.5 million for the three months ended September 30, 2024, compared to $10.3 million for the three months ended September 30, 2023. Adjusted EBITDA[(1)] was 19.3% and 18.1% of Ex-TAC Gross Profit[(1)] in the three months ended September 30, 2024 and 2023, respectively. Our Adjusted EBITDA[(1)] was $20.3 million for the nine months ended September 30, 2024, compared to $14.5 million for the nine months ended September 30, 2023. Adjusted EBITDA[(1)] was 12.1% and 8.8% of Ex-TAC Gross Profit[(1)] for the nine months ended September 30, 2024 and 2023, respectively.

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

Recent Developments

Repurchase of Outstanding Convertible Notes

On September 19, 2024, we repurchased the remaining $118.0 million aggregate principal amount of our 2.95% Convertible Senior Notes due 2026 (the “Convertible Notes”) out of the initially issued principal balance of $236.0 million via a privately negotiated repurchase agreement with Baupost Group Securities, L.L.C., the sole holder of the Convertible Notes, for approximately $109.7 million in cash, including accrued interest, representing a discount of approximately 7.5% to the principal amount of the repurchased notes. As a result, we recorded a pre-tax gain of approximately $8.8 million within gain on convertible debt in the Company’s consolidated statement of operations for the three and nine months ended September 30, 2024. Following the closing of the repurchase, the repurchased notes were cancelled by The Bank of New York Mellon (the “Trustee”), and there were no Convertible Notes outstanding as of September 30, 2024.

Share Purchase Agreement

On August 1, 2024, we entered into a definitive share purchase agreement (the “Agreement”) with Altice Teads S.A. (the “Seller” or “Altice”), a public limited liability company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg and the sole shareholder of Teads S.A., a public limited liability company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg (“Teads”), and Teads. Pursuant to the Agreement, we agreed to acquire all of the issued and outstanding share capital of Teads upon the terms and subject to the conditions set forth in the Agreement (the “Transaction”).

The Agreement provides for the following consideration to be paid to the Seller at closing of the Transaction (the “Closing”): (1) a cash payment of $725.0 million, subject to certain customary adjustments as set forth in the Agreement (the “Cash Consideration”), (2) 35.0 million newly issued shares of the Company’s common stock, par value $0.001 (the “Common Stock”; such newly issued shares of Common Stock, the “Consideration Common Stock”), and (3) 10.5 million newly issued shares of the Company’s Series A Convertible Preferred Stock, par value $0.001 (the “Series A Preferred Stock” and, together with the Consideration Common Stock, the “Consideration Stock”). Additionally, the Seller will be entitled to a deferred cash payment in an amount equal to $25.0 million payable in one or more installments subject to compliance with the financing covenants. Following the Closing, the Seller will own approximately 41% of the Company’s issued and outstanding shares of Common Stock, or 48% assuming conversion of the Series A Preferred Stock (based on the amount of issued and outstanding shares of Common Stock as of September 30, 2024).

Subject to certain conditions, either we or the Seller may terminate the Agreement if the Closing has not occurred by the date which is nine months after the date of the Agreement, which date may be extended for three additional periods of three months each if the reason for not closing is that the regulatory conditions have not been satisfied.

The Agreement contains customary representations, warranties and covenants for a transaction of this type. Closing under the Agreement is subject to customary conditions, including (1) approval of our stockholders to the issuance of the Consideration Stock in accordance with the rules and regulations of the Nasdaq Stock Market and our organizational documents (the “Stockholder Approval”), (2) the absence of any law or order issued by any governmental authority prohibiting or preventing the consummation of the Transaction, (3) obtaining certain regulatory approvals, including the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (4) subject to certain exceptions, the accuracy of the representations and warranties of, and compliance with covenants by, each of the parties to the Agreement, and (5) the absence of a Material Adverse Event (as defined in the Agreement).

See Notes 3 and 10 to the accompanying condensed consolidated financial statements for additional information on the Transaction.

Conditions in Israel

Many of our employees, including certain members of our management team and board of directors, operate from Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly affect our business and operations. In October 2023, Hamas terrorists infiltrated Israel’s southern border from the Gaza strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on the Israeli population and industrial centers located along Israel’s border with the Gaza strip and in other areas within the State of Israel. These attacks resulted in extensive deaths, injuries and the kidnapping of civilians and soldiers. In response, Israel’s security cabinet declared war against Hamas and a military campaign against this terrorist organization commenced in parallel to their continued rocket and terror attacks. In addition, since the commencement of these events, there have been continued hostilities along Israel’s northern border with Lebanon with the Hezbollah terror organization, along the Red Sea (a vital maritime route for international trade to Israel) with the Houthis of Yemen, and on other fronts, including with various rebel militia groups in Syria and Iraq. Israel has carried out a number of targeted strikes on sites belonging to these terror organizations, and in October 2024, Israel began limited ground operations against Hezbollah in Lebanon. In addition, Iran recently launched direct attacks on Israel involving hundreds of drones and missiles and has threatened to continue to attack Israel. Israel has responded by launching direct attacks against certain targets in Iran. These situations may escalate in the future into more violent events or greater regional conflict which may affect Israel and us.

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

We cannot attribute the impact of the current trends in advertising demand to any particular factor, including the conditions in Israel, and cannot predict the impact if the war continues or escalates further. See Item 1A “Risk Factors” included in our 2023 Form 10-K for more information regarding certain risks associated with the conditions in Israel.

Macroeconomic Environment

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

Factors Affecting Our Business

Retention and Growth of Relationships with Media Partners

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

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

We calculate media partner net revenue retention at the end of each quarter by starting with revenue generated on media partners' properties during the same period in the prior year, "Prior Period Retention Revenue." We then calculate the revenue generated on these same media partners' properties in the current period, "Current Period Retention Revenue." Current Period Retention Revenue reflects any expansions within the media partner relationships, such as any additional placements or properties on which we extend our recommendations, as well as contraction or attrition. Our media partner net revenue retention in a quarter equals the Current Period Retention Revenue divided by the Prior Period Retention Revenue. To calculate media partner net revenue retention for year-to-date and annual periods, we sum the quarterly Current Period Retention Revenue and divide it by the sum of the quarterly Prior Period Retention Revenue. These amounts exclude certain revenue adjustments and revenue recognized on a net basis. Our media partner net revenue retention was approximately 91% and 89%, respectively, for the three and nine months ended September 30, 2024.

Our growth also depends on our ability to secure partnerships with new media partners. New media partners are defined as those relationships in which revenue was not generated in the prior period, except for limited instances where residual revenue was generated on a media partner's properties. In such instances, the residual revenue would be excluded from net revenue retention above. Revenue generated on new media partners' properties contributed approximately 7% and 6%, respectively, to revenue growth for the three and nine months ended September 30, 2024.

Our growth depends on media partners' ability to drive traffic to their sites and generate page views. The proliferation of social media properties, streaming services and other platforms, as well as the adoption of AI have negatively impacted and may continue to negatively impact our media partners' growth.

User Engagement with Relevant Media and Advertising Content

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

Growth in attention and engagement is driven by several factors, including enhancements to our AI prediction technology, growth in the breadth and depth of our data assets, the size and quality of our content and advertising index, user engagement, new media partners, and expansion on existing media partners. As we grow attention and engagement, we are able to collect more data and continually improve our prediction engine — which drives better results for our advertiser and media owner partners. This growth "flywheel" can be measured by growth of the consumer data points we drive, such as click-through-rate ("CTR"). CTR improvements increase the number of clicks on our platform. We believe that we have a significant opportunity to further grow consumer engagement, and thus our business, as today CTR for ads on our platform is less than 1% of ads served. With the launch of Onyx, we have expanded the measurable consumer data points that fuel our prediction engine, expanding our ability to drive concrete business outcomes at each step of the marketing funnel. Our Onyx platform optimizes towards an accountable outcome: attention. Onyx enables advertisers to deliver concrete ROAS with their branding campaigns, by providing high audience attention and corresponding incremental outcomes as a result, rather than ad views alone.

Advertiser Retention and Growth

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

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

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

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

Expansion Into New Environments, New Experiences and New Ad Formats

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

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

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

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

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

Investment in Our Technology and Infrastructure

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

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

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

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

Industry Dynamics

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

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

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

Seasonality

The global advertising industry experiences seasonal trends that affect most participants in the digital advertising ecosystem. Our revenue generally fluctuates from quarter to quarter as a result of a variety of factors, including seasonality, as many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing, as well as the timing of advertising budget cycles. Historically, the fourth quarter of the year has reflected the highest levels of advertiser spending, and the first quarter generally has reflected the lowest level of advertiser spending.

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

Definitions of Financial and Performance Measures

Revenue

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

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

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

Traffic Acquisition Costs

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

Other Cost of Revenue

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

Operating Expenses

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

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

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

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

Other Income (Expense), Net

Other income (expense), net is comprised of gain on convertible debt, interest expense, and interest income and other income, net.

Gain on Convertible Debt. In April 2023, we repurchased $118.0 million of our Convertible Notes at a discount of approximately 19% of the principal amount and recorded a pre-tax gain of $22.6 million. In September 2024, we repurchased the remaining $118.0 million of our Convertible Notes at a discount of approximately 7.5% of the principal amount and recorded a pre-tax gain of $8.8 million.

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

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

Provision (Benefit) for Income Taxes

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

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

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Condensed Consolidated Statements of Operations:				
Revenue	$ 224,177	$ 230,015	$ 655,289	$ 687,589
Cost of revenue:				
Traffic acquisition costs	164,483	173,224	487,484	524,024
Other cost of revenue	10,825	10,401	31,765	31,999
Total cost of revenue	175,308	183,625	519,249	556,023
Gross profit	48,869	46,390	136,040	131,566
Operating expenses:				
Research and development	9,053	8,681	27,646	28,033
Sales and marketing	23,201	21,472	71,762	73,116
General and administrative	19,564	13,617	51,805	44,766
Total operating expenses	51,818	43,770	151,213	145,915
(Loss) income from operations	(2,949)	2,620	(15,173)	(14,349)
Other income (expense):				
Gain on convertible debt	8,782	—	8,782	22,594
Interest expense	(1,444)	(1,456)	(2,950)	(4,428)
Interest income and other income, net	3,536	358	7,687	5,733
Total other income (expense), net	10,874	(1,098)	13,519	23,899
Income (loss) before income taxes	7,925	1,522	(1,654)	9,550
Provision (benefit) for income taxes	1,229	1,014	(1,110)	3,365
Net income (loss)	$ 6,696	$ 508	$ (544)	$ 6,185
Other Financial Data:				
Research and development as % of revenue	4.0 %	3.8%	4.2 %	4.1%
Sales and marketing as % of revenue	10.3 %	9.3%	11.0 %	10.6%
General and administrative as % of revenue	8.7 %	5.9%	7.9 %	6.5%
Ex-TAC Gross Profit [1]	$ 59,694	$ 56,791	$ 167,805	$ 163,565
Adjusted EBITDA[1]	$ 11,531	$ 10,253	$ 20,337	$ 14,451

[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, 2024 Compared to Three Months Ended September 30, 2023

Revenue

Revenue decreased $5.8 million, or 2.5% , to $224.2 million for the three months ended September 30, 2024, from $230.0 million for the three months ended September 30, 2023. Revenue for the three months ended September 30, 2024 included net favorable foreign currency effects of approximately $1.3 million, and decreased $7.1 million, or 3.1%, on a constant currency basis, compared to the prior year period. Our reported revenue decline was primarily attributable to a decrease of approximately $21 million due to net revenue retention of approximately 91% on existing media partners, as we have experienced lower ad impressions from certain supply partners. This decrease was partially offset by growth of approximately 6.6%, or $15 million, from new media partners.

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 $8.7 million, or 5.0%, to $164.5 million for the three months ended September 30, 2024, compared to $173.2 million in the prior year period. Traffic acquisition costs included net unfavorable foreign currency effects of approximately $1.2 million, and decreased $9.9 million, or 5.7%, on a constant currency basis, compared to the prior year period. The decrease in traffic acquisition costs was primarily related to the decrease in our revenue, a net favorable change in our revenue mix, and improved performance from certain deals. As a percentage of revenue, traffic acquisition costs decreased 190 basis points to 73.4% for the three months ended September 30, 2024, from 75.3% for the three months ended September 30, 2023.

Other cost of revenue increased $0.4 million, or 4.1%, to $10.8 million for the three months ended September 30, 2024, compared to $10.4 million in the prior year period, primarily due to increased hosting costs. As a percentage of revenue, other cost of revenue increased to 4.8% for the three months ended September 30, 2024, from 4.5% for the three months ended September 30, 2023.

Gross profit increased $2.5 million, or 5.3%, to $48.9 million for the three months ended September 30, 2024, compared to $46.4 million for the three months ended September 30, 2023. This increase was largely attributable to lower traffic acquisition costs, partially offset by lower revenue, as previously described.

Ex-TAC Gross Profit

Our Ex-TAC Gross Profit increased $2.9 million, or 5.1%, to $59.7 million for the three months ended September 30, 2024, from $56.8 million for the three months ended September 30, 2023, as the impact of lower revenue was more than offset by the net favorable change in our revenue mix and improved performance from certain deals. See “Non-GAAP Reconciliations” for the related definition and reconciliations to our gross profit.

Operating Expenses

Operating expenses increased $8.0 million, or 18.4%, to $51.8 million for the three months ended September 30, 2024, from $43.8 million for the three months ended September 30, 2023, primarily attributable to acquisition-related costs of $5.6 million recorded during the three months ended September 30, 2024, and increased personnel-related costs of $3.0 million, offset in part by a $0.7 million reduction in our provision for credit losses.

The components of operating expenses are discussed below:

- ***Research and development expenses*** — increased $0.4 million, primarily due to higher personnel-related costs during the three months ended September 30, 2024, compared to the prior year period.
- ***Sales and marketing expenses*** — increased $1.7 million, primarily due to a $1.0 million increase in personnel-related costs, as well as higher marketing and advertising costs during the three months ended September 30, 2024, compared to the prior year period.
- ***General and administrative expenses*** — increased $5.9 million, primarily due to acquisition-related costs of $5.6 million recorded during the three months ended September 30, 2024 and increased personnel-related costs of $1.7 million, offset in part by a $0.7 million reduction in our provision for credit losses.

Operating expenses as a percentage of revenue increased 410 basis points to 23.1% for the three months ended September 30, 2024 from 19.0% for the three months ended September 30, 2023, primarily due to increased acquisition-related costs and lower revenue.

Total Other Income (Expense), Net

Total other income (expense), net, increased $12.0 million to $10.9 million for the three months ended September 30, 2024, compared to net expense of $1.1 million for the three months ended September 30, 2023. This increase was primarily driven by a pre-tax gain of approximately $8.8 million recorded during the three months ended September 30, 2024 in connection with our repurchase of the remaining Convertible Notes, a favorable change of $1.4 million in mark-to-market adjustments 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, and an increase of $1.4 million resulting from the remeasurement of transactions denominated in currencies other than the functional currencies.

Provision (Benefit) for Income Taxes

Provision for income taxes was $1.2 million for the three months ended September 30, 2024, and $1.0 million for the three months ended September 30, 2023. Our effective tax rate decreased to 15.5% in the three months ended September 30, 2024, compared to 66.6% in the three months ended September 30, 2023, primarily due to the favorable impact relating to our uncertain tax positions (including resolution of a tax audit), a change to our foreign-derived intangible income deduction, and the change in our valuation allowance, partially offset by the favorable return to provision adjustments, and certain non-deductible stock-based compensation and transaction costs.

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, excluding the impacts relating to the Convertible Debt repurchase and the Teads Transaction, we expect to pay higher cash taxes and expect our effective tax rate to be more favorably impacted by a deduction related to foreign-derived intangible income in 2024.

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

Net Income (Loss)

As a result of the foregoing, we recorded net income of $6.7 million for the three months ended September 30, 2024, as compared to net income of $0.5 million for the three months ended September 30, 2023.

Adjusted EBITDA

Our Adjusted EBITDA increased $1.2 million to $11.5 million for the three months ended September 30, 2024 from $10.3 million for the three months ended September 30, 2023, due to higher Ex-TAC Gross Profit, offset in part by higher operating expenses, as previously described. See “Non-GAAP Reconciliations” for the related definitions of Adjusted EBITDA and reconciliations to our net income (loss).

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023

Revenue

Revenue decreased $32.3 million, or 4.7%, to $655.3 million for the nine months ended September 30, 2024 from $687.6 million for the nine months ended September 30, 2023. Our reported revenue decreased approximately $72 million due to net revenue retention of approximately 89% on existing media partners, as we have experienced lower ad impressions from certain supply partners. This decrease was partially offset by growth of approximately 5.7%, or $39 million, from new media partners.

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 $36.5 million, or 7.0%, to $487.5 million for the nine months ended September 30, 2024, compared to $524.0 million in the prior year period. The decrease in traffic acquisition costs was primarily related to the decrease in our revenue, a net favorable change in our revenue mix and improved performance from certain deals. As a percentage of revenue, traffic acquisition costs decreased 180 basis points to 74.4% for the nine months ended September 30, 2024, from 76.2% for the nine months ended September 30, 2023.

Other cost of revenue decreased $0.2 million, or 0.7%, to $31.8 million for the nine months ended September 30, 2024, compared to $32.0 million in the prior year period, primarily due to lower server depreciation expense and network costs, partially offset by higher hosting costs. As a percentage of revenue, other cost of revenue increased to 4.8% for the nine months ended September 30, 2024, from 4.7% for the nine months ended September 30, 2023.

Gross profit increased $4.4 million, or 3.4%, to $136.0 million for the nine months ended September 30, 2024, compared to $131.6 million for the nine months ended September 30, 2023. This increase was largely attributable to lower traffic acquisition costs, partially offset by lower revenue, as previously described.

Ex-TAC Gross Profit

Our Ex-TAC Gross Profit increased $4.2 million, or 2.6%, to $167.8 million for the nine months ended September 30, 2024, from $163.6 million for the nine months ended September 30, 2023, as the impact of lower revenue was more than offset by the net favorable change in our revenue mix and improved performance from certain deals. See “Non-GAAP Reconciliations” for the related definition and reconciliations to our gross profit.

Operating Expenses

Operating expenses increased $5.3 million, or 3.6%, to $151.2 million for the nine months ended September 30, 2024, from $145.9 million for the nine months ended September 30, 2023. The reported increase in operating expenses was primarily attributable to higher professional fees of $7.8 million (including acquisition-related costs of $8.8 million recorded during the nine months ended September 30, 2024, offset in part by the absence of the prior period regulatory matter costs of $0.7 million). The increase in operating expenses was also driven by a $3.0 million increase in personnel-related costs largely driven by higher incentive-based compensation. These increases were partially offset by a lower provision for credit losses of $3.1 million and a $2.4 million decrease in severance and related costs.

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

- ***Research and development expenses*** — decreased $0.4 million, primarily due to a decrease in personnel-related costs, largely due to lower severance costs during the nine months ended September 30, 2024, compared to the prior year period.
- ***Sales and marketing expenses*** — decreased $1.3 million, primarily due to a $1.8 million decrease in personnel-related costs largely attributable to lower severance and related costs, partially offset by increased travel costs.
- ***General and administrative expenses*** — increased $7.0 million, primarily attributable to higher professional fees of $7.8 million (inclusive of acquisition-related costs of $8.8 million for the nine months ended September 30, 2024, offset in part by the absence of the prior period regulatory matter costs of $0.7 million), and higher personnel costs of $2.9 million largely driven by increased incentive-based compensation costs. These increases were partially offset by a $3.1 million decrease in the provision for credit losses, as well as lower insurance costs.

Operating expenses as a percentage of revenue increased 190 basis points to 23.1% for the nine months ended September 30, 2024 from 21.2% for the nine months ended September 30, 2023, primarily attributable to increased acquisition-related costs and lower revenue.

Total Other Income (Expense), Net

Total other income (expense), net decreased $10.4 million, to $13.5 million for the nine months ended September 30, 2024, from $23.9 million for the nine months ended September 30, 2023, primarily driven by a lower pre-tax gain of $13.8 million recorded during the nine months ended September 30, 2024, as compared to the prior year period, in connection with the repurchases of our Convertible Notes. This decrease was partially offset by an increase of $1.7 million resulting from the remeasurement of transactions denominated in currencies other than the functional currencies, as well as reduced interest expense of $1.5 million due to the lower outstanding principal balance of Convertible Notes.

Provision (Benefit) for Income Taxes

Benefit from income taxes was $1.1 million for the nine months ended September 30, 2024, compared to provision for income taxes of $3.4 million for the nine months ended September 30, 2023, primarily due to pre-tax loss during the nine months ended September 30, 2024, compared to pre-tax income in the prior year period. Our effective tax rate increased to 67.1% in the nine months ended September 30, 2024, compared to 35.2% in the nine months ended September 30, 2023, primarily due to the unfavorable impact of uncertain tax positions (including resolution of a tax audit) and the change in valuation allowance, partially offset by certain non-deductible stock-based compensation and transaction costs and the tax impact related to the profitability of non-U.S. jurisdictions.

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, excluding the impacts relating to the Convertible Debt repurchase and the Teads Transaction, we expect to pay higher cash taxes and expect our effective tax rate to be more favorably impacted by a deduction related to foreign-derived intangible income in 2024.

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

Net Income (Loss)

As a result of the foregoing, we recorded net loss of $0.5 million for the nine months ended September 30, 2024, as compared to net income of $6.2 million for the nine months ended September 30, 2023.

Adjusted EBITDA

Our Adjusted EBITDA increased $5.8 million to $20.3 million for the nine months ended September 30, 2024 from $14.5 million for the nine months ended September 30, 2023, primarily due to higher Ex-TAC Gross Profit and lower recurring operating expenses, as previously described. See “Non-GAAP Reconciliations” for the related definitions of Adjusted EBITDA and reconciliations to our net income (loss).

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 the 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 or net cash provided by (used in) operating activities presented in accordance with U.S. GAAP.

Ex-TAC Gross Profit

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Revenue	$ 224,177	$ 230,015	$ 655,289	$ 687,589
Traffic acquisition costs	(164,483)	(173,224)	(487,484)	(524,024)
Other cost of revenue	(10,825)	(10,401)	(31,765)	(31,999)
Gross profit	48,869	46,390	136,040	131,566
Other cost of revenue	10,825	10,401	31,765	31,999
Ex-TAC Gross Profit	$ 59,694	$ 56,791	$ 167,805	$ 163,565

Adjusted EBITDA

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Net income (loss)	$ 6,696	$ 508	$ (544)	$ 6,185
Gain on convertible debt	(8,782)	—	(8,782)	(22,594)
Interest expense	1,444	1,456	2,950	4,428
Interest income and other income, net	(3,536)	(358)	(7,687)	(5,733)
Provision (benefit) for income taxes	1,229	1,014	(1,110)	3,365
Depreciation and amortization	4,843	4,941	14,494	15,757
Stock-based compensation	4,052	3,046	11,487	9,153
Regulatory matter costs	—	(354)	—	742
Acquisition-related costs	5,585	—	8,787	—
Severance and related costs	—	—	742	3,148
Adjusted EBITDA	$ 11,531	$ 10,253	$ 20,337	$ 14,451
Net income (loss) as % of gross profit	13.7%	1.1%	(0.4)%	4.7%
Adjusted EBITDA as % of Ex-TAC Gross Profit	19.3%	18.1%	12.1%	8.8%

Free Cash Flow

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

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

	Nine Months Ended September 30,	
	2024	**2023**
	(In thousands)	
Net cash provided by (used in) operating activities	$ 25,898	$ (11,731)
Purchases of property and equipment	(4,668)	(7,870)
Capitalized software development costs	(7,592)	(7,864)
Free cash flow	$ 13,638	$ (27,465)

LIQUIDITY AND CAPITAL RESOURCES

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

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

In connection with entering into the definitive share purchase agreement to acquire all of the issued and outstanding share capital of Teads, as discussed in more detail under "Recent Developments - *Share Purchase Agreement*" and Notes 3 and 10 to the accompanying condensed consolidated financial statements, we entered into a debt commitment letter, dated August 1, 2024 (the "Commitment Letter"), with Goldman Sachs Bank USA, Jefferies Finance LLC and Mizuho Bank, LTD (collectively, the "Commitment Parties"), pursuant to which the Commitment Parties have committed to provide (i) a $100 million senior secured revolving credit facility (the "New Revolving Credit Facility") and (ii) a senior secured bridge facility in an aggregate principal amount of up to $750 million (the "Bridge Facility"). The Bridge Facility will be used to fund the cash consideration for the Transaction to pay fees and expenses related thereto. Additionally, a portion of the Revolving Credit Facility may be used to fund a portion of the cash consideration for the Transaction and to pay fees and expenses related thereto, and will otherwise be available, for working capital and general corporate purposes. The obligation of the Commitment Parties to provide the contemplated financings is subject to a number of customary conditions contained in the Commitment Letter, including the execution of definitive debt financing documentation contemplated by the Commitment Letter and the Transaction being consummated substantially contemporaneously with the initial funding of the Bridge Facility. We expect to replace the Bridge Facility with permanent financing, which we currently expect to include the issuance of debt securities or term loans.

Sources of Liquidity

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

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

As of September 30, 2024, our available liquidity was follows:

		September 30, 2024
		(In thousands)
Cash and cash equivalents [1]	$	57,061
Short-term investments		73,467
Revolving Credit Facility [2]		73,935
Total	$	204,463

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(1) As of September 30, 2024, approximately $27.2 million of our cash and cash equivalents was held outside of the United States by our non-U.S. subsidiaries. We currently do not have any plans to repatriate our earnings from our foreign subsidiaries. We intend to continue to reinvest our earnings from foreign operations for the foreseeable future, and do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

(2) Our Second Amended and Restated Loan and Security Agreement, as amended by the First Amendment thereto, with Silicon Valley Bank, a division of First Citizens Bank & Trust Company, provides, subject to borrowing availability and certain other conditions, for revolving loans in an aggregate principal amount of up to $75.0 million (the "Facility"), with a $15.0 million sub-facility for letters of credit. Our borrowing availability under the Facility is calculated by reference to a borrowing base which is determined by specified percentages of eligible accounts receivable, based on the defined borrowing formula. The Facility will terminate on November 2, 2026.

The Facility contains representations and warranties, including, without limitation, with respect to collateral; accounts receivable; financials; litigation, indictment and compliance with laws; disclosure and no material adverse effect, each of which is a condition to funding. Additionally, the Facility includes events of default and customary affirmative and negative covenants applicable to us and our subsidiaries, including, without limitation, restrictions on liens, indebtedness, investments, fundamental changes, dispositions, restricted payments, and prepayment of the Convertible Notes and of junior indebtedness. The Facility contains a financial covenant that requires, in the event that credit extensions under the Facility equal or exceed 85% of the lesser of the available commitments under the Facility or upon the occurrence of an event of default, our Company to maintain a minimum consolidated monthly fixed charge coverage ratio of 1.00. We were in compliance with all of the financial covenants under the Facility as of September 30, 2024 and December 31, 2023. See Note 10 to the accompanying condensed consolidated financial statements for additional information relating to the Facility.

Material Cash Requirements

As a general matter, our primary uses of liquidity are payments to our media partners, our operating expenses, capital expenditures, our long-term debt and the related interest payments, and repurchases under our $30 million share repurchase program. We may also use our available cash to make acquisition s, such as our pending acquisition of Teads, or investments in complementary companies or technologie s. We primarily use our operating cash for payments due to media partners and vendors, as well as for personnel costs, and other employee-related expenditures. Our contracts with media partners are generally variable based on volume or guarantee a minimum rate of payment if the media partner reaches certain performance targets. See "Definitions of Financial and Performance Measures —Traffic Acquisition Costs."

See above under "Recent Developments - Share Purchase Agreement" and below under Item 1A "Risk Factors" for information regarding cash requirements in connection with the pending Transaction with Teads.

Long-Term Debt

At December 31, 2023, we had $118.0 million principal amount of Convertible Notes outstanding, with a maturity on July 27, 2026, unless earlier converted, redeemed, or repurchased. As discussed above in "Recent Developments," on September 19, 2024, we repurchased $118.0 million aggregate principal amount of Convertible Notes out of the initially issued principal balance of $236.0 million, for approximately $109.7 million in cash, including accrued interest, representing a discount of approximately 7.5% to the principal amount of the repurchased notes. Following the closing of the repurchase, the repurchased notes were cancelled by the Trustee, and there were no Convertible Notes outstanding as of September 30, 2024.

See Note 10 to the accompanying condensed consolidated financial statements for additional information relating to our Convertible Notes.

Other Contractual Cash Obligations

As a result of our repurchase of the remaining Convertible Notes in September 2024, our remaining $118 million commitment relating to long-term debt has been extinguished. Accordingly, our interest obligations related to Convertible Notes of approximately $3.5 million per year through 2026 were eliminated.

On August 1, 2024, we entered into the Agreement with Altice to acquire all of the issued and outstanding share capital of Teads. The Company intends to fund the cash consideration for the Transaction, and pay related fees and expenses, with the net proceeds from permanent financing and cash on hand. See Notes 3 and 10 to the accompanying financial statements for additional information.

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

Share Repurchases

On December 14, 2022, our Board approved a new stock repurchase program, authorizing us to repurchase up to $30 million of our common stock, par value $0.001 per share, with no requirement to purchase any minimum number of shares. The manner, timing, and actual number of shares repurchased under the program will depend on a variety of factors, including price, general business and market conditions, and other investment opportunities. Shares may be repurchased through privately negotiated transactions or open market purchases, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The repurchase program may be commenced, suspended, or terminated at any time at our discretion without prior notice. During the nine months ended September 30, 2024 and 2023 we repurchased 1,410,001 shares and 2,544,173 shares, respectively, with a fair value of $5.8 million and $12.7 million, respectively, under our share repurchase program. As of September 30, 2024, the remaining availability under our $30 million share repurchase program was $6.6 million.

In addition, we periodically withhold shares to satisfy employee tax withholding obligations arising in connection with the vesting of restricted stock units and exercise of options and warrants in accordance with the terms of our equity incentive plans and the underlying award agreements. During the nine months ended September 30, 2024 and 2023, we withheld 123,903 shares and 128,043 shares, respectively, with a fair value of $0.5 million and $0.6 million, respectively, to satisfy the minimum employee tax withholding obligations.

Capital Expenditures

Our cash flow from investing activities primarily consists of capital expenditures and capitalized software development costs. We spent $4.7 million in capital expenditures during the nine months ended September 30, 2024. We currently anticipate that our capital expenditures will be between $7 million and $9 million in 2024, primarily relating to expenditures for servers and related equipment and other equipment. However, actual amounts may vary from these estimates.

Cash Flows

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

	Nine Months Ended September 30,	
	2024	**2023**
	(In thousands)	
Net cash provided by (used in) operating activities	$ 25,898	$ (11,731)
Net cash provided by investing activities	75,569	83,710
Net cash used in financing activities	(116,894)	(111,445)
Effect of exchange rate changes	2,034	(1,568)
Net decrease in cash, cash equivalents and restricted cash	$ (13,393)	$ (41,034)

Operating Activities

Net cash from operating activities increased $37.6 million, to net cash provided by operating activities of $25.9 million for the nine months ended September 30, 2024, as compared to net cash used in operating activities of $11.7 million for the nine months ended September 30, 2023. This increase was primarily driven by a $33.2 million favorable change in our working capital, largely attributable to lower accounts receivable and prepaid expenses due to faster cash collections and timing of payments. In addition, net income after non-cash adjustments increased $4.5 million during the nine months ended September 30, 2024, compared to the same prior year period.

Our free cash flow for the nine months ended September 30, 2024 was $13.6 million, as compared to use of cash of $27.5 million for the nine months ended September 30, 2023, primarily reflecting higher operating cash flow, as discussed above, as well as lower capital expenditures. Free cash flow is a supplemental non-GAAP financial measure. See “Non-GAAP Reconciliations” for the related definition and a reconciliation to net cash provided by operating activities.

Investing Activities

Net cash provided by investing activities decreased $8.1 million to $75.6 million in the nine months ended September 30, 2024, from $83.7 million in the nine months ended September 30, 2023. This decrease was primarily driven by lower net proceeds of $11.7 million from sales and maturities of marketable securities under our investment program (net of purchases), reflecting lower early redemptions of available-for-sale securities in connection with the repurchase of our Convertible Notes in September 2024, than in the prior year period. This decrease was partially offset by lower capital expenditures of $3.2 million during the nine months ended September 30, 2024, compared to the prior year period.

Financing Activities

Net cash used in financing activities increased $5.5 million to $116.9 million in the nine months ended September 30, 2024, from $111.4 million in the nine months ended September 30, 2023. This unfavorable change was primarily attributable to the $13.6 million increase in the repurchase price for the Convertible Notes repurchased in September 2024 than those repurchased in April 2023, partially offset by lower treasury share repurchases of $6.9 million and lower principal payments of $1.2 million due to finance lease expirations during the nine months ended September 30, 2024, compared to the prior year period.

Critical Accounting Policies and Estimates

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

There have been no material changes to our critical accounting policies and estimates as compared to those described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in our 2023 Form 10-K.

Recently Issued Accounting Pronouncements

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

JOBS Act Transition Period

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk

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

Changes in U.S. Dollar against the currencies of the countries in which we operate impact our operating results, as further described in Item 2, “Results of Operations.” The effect of a hypothetical 10% increase or decrease in our weighted-average exchange rates on our revenue, cost of revenue and operating expenses denominated in foreign currencies would result in a $3.4 million unfavorable or favorable change to our operating income for the three months ended September 30, 2024 and a $8.2 million unfavorable or favorable change to our operating income for the nine months ended September 30, 2024.

Interest Rate Risk

Our exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of the interest rates in the United States. Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents, investments and any future borrowings under the Facility. There have been no amounts outstanding under the Facility since we amended and restated our loan agreement in November 2021. Long-term debt recorded on our consolidated balance sheet as of December 31, 2023 was $118.0 million and bore a fixed rate of interest. There was no long-term debt outstanding as of September 30, 2024.

As of September 30, 2024, our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents of $57.1 million and our investments in marketable securities of $73.5 million under our investment program, which consist of U.S. Treasuries, U.S. government bonds, commercial paper, U.S. corporate bonds and municipal bonds, all maturing within one year. 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, 2024 would change the fair value of our investment portfolio by approximately $0.3 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 loss within stockholders’ equity in our condensed consolidated balance sheets.

Inflation Risk

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

Credit Risk

Financial instruments that subject us to concentration of credit risk are cash and cash equivalents, investments and receivables. As part of our ongoing procedures, we monitor the credit levels and the financial condition of our customers in order to minimize our credit risk and require certain customers with higher potential credit risk to prepay for their campaigns. See Item 1A, “Risk Factors” in our 2023 Form 10-K u nder “*We are subject to payment-related risks that may adversely affect our business, working capital, financial condition and results of operations.”* We do not factor our accounts receivables, nor do we maintain credit insurance to manage the risk of credit loss. We are also exposed to a risk that the counterparty to our foreign currency forward exchange contracts will fail to meet its contractual obligations. In order to mitigate this risk, we perform an evaluation of our counterparty credit risk and our forward contracts have a term of no more than 18 months.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act), as of September 30, 2024. Based on such evaluation, our CEO and CFO have concluded that as of September 30, 2024, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the three months ended September 30, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Part II Other Information

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 12 in the accompanying notes to the condensed consolidated financial statements included in Part I, Item 1 “Financial Statements” of this Report, under “Legal Proceedings and Other Matters,” which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in Item 1A of Part I of the Company’s 2023 Form 10-K, as updated in Item1A of Part II of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, and in the section entitled “Risk Factors” in our definitive proxy statement filed with the SEC on October 31, 2024, each of which are incorporated herein by reference.

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

Purchases of Equity Securities by the Issuer

On December 14, 2022, our Board approved a share repurchase program authorizing us to repurchase up to $30 million of our common stock, with no requirement to purchase any minimum number of shares. The manner, timing, and actual number of shares repurchased under the program will depend on a variety of factors, including price, general business and market conditions, and other investment opportunities. Shares may be repurchased through privately negotiated transactions or open market purchases, including through the use of trading plans intended to qualify under Rule 10b5-1 under the 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, 2024:

Period	(a) Total number of shares (or units) purchased [1]	(b) Average price paid per share (or unit) [2]	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)[2]
July 2024	16,594	$4.67	—	$6,615
August 2024	1,479	$4.84	—	$6,615
September 2024	21,250	$4.80	—	$6,615
TOTAL	39,323	$4.75	—	

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

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

Item 5. Other Information.

(a) *Amended and Restated Employment Agreements*

On November 7, 2024, Outbrain Inc., a Delaware corporation (the “Company”), entered into an amended and restated Executive Employment Agreement (“Amended Agreement”) with Jason Kiviat. Mr. Kiviat’s original employment agreement, dated August 3, 2022, was amended to increase his severance entitlement from six (6) months to twelve (12) months of base salary payable in lump sum following a termination by the Company without cause or resignation for good reason either during or outside of the change in control period (“qualifying termination”). Additionally, in the Amended Agreement, the Executive agreed to abide by the non-competition covenant for nine (9) months following termination of employment, an increase from six (6) months.

Both the Amended Agreement, as well as the Executive Employment Agreement between the Company and David Kostman (the "Amended Agreements"), were also amended to incorporate language in the confidentiality provision and form of release regarding whistleblower activities.

The foregoing summary does not purport to be complete and is qualified in its entirety by the full text of the Amended Agreements, copies of which will be filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2024 ("2024 Form 10-K").

Transition Services Agreement with Yaron Galai

On November 7, 2024, Yaron Galai, the Company's Chairman of the Board of Directors, entered into a Transition Services Agreement (the "TSA") with the Company outlining the terms of his employment in his role as an advisor from April 1, 2024 (the "Transition Date") through December 31, 2024 ("Separation Date"). The TSA, which supersedes Mr. Galai's Executive Employment Agreement with the Company, dated July 19, 2021, provides for the continuation of his base salary at the rate in effect prior to the Transition Date, his continued participation in the annual bonus program at a reduced target annual bonus of 50% of his base salary effective upon the Transition Date, and the continuation of health plan benefits during his service as an advisor. Upon Mr. Galai's separation from employment with the Company, he will be entitled to an additional twelve months' continuation of health plan benefits at the same cost to him as prior to his termination. Prior to the Separation Date, Mr. Galai is not entitled to receive equity awards.

Upon termination without Cause (as defined in the TSA) or due to death or disability prior to the Separation Date, Mr. Galai will continue to be entitled to the compensation and benefits provided for under the TSA until the Separation Date, and the portion of his outstanding restricted stock unit and stock option awards that would have vested on or before the Separation Date will vest immediately upon such termination.

The foregoing summary does not purport to be complete and is qualified in its entirety by the full text of the TSA, a copy of which will be filed with the Company's 2024 Form 10-K.

(b) None.

(c) During the three months ended September 30, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction, or written plan for the purchase or sale of Company securities intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

EXHIBIT INDEX

Exhibit No.	Description
2.1 [(1)]	Share repurchase agreement, dated August 1, 2024, by and among Outbrain Inc., Altice Teads S.A. and Teads S.A., including the forms of Certificate of Designation, Stockholders Agreement and Registration Rights Agreement (incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q filed with the SEC on August 8, 2024)
10.1	Stockholder Support Agreement, dated August 1, 2024, by and among Viola Ventures III, L.P. and Yaron Galai, Outbrain Inc. and Altice Teads S.A. (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q filed with the SEC on August 8, 2024)
10.2 [(1)]	Commitment Letter, dated August 1, 2024, by and among Outbrain Inc., Goldman Sachs Bank USA, Jefferies Finance LLC and Mizuho Bank LTD. (incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q filed with the SEC on August 8, 2024).
10.3*	Note Repurchase Agreement, dates as of September 18, 2024 between Outbrain Inc. and Baupost Securities Group, L.L.C.
31.1*	Certification of Principal Executive Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant To Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*v	Certification of the Principal Executive Officer and Principal Financial Officer Pursuant To 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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.

(1) Schedules and certain exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted attachment to the SEC on a confidential basis upon request.

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 7, 2024.

OUTBRAIN INC.

By: /s/ David Kostman

Name: David Kostman

Title: *Chief Executive Officer*

By: /s/ Jason Kiviat

Name: Jason Kiviat

Title: *Chief Financial Officer*

NOTE REPURCHASE AGREEMENT

This Note Repurchase Agreement (this "Agreement") is made as of September 18, 2024 by and between Outbrain Inc. ("Outbrain" or "Buyer") and Baupost Group Securities, L.L.C. ("Seller"). Buyer and Seller are collectively referred to herein as the "Parties" and each individually, a "Party."

RECITALS

WHEREAS, Buyer has issued and outstanding $118,000,000 aggregate principal amount of 2.95% Convertible Senior Notes due 2026, with CUSIP No. 69002R AB9 and ISIN No. US69002RAB96 (the "Notes") that were issued under the Indenture, dated as of July 27, 2021 (the "Indenture"), between Buyer, as issuer (the "Issuer") and The Bank of New York Mellon, as trustee (the "Trustee");

WHEREAS, Seller is the legal owner of all of the Notes in the principal amount of $118,000,000. Seller desires to sell all such Notes, with a principal amount of $118,000,000 (as referenced herein subject to sale, the "Seller's Notes");

WHEREAS, Seller has provided Buyer with an offer to sell the Seller's Notes and subject to the terms and conditions of this Agreement, Seller desires to sell to Buyer, and Buyer desires to purchase from Seller, all of such Seller's Notes at the purchase price set forth herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements of the Parties contained herein, the Parties agree as follows:

1. Purchase and Sale of the Seller's Notes.

(a) *Agreement to Purchase and Sell; Purchase Price.* Subject to the terms and conditions set forth herein, Seller hereby agrees to sell and Buyer hereby agrees to purchase from Seller, all of the Seller's Notes at a purchase price equal to $0.930 per $1.000 principal amount of Seller's Notes purchased (the "Purchase Price"). For the avoidance of doubt, as long as the Closing (as defined below) occurs on or before September 20, 2024, the Purchase Price above already includes any accrued and unpaid interest on the Seller's Notes purchased, to but not including, the Closing Date (as defined below).

(b) *Closing Date.* The purchase and sale of the Seller's Notes pursuant to this Agreement (the "Closing") shall occur at 10:00 a.m., New York City time on September 19, 2024, or such other date as shall be mutually agreed by the Parties prior to the Termination Date (the "Closing Date").

(c) *Delivery of the Seller's Notes.* On the Closing Date and subject to the satisfaction of the conditions set forth herein, Seller shall deliver the Seller's Notes to Buyer (or, at the Buyer's direction, to an account established by the Buyer or Issuer with the Trustee) through the Deposit/Withdrawal at Custodian (DWAC) program of the Depository Trust Company ("DTC").

(d) *Payment of the Purchase Price.* On the Closing Date and subject to the satisfaction of the conditions set forth herein, payment by the Buyer of the Purchase Price for the Seller's Notes shall be made or caused to be made by the Buyer, via wire transfer of immediately available funds to the Seller's bank or brokerage account in accordance with the Seller's wire instructions set forth on Schedule I.

(e) *Expenses*. Each Party will be responsible for its own out-of-pocket expenses and fees actually incurred or accrued by it in connection with the preparation, execution and performance of this Agreement and the transactions contemplated by this Agreement, including all fees and expenses of its counsel and other representatives.

2. Representations, Warranties and Agreements of Seller. Seller hereby represents and warrants to, and agrees with, Buyer as of the date hereof and as of the Closing (as if such representations, warranties and agreements were made at Closing) as follows:

(a) Seller has full power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Seller of this Agreement has received all requisite corporate, partnership or other organizational approvals, as the case may be, and no other action or proceeding on Seller's part is necessary to authorize the execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated hereby.

(b) Seller has duly executed and delivered this Agreement.

(c) This Agreement constitutes a legal, valid and binding obligation of Seller, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws in effect which affect the enforcement of creditors' rights generally and by equitable limitations on the availability of specific remedies whether in law or in equity.

(d) As of the date hereof, Seller has good and marketable title to, and is the sole legal and beneficial owner of, and on the Closing Date until delivery thereof to Buyer, Seller will continue to have good and marketable title to, and be the sole legal and beneficial owner of, the Seller's Notes in the principal amount set forth above, free and clear of all liabilities, claims, liens, options, proxies, charges, participations and encumbrances of any kind or character whatsoever, arising out of any act of Seller or otherwise.

(e) Seller has not used any broker or finder in connection with the transactions contemplated hereby and Buyer will not have any liability or otherwise suffer or incur any loss as a result of or in connection with any brokerage or finder's fee or other commission of any Person retained by Seller in connection with the transactions contemplated by this Agreement.

(f) Seller has made its own independent assessment concerning the relevant tax, legal, economic and other considerations relevant to its sale of the Seller's Notes. Seller has made its own investment decision based upon its own judgment and upon any advice from any advisors as it has deemed necessary or desirable in connection with its decision to sell the

Seller’s Notes and not upon any view expressed by Buyer or any of Buyer’s advisors, agents or representatives.

(g) The Purchase Price has been negotiated between Seller and Buyer on an arm’s length basis, and Seller has not been subjected to any form of pressure, coercion or intimidation, for it to sell the Seller’s Notes to Buyer.

(h) Seller is a “Qualified Institutional Buyer” as defined under Rule 144A of the Securities Act of 1933, as amended (the “Securities Act”). Seller is a sophisticated, experienced and well-informed institutional investor and has knowledge and experience in financial and business matters as to be capable of evaluating the merits, risks and advisability of the transactions contemplated by this Agreement. Seller understands the merits and economic risks associated with the sale of the Seller’s Notes under this Agreement and is entering into this Agreement with a full understanding of the terms under this Agreement and such merits and economics risk.

(i) Seller acknowledges and understands that Buyer possess material nonpublic information regarding the Buyer not known to Seller that may impact the value of the Notes or the Seller’s Notes, which information includes, but is not limited to, (x) trends, predictions and forecasts of the Buyer’s future financial results and prospects, and (y) possible acquisitions, dispositions, financings and other transactions (collectively, the “Confidential Information”), and that the Buyer is unable to and will not, disclose the Confidential Information to Seller, consistent with the federal securities laws. Seller understands, based on its financial sophistication and experience, the disadvantage to which Seller is subject due to the disparity of information between Seller and Buyer. Notwithstanding such disparity, Seller desires and deems it appropriate to consummate the transactions contemplated by this Agreement.

(j) Seller agrees that none of Buyer, its affiliates, principals, officers, directors, stockholders, partners, employees and agents shall have any liability to Seller, its affiliates, principals, officers, directors, stockholders, partners, employees or agents whatsoever due to or in connection with Buyer’s use or non-disclosure of the Confidential Information in connection with the transaction, and Seller hereby irrevocably waives any claim that it might have based on the failure of the Buyer to disclose the Confidential Information.

(k) Seller acknowledges that Buyer is relying on Seller’s representations, warranties, acknowledgments and agreements in this Agreement as a condition to proceeding with the transactions contemplated by this Agreement.

3. Representations, Warranties and Agreements of Buyer. Buyer hereby represents and warrants to, and agrees with, Seller as of the date hereof and as of the Closing (as if such representations, warranties and agreements were made at Closing) as follows:

(a) Buyer has full power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Buyer of this Agreement have received all requisite company approvals and no other action or proceeding on Buyer's part, or any other party, are necessary to authorize this Agreement and the transactions contemplated hereby.

(b) Buyer has duly and validly executed and delivered this Agreement.

(c) This Agreement constitutes a legal, valid and binding obligation of Buyer, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws in effect which affect the enforcement of creditors' rights generally and by equitable limitations on the availability of specific remedies whether in law or in equity.

(d) Buyer has not used any broker or finder in connection with the transactions contemplated hereby and Seller will not have any liability or otherwise suffer or incur any loss as a result of or in connection with any brokerage or finder's fee or other commission of any Person retained by Buyer in connection with the transactions contemplated by this Agreement.

(e) The execution, delivery and performance, as applicable, by the Buyer of its obligations under this Agreement, and the consummation of the transactions contemplated hereby, will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, impose any lien, charge or encumbrance upon any property or assets of Buyer or its subsidiaries, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, license, lease or other agreement or instrument to which Buyer or any of its subsidiaries is a party or by which Buyer or any of its subsidiaries is bound or to which any of the property or assets of Buyer or any of its subsidiaries is subject, (ii) result in any violation of the provisions of the certificate of incorporation, charter, by-laws or similar organizational documents of Buyer or (iii) result in any violation of any statute or any judgment, order, decree, rule or regulation of any court or arbitrator or U.S. federal, state, local or non-U.S. governmental agency or regulatory authority having jurisdiction over the properties or assets of Buyer or any of its subsidiaries or any of their properties or assets, except, with respect to clauses (i) and (iii), conflicts, breaches, violations, impositions or defaults that would not reasonably be expected to have a material adverse effect on the ability of Buyer to perform its obligations under this Agreement. The execution, delivery and performance by the Buyer of this Agreement and the consummation of the transactions contemplated hereby will not require any consent, approval, authorization or other order of, or qualification with, any court or governmental body or agency.

4. *Further Assurances*. After the date hereof, each Party agrees to proceed diligently and in good faith to take, or cause to be taken, all commercially reasonable actions necessary, proper or advisable or as may be reasonably requested by another Party hereto from time to time in order to fully effect and accomplish the transactions contemplated in this Agreement and the intent of this Agreement.

5. *Governing Law*. This Agreement is governed by and construed in accordance with the laws of the State of New York applicable to contracts made between residents of that state, entered into and to be wholly performed within that state, without reference to any conflict of laws principles that would permit or require the application of the laws of any other jurisdiction.

6. *No Waiver.* A Party's failure or delay in exercising any rights hereunder does not operate as a waiver thereof, nor does a Party's partial exercise preclude any other or further exercise of any such rights.

7. *Assignment.* This Agreement is binding upon each of the Parties and their respective, successors and assigns, provided that no Party may assign any of its rights or obligations hereunder to any third party without the prior written consent of Buyer, in the case of an assignment by Seller, and Seller, with respect to an assignment by Buyer. Any attempted assignment by a Party without such consent is null and void.

8. *Counterparts.* This Agreement may be executed in multiple counterparts, each of which taken together constitutes one agreement. This Agreement is effective when it has been executed and delivered by all Parties.

9. *No Third Party Beneficiaries*. No provision of this Agreement is intended or shall be construed to confer upon or give any person or entity, other than the Parties hereto and their respective assigns, any rights or remedies under this Agreement.

10. *Amendment.* No modifications or amendments to this Agreement are binding on the Parties unless and until such modifications or amendments are executed in writing by an authorized representative of each Party.

11. *Venue; Waiver of Jury Trial*. Each Party hereby submits to the exclusive jurisdiction of the U.S. federal and New York state courts in the Borough of Manhattan in The City of New York in any proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. Each Party hereby waives any objection which it may now or hereafter have to the laying of venue of any such proceeding in such courts. Each Party hereby waives any right to trial by jury in any proceeding arising out of or relating to this Agreement.

12. *Survival of Representations and Warranties*. All representations and warranties under this Agreement made by each Party shall survive, and not be waived by, the performance or termination of this Agreement.

13. *Entire Agreement*. This Agreement supersedes all prior negotiations, understandings and agreements among the Parties relating to the subject matter hereof and constitutes the entire understanding and agreement among the Parties with respect to the same.

14. *Termination*. Notwithstanding any other provision hereof to the contrary, if the Closing has not occurred by September 23, 2024 (the "<u>Termination Date</u>"), then, unless otherwise mutually agreed to by the parties to this Agreement, the nonbreaching party shall have the option to terminate this Agreement with respect to the breaching party at the close of business on such date by delivering a written notice to that effect to the other party to this Agreement. To the extent this Agreement is terminated pursuant to this Section 14, the Buyer shall promptly return any Seller's Notes to the Seller, and the Seller shall promptly return to the Buyer the Purchase Price received by the Seller from the Buyer corresponding to such Seller's Notes.

15. *Conditions to Closing*. The obligations of the Seller to deliver the Seller's Notes, and of the Buyer to deliver the Purchase Price, are subject to the satisfaction at or prior to the Closing of the condition precedent (i) that the representations and warranties of the Seller on the one hand, and of the Buyer on the other, contained in Sections 2 and 3, respectively, shall be true and correct as of the Closing in all material respects with the same effect as though such representations and warranties had been made as of the Closing and (ii) the Seller on the one hand, and the Buyer on the other, shall have performed and complied with all the agreements and satisfied all the conditions on their part to be performed or satisfied pursuant to this Agreement at or prior to the Closing Date, in each case, in all material respects.

[*The remainder of this page is intentionally left blank*]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first above written.

BUYER:

OUTBRAIN INC.

By /s/ David Kostman
Name: David Kostman
Title: Chief Executive Officer

SELLER:

BAUPOST GROUP SECURITIES, L.L.C.

By: /s/ Michael M. Sperling
Name: Michael M. Sperling
Title: Partner

[Signature Page to Note Repurchase Agreement]

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

Date: November 7, 2024

By: /s/ David Kostman

Name: David Kostman

Title: Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

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

I, Jason Kiviat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Outbrain Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2024

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

Exhibit 32.1

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

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

1. The Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2024

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

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