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

FORM 10-Q

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from _____________ to _____________

Commission File Number: 001-40557

INTEGRAL AD SCIENCE HOLDING CORP.
(Exact name of registrant as specified in its charter)

Delaware	**83-0731995**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**
12 E 49th Street, 20th Floor New York, NY	**10017**
(Address of principal executive offices, including zip code)	**(Zip Code)**

(646) 278-4871
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report.)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	IAS	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

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

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

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

Large accelerated filer	☒	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 ☒

On May 6, 2024, the Registrant had 160,543,505 shares of common stock, $0.001 par value, outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRAL AD SCIENCE HOLDING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(IN THOUSANDS, EXCEPT SHARE DATA)	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83,947	$ 124,759
Restricted cash	298	54
Accounts receivable, net	67,764	74,609
Unbilled receivables	43,198	46,548
Prepaid expenses and other current assets	32,468	18,959
Total current assets	227,675	264,929
Property and equipment, net	4,088	3,769
Internal use software, net	43,729	40,301
Intangible assets, net	169,316	178,908
Goodwill	674,454	675,282
Operating lease right-of-use assets	19,766	21,668
Deferred tax asset, net	2,433	2,465
Other long-term assets	4,361	4,402
Total assets	$ 1,145,822	$ 1,191,724
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 42,176	$ 72,232
Operating lease liabilities, current	9,119	9,435
Due to related party	83	121
Deferred revenue	1,318	682
Total current liabilities	52,696	82,470
Deferred tax liability, net	20,330	20,367
Long-term debt	123,841	153,725
Operating lease liabilities, non-current	17,707	19,523
Other long-term liabilities	6,172	6,183
Total liabilities	220,746	282,268
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Preferred Stock, $0.001 par value, 50,000,000 shares authorized at March 31, 2024; 0 shares issued and outstanding at March 31, 2024 and December 31, 2023.	—	—
Common Stock, $0.001 par value, 500,000,000 shares authorized, 159,761,454 and 158,757,620 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively.	160	159
Additional paid-in-capital	919,192	901,259
Accumulated other comprehensive loss	(1,975)	(916)
Retained earnings	7,699	8,954
Total stockholders' equity	925,076	909,456
Total liabilities and stockholders' equity	$ 1,145,822	$ 1,191,724

See notes to the unaudited condensed consolidated financial statements.

INTEGRAL AD SCIENCE HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)

	Three Months Ended March 31,	
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)	**2024**	**2023**
Revenue	$ 114,530	$ 106,092
Operating expenses:		
Cost of revenue (excluding depreciation and amortization shown below)	26,161	21,682
Sales and marketing	31,825	26,260
Technology and development	17,978	15,529
General and administrative	21,380	20,723
Depreciation and amortization	15,080	12,825
Foreign exchange loss (gain), net	1,569	(516)
Total operating expenses	113,993	96,503
Operating income	537	9,589
Interest expense, net	(1,926)	(3,417)
Net (loss) income before income taxes	(1,389)	6,172
Benefit (provision) from income taxes	134	(3,026)
Net (loss) income	$ (1,255)	$ 3,146
Net (loss) income per share – basic and diluted:	$ (0.01)	$ 0.02
Weighted average shares outstanding:		
Basic	159,385,167	154,315,219
Diluted	159,385,167	157,884,615
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(1,059)	1,149
Total comprehensive (loss) income	$ (2,314)	$ 4,295

See notes to the unaudited condensed consolidated financial statements.

INTEGRAL AD SCIENCE HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

Three Months Ended March 31, 2024

	Common Stock					
(IN THOUSANDS, EXCEPT SHARES)	Shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance, December 31, 2023	158,757,620	$ 159	$ 901,259	$ (916)	$ 8,954	$ 909,456
RSUs and MSUs vested	806,546	1	—	—	—	1
Option exercises	44,049	—	313	—	—	313
ESPP purchase	153,239	—	1,895	—	—	1,895
Stock-based compensation	—	—	15,725	—	—	15,725
Foreign currency translation adjustment	—	—	—	(1,059)	—	(1,059)
Net loss	—	—	—	—	(1,255)	(1,255)
Balance, Balance, March 31, 2024	159,761,454	$ 160	$ 919,192	$ (1,975)	$ 7,699	$ 925,076

Three Months Ended March 31, 2023

	Common Stock					
(IN THOUSANDS, EXCEPT SHARES)	Shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance, December 31, 2022	153,990,128	$ 154	$ 810,186	$ (2,899)	$ 775	$ 808,216
RSUs vested	371,740	—	—	—	—	—
Option exercises	338,949	—	2,115	—	—	2,115
ESPP purchase	111,163	—	882	—	—	882
Stock-based compensation	—	—	11,315	—	—	11,315
Foreign currency translation adjustment	—	—	—	1,149	—	1,149
Adoption of ASC 326, net of tax	—	—	—	—	941	941
Net income	—	—	—	—	3,146	3,146
Balance, March 31, 2023	154,811,980	$ 154	$ 824,498	$ (1,750)	$ 4,862	$ 827,764

See notes to the unaudited condensed consolidated financial statements.

INTEGRAL AD SCIENCE HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
(IN THOUSANDS)	**2024**	**2023**
Cash flows from operating activities:		
Net (loss) income	$ (1,255)	$ 3,146
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	15,080	12,825
Stock-based compensation	15,738	11,306
Foreign currency loss (gain), net	1,395	(678)
Deferred tax benefit	(5)	(2,767)
Amortization of debt issuance costs	116	116
(Reversal of) allowance for credit losses	(188)	514
Changes in operating assets and liabilities:		
Decrease in accounts receivable	6,436	6,642
Decrease in unbilled receivables	3,167	1,292
(Increase) decrease in prepaid expenses and other current assets	(13,759)	3,063
(Increase) decrease in operating leases, net	(202)	20
Decrease (increase) in other long-term assets	19	(19)
Decrease in accounts payable and accrued expenses and other long-term liabilities	(28,278)	(13,073)
Increase in deferred revenue	644	522
(Decrease) increase in due to/from related party	(39)	47
Net cash (used in) provided by operating activities	(1,131)	22,956
Cash flows from investing activities:		
Purchase of property and equipment	(1,128)	(1,282)
Acquisition and development of internal use software and other	(9,163)	(7,060)
Net cash used in investing activities	(10,291)	(8,342)
Cash flows from financing activities:		
Proceeds from the Revolver	—	75,000
Repayment of long-term debt	(30,000)	(85,000)
Proceeds from exercise of stock options	313	2,115
Cash received from Employee Stock Purchase Program	1,393	787
Net cash used in financing activities	(28,294)	(7,098)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(39,716)	7,516
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(847)	305
Cash, cash equivalents and restricted cash at beginning of period	127,290	89,671
Cash, cash equivalents and restricted cash at end of period	$ 86,727	$ 97,492
Supplemental Disclosures:		
Net cash paid during the period for:		
Interest	$ 1,879	$ 3,004
Taxes	$ 268	$ 935
Non-cash investing and financing activities:		
Property and equipment acquired included in accounts payable	$ 2	$ 433
Internal use software acquired included in accounts payable	$ 573	$ 1,309
Lease liabilities arising from right of use assets	$ 189	$ —

See notes to the unaudited condensed consolidated financial statements.

INTEGRAL AD SCIENCE HOLDING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

1. Description of business

Integral Ad Science Holding Corp. and its wholly-owned subsidiaries (together, the “Company” or "IAS"), is a leading global digital advertising verification company by revenue. The Company’s mission is to be the global benchmark for trust and transparency in digital media quality for the world’s leading brands, publishers, and platforms. The Company’s cloud-based technology platform provides actionable insights and delivers independent measurement and verification of digital advertising across all devices, channels, and formats, including desktop, mobile, connected TV (“CTV”), social, display, and video. The Company’s proprietary and Media Rating Council (the "MRC") accredited Quality Impressions® metric is designed to verify that digital ads are served to a real person rather than a bot, in a brand-safe and suitable environment within the correct geography. The Company is an independent, trusted partner for buyers and sellers of digital advertising to increase accountability, transparency, and effectiveness in the market. The Company helps advertisers optimize their ad spend and better measure consumer engagement with campaigns across platforms, while enabling publishers to improve their inventory yield and revenue.

The Company operates within the United States ("U.S.") in New York, California, and Illinois. Operations outside the U.S. include but are not limited to countries such as the United Kingdom ("U.K."), Ireland, France, Germany, Spain, Italy, Singapore, Australia, Japan, India, and the Nordics.

2. Basis of presentation and summary of significant accounting policies

This summary of significant accounting policies is presented to assist in understanding the Company’s condensed consolidated financial statements. These accounting policies have been consistently applied in the preparation of the condensed consolidated financial statements.

(a) Basis of presentation

The Company’s condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and reflect the financial position, results of operations and cash flows for all periods presented. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP.

The accompanying interim Condensed Consolidated Balance Sheets as of March 31, 2024, the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, of Cash Flows and of Changes in Stockholders’ Equity for the three months ended March 31, 2024 and 2023, and the related footnote disclosures are unaudited. These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in management’s opinion, include all adjustments necessary to state fairly the consolidated financial position of the Company. All adjustments made were of a normal recurring nature. The results for the three months ended March 31, 2024 are not necessarily indicative of the results to be expected for the year ending December 31, 2024, or for any future period.

The Company’s significant accounting policies are discussed in Note 2 to the consolidated financial statements 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 (“SEC”) on February 27, 2024 (the "2023 Form 10-K") and these unaudited condensed consolidated financial statements should be read in conjunction with the 2023 Form 10-K.

During Q1, 2024, the Company identified an immaterial error in its previously issued unaudited condensed consolidated financial statements for the three months ended March 31, 2023, six months ended June 30, 2023 and nine months ended September 30, 2023. Specifically, lease liabilities arising from right of use assets within the non-cash investing and financing supplemental disclosure included all leases rather than leases arising during the noted period. We have revised the March 31, 2023 disclosure from $28.1 million to $0 to reflect the activity during that period. We will revise the six months ended June 30, 2023 disclosure from $30.4 million to $3.9 million and the nine months ended September 30, 2023 disclosure from $29.3 million to $4.9 million in our Form 10-Qs for the quarters ended June 30, 2024 and September 30, 2024, respectively, to be filed later this year. These revisions did not impact any other amounts presented in the condensed consolidated financial statements.

(b) Basis of consolidation

The condensed consolidated financial statements include the accounts of Integral Ad Science Holding Corp. and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include fair value of assets acquired in business combinations, including assumptions with respect to future cash inflows and outflows, discount rates, assets useful lives, market multiples, the allocation of purchase price consideration in the business combination valuation of acquired assets and liabilities, the estimated useful lives of intangible assets and internal use software, the allowance for credit losses, goodwill impairment testing, assumptions used to calculate equity-based compensation, and the realization of deferred tax assets. The Company bases its estimates on past experience, market conditions, and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis. Actual results may differ from these estimates due to risks and uncertainties, including the continued uncertainty surrounding rapidly changing market and economic conditions due to high inflation, changes to fiscal and monetary policy, high interest rates, currency fluctuations, instability in the financial markets and disruptions in European economies as a result of the war in Ukraine and other geopolitical issues.

(d) Foreign currency

The reporting currency of the Company is the U.S. dollar. The functional currency of our foreign subsidiaries is the currency of the primary economic environment in which they operate, which is their local currency. The financial statements of these subsidiaries are translated into U.S. dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenue, costs and expenses. Translation gains and losses are recorded in accumulated other comprehensive loss in stockholders’ equity. Transaction gains and losses including those on intercompany transactions denominated in a currency other than the functional currency of the entity involved are included in foreign exchange loss, net in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

For the three months ended March 31, 2024, foreign exchange loss, net consists of unrealized foreign exchange losses of $1,395 and realized transaction losses of $174. For the three months ended March 31, 2023, foreign exchange gain, net consists of unrealized foreign exchange gains of $678 and realized transaction losses of $162.

(e) Cash, cash equivalents, and restricted cash

Cash equivalents include money market accounts and other highly liquid investments with an original maturity date of three months or less at the time of purchase. Cash amounts with restrictions are classified as restricted cash within the Condensed Consolidated Balance Sheets.

The company generated interest income of $954 and $528 during the three months ended March 31, 2024 and 2023, respectively.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows.

	March 31, 2024	December 31, 2023
Cash and cash equivalents	$ 83,947	$ 124,759
Short term restricted cash	298	54
Long term restricted cash (held in other long-term assets)	2,482	2,477
Total cash, cash equivalents, and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	$ 86,727	$ 127,290

(f) Accounts receivable, net

Accounts receivable are carried at the original invoiced amount less an allowance for credit losses. The allowance is estimated by pooling accounts receivables based on similar risk characteristics, and expected credit loss exposure is evaluated for each accounts receivable pool. Invoices are typically issued with net 30-days to net 90-days terms. Account balances are considered delinquent if payment is not received by the due date, and the receivables are written off when deemed uncollectible. These costs are recorded in general and administrative expenses within the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

The activity in our allowance for credit losses consists of the following as of:

	March 31, 2024	March 31, 2023
Balance, beginning of period	$ 8,645	$ 6,691
(Decrease) increase in bad debt provision	(188)	514
Receivables written off and impact of exchange rates	(106)	26
Adoption of ASC 326	—	(1,271)
Balance, end of period	$ 8,351	$ 5,960

(g) Stock-based compensation

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The Company accounts for forfeitures as they occur. The Company used the following assumptions in valuing its market stock units ("MSUs"), shares granted under the Company's 2021 Employee Stock Purchase Program ("ESPP"), time-based service options, which vest over a period of time subject to continued employment ("Time-Based Options"), and return target options ("Return-Target Options"), which vest upon a realized cash return of the equity investment of funds affiliated with Vista Equity Partners ("Vista"), the Company's largest shareholder.

Expected term — For time-based awards, the estimated expected term of options granted is generally calculated as the vesting period plus the midpoint of the remaining contractual term, as the Company does not have sufficient historical information to develop reasonable expectations surrounding future exercise patterns and post-vesting employment termination behavior. For awards subject to market and performance conditions, the expected term represents the period of time that the options granted are expected to be outstanding.

Expected volatility — Volatility is estimated based upon observed option-implied volatilities for the Company in addition to a group of peer companies. The Company believes this is the best estimate of the expected volatility over the weighted-average expected term of its option grants.

Risk-free interest rate — The risk-free interest rate is based on the implied yield currently available on U.S. Treasury instruments with terms approximately equal to the expected term of the option.

Expected dividend — The expected dividend assumption was based on the Company's history and expectation of dividend payouts. The Company currently has no history or expectation of paying cash dividends on its common stock.

Fair value — Following the pricing of the Initial Public Offering, the Company's shares have traded publicly, and accordingly the Company uses the applicable closing price of its common stock to determine fair value.

The Company used the following assumptions in valuing its stock-based compensation:

	March 31, 2024	March 31, 2023
Estimated fair value	$4.47	$3.35
Expected volatility (%)	50%	60%
Expected term (in years)	0.50	0.50
Risk-free interest rate (%)	5.15%	4.79%
Dividend yield	—	—

(h) Accounting pronouncements not yet adopted

On November 27, 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which requires incremental disclosures related to an entity's reportable segments. This ASU is effective for annual periods beginning after December 15, 2023. The Company does not expect the adoption of ASU 2023-07 to have a material impact on its consolidated financial statements.

On December 14, 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which requires companies to disclose more detailed information in their reconciliation of their statutory tax rate to their effective tax rate. The ASU also requires entities to disclosure more detailed information about income taxes paid, including by jurisdiction, pretax income (or loss) from continuing operations and income tax expense (or benefit). This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2024. The Company is currently evaluating the impact of the adoption of ASU No. 2023-09 on its consolidated financial statements.

On March 6, 2024, the Securities and Exchange Commission issued a final rule that requires registrants provide climate-related disclosures in their annual reports on Form 10-K beginning with annual reports for the year ending December 31, 2024. The new rule requires additional disclosures both in the financial statements as well as other sections of the 10-K. The Company is currently evaluating the impact of the rule on its consolidated financial statements.

3. Property and equipment, net

Property and equipment consisted of the following:

	Estimated useful life (in years)	March 31, 2024	December 31, 2023
Computer and office equipment	1 - 3 years	$ 4,434	$ 4,070
Computer software	3 - 5 years	218	218
Leasehold improvements	Various	2,793	2,535
Furniture	5 years	580	585
Total property and equipment		8,025	7,408
Less: accumulated depreciation		(3,937)	(3,639)
Total property and equipment, net		$ 4,088	$ 3,769

Depreciation expense of property and equipment for the three months ended March 31, 2024 and 2023 was $309 and $198, respectively. During the three months ended March 31, 2023, the Company wrote off fully depreciated assets of $267.

4. Internal use software, net

Internal use software consisted of the following:

	Estimated useful life (in years)	March 31, 2024	December 31, 2023
Internal use software	3 - 5 years	$ 78,447	$ 69,797
Less: Assets written off		—	(33)
Less: Accumulated amortization		(34,718)	(29,463)
Total internal use software, net		$ 43,729	$ 40,301

Amortization expense related to internal use software for the three months ended March 31, 2024 and 2023 was $5,286 and $2,924, respectively.

5. Intangible assets, net

The gross book value, accumulated amortization, net book value and amortization periods of the intangible assets were as follows:

	March 31, 2024				
	Estimated useful life	Gross book value	Accumulated amortization	Net book value	Weighted average remaining useful life
Customer relationships	5 - 15 years	$ 301,967	$ (149,384)	$ 152,583	8.4 years
Developed technology	5 years	137,188	(126,932)	10,256	2.4 years
Trademarks	5 years - 9 years	19,700	(13,232)	6,468	3.1 years
Favorable leases	6 years	198	(189)	9	0.3 years
Total		$ 459,053	$ (289,737)	$ 169,316	

	December 31, 2023				
	Estimated useful life	Gross book value	Accumulated amortization	Net book value	Weighted average remaining useful life
Customer relationships	5 - 15 years	$ 301,994	$ (142,135)	$ 159,859	8.6 years
Developed technology	5 years	137,361	(125,426)	11,935	2.6 years
Trademarks	5 years - 9 years	19,700	(12,604)	7,096	3.4 years
Favorable leases	6 years	198	(180)	18	0.5 years
Total		$ 459,253	$ (280,345)	$ 178,908	

Amortization expense related to intangibles for the three months ended March 31, 2024 and 2023 was $9,485 and $9,703, respectively.

6. Goodwill

The following table provides a roll forward of the changes in the goodwill balance:

Goodwill as of December 31, 2023	$ 675,282
Impact of exchange rates	(828)
Goodwill as of March 31, 2024	$ 674,454

7. Accounts payable and accrued expenses and other long-term liabilities

Accounts payable and accrued expenses consisted of the following:

	March 31, 2024	December 31, 2023
Accounts payable	$ 3,206	$ 12,092
Accrued payroll	5,679	9,250
Accrued professional fees	1,820	3,281
Accrued bonuses and commissions	8,522	20,413
Accrued revenue sharing	3,652	4,136
Taxes payable	7,009	6,436
Accrued hosting fees	5,445	9,475
Other accrued expenses	6,843	7,149
Total accounts payable and accrued expenses	$ 42,176	$ 72,232

Other long-term liabilities consisted of the following:

	March 31, 2024	December 31, 2023
Security deposit received	$ 672	$ 672
Uncertain tax positions	5,500	5,511
Total Other long-term liabilities	$ 6,172	$ 6,183

8. Long-term debt

On September 29, 2021, the Company entered into a credit agreement with various lenders, which was amended on June 23, 2023 (as amended, the "Credit Agreement"). The Credit Agreement provides for an initial $300,000 in commitments for revolving credit loans (the "Revolver"), which amount may be increased or decreased under specific circumstances, with a $30,000 letter of credit sublimit and a $100,000 alternative currency sublimit. In addition, the Credit Agreement provides for the ability to request incremental term loan facilities, in a minimum amount of $5,000 for each facility. Borrowings pursuant to the Credit Agreement may be used for working capital and other general corporate purposes, including for acquisitions permitted under the Credit Agreement. During the three months ended March 31, 2024, the Company had no draw downs and paid down $30,000 on the Revolver.

Borrowings under the Credit Agreement are scheduled to mature on September 29, 2026. The Credit Agreement contains certain customary events of default including failure to make payments when due thereunder, and failure to observe or perform certain covenants. In connection with the entry into the Revolver, the Company incurred costs of $2,318 that are included in Long-term debt, net, in the Condensed Consolidated Balance Sheets.

The June 23, 2023, amendment changed the market interest rate on outstanding borrowings from LIBOR to SOFR. The amendment became effective at the end of the applicable interest period for any LIBOR borrowings outstanding on the amendment effective date, which was June 30, 2023. The interest rates for the Revolver under the Credit Agreement (i) for U.S. dollar loans are equal to the applicable rate for base rate loans range from 0.75% to 1.50% per annum, (ii) for Term SOFR Loans (as defined in the Credit Agreement) ranging from 1.75% to 2.50% per annum, (iii) for RFR Loans (as defined in the Credit Agreement) denominated in sterling range from 1.7826% to 2.5326%, and (iv) for RFR Loans denominated in euro range from 1.7965% to 2.5456%, in each case, based on the Senior Secured Net Leverage Ratio (as defined in the Credit Agreement). Base rate borrowings may only be made in dollars. The Company is required to pay a commitment fee during the term of the Credit Agreement ranging from 0.20% to 0.35% per annum of the average daily undrawn portion of the revolving commitments based on the Senior Secured Net Leverage Ratio. The interest rate on March 31, 2024 was 7.4%.

Any borrowings under the Credit Agreement may be repaid, in whole or in part, at any time and from time to time without premium or penalty other than customary breakage costs, and any amounts repaid may be reborrowed. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed the aggregate commitment of all lenders.

The Credit Agreement contains covenants requiring certain financial information to be submitted quarterly and annually. In addition, the Company is also required to comply with certain financial covenants such as maintaining a Total Net Leverage Ratio (as defined in the Credit Agreement) of 3.50 to 1.00 or lower and maintaining a minimum Interest Coverage Ratio (as defined in the Credit Agreement) of 2.50 to 1.00. As of March 31, 2024, the Company was in compliance with all covenants contained in the Credit Agreement.

	March 31, 2024	December 31, 2023
Revolver	$ 125,000	$ 155,000
Less: Unamortized debt issuance costs	(1,159)	(1,275)
Total carrying amount	$ 123,841	$ 153,725

Amortization of debt issuance costs for the three months ended March 31, 2024 and 2023 was $116 and $116, respectively. Amortization of debt issuance costs is recorded to interest expense, net on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

The Company recognized interest expense of $2,765 and $3,830 during the three months ended March 31, 2024 and 2023, respectively. Future principal payments of long-term debt as of March 31, 2024 are as follows:

Year Ending		
2024	$	—
2025		—
2026		125,000
	$	125,000

9. Income taxes

At the end of each interim period, the Company estimates the annual expected effective income tax rate and applies that rate to its ordinary year-to-date earnings or loss. The income tax provision or benefit related to significant, unusual, or extraordinary items, if applicable, that will be separately reported or reported net of their related tax effects are individually computed and recognized in the interim period in which they occur. In addition, the effect of changes in enacted tax laws or rates, tax status, judgment on the realizability of a beginning-of-the-year deferred tax asset in future years or unrecognized tax benefits is recognized in the interim period in which the change occurs.

The computation of the annual expected effective income tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected pre-tax income (or loss) for the year, projections of the proportion of income (and/or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of the realization of deferred tax assets generated in the current year. The accounting estimates used to compute the provision or benefit for income taxes may change as new events occur, more experience is acquired, additional information is obtained or the Company’s tax environment changes. To the extent that the expected annual effective income tax rate changes during a quarter, the effect of the change on prior quarters is included in income tax provision in the quarter in which the change occurs.

For the three months ended March 31, 2024, the Company recorded an income tax benefit of $134 and for the three months ended March 31, 2023, the Company recorded an income tax provision of $3,026. The Company’s effective tax rate for the three months ended March 31, 2024 and 2023 was 9.6% and 49.0%, respectively. The Company's effective tax rate for the three months ended March 31, 2024 is lower than for the respective three months ended March 31, 2023, primarily due to non-deductible stock-based compensation and other permanent tax differences and discrete items.

The Company recognizes interest and, if applicable, penalties related to unrecognized tax benefits in the income tax provision. The Company is not currently under audit in any taxing jurisdiction.

10. Segment data

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (“CODM”), in deciding how to allocate resources and in assessing performance. The Company’s Chief Executive Officer is the CODM.

The Company manages its operations as a single segment for the purpose of assessing and making operating decisions. The CODM allocates resources and assesses performance based upon financial information at the consolidated level. Since the Company operates in one operating segment, all required financial segment information can be found in the condensed consolidated financial statements.

The following table summarizes revenue by geographic area:

	Three Months Ended March 31,			
	2024		2023	
North and South America (“Americas”)	$	78,519	$	74,201
Europe, Middle East and Africa (“EMEA”)		27,227		24,063
Asia and Pacific Rim (“APAC”)		8,784		7,828
Total revenue	$	114,530	$	106,092

For the three months ended March 31, 2024 and 2023, revenue in the U.S. was $74,284 and $70,615, respectively.

The following table summarizes long lived assets, net by geographic area:

	March 31, 2024	December 31, 2023
Americas	$ 12,594	$ 13,848
EMEA	8,239	8,577
APAC	3,021	3,012
Total long-lived assets	$ 23,854	$ 25,437

11. Stock-based compensation

Total stock-based compensation expense for all equity arrangements for the three and three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31,	
	2024	2023
Cost of revenue	$ 124	$ 84
Sales and marketing	5,738	3,887
Technology and development	4,399	3,170
General and administrative	5,477	4,165
Total	$ 15,738	$ 11,306

The Company maintains multiple stock-based incentive compensation plans. Expense relating to outstanding awards under such plans is summarized as follows:

	Three Months Ended March 31,		Unamortized expense as of	Weighted average vesting term
	2024	2023	March 31, 2024	
Time Based Options				
2018 Plan	$ 445	$ 1,092		
2021 Plan	536	671		
Total Time Based Options Expense	$ 981	$ 1,763	$ 3,011	1.2 years
Return Target Options				
2018 Plan	$ —	$ —		
2021 Plan	—	—		
Total Return Target Options Expense	$ —	$ —	$ —	0.0 years
LTIP Expense (2018 Plan)	$ —	$ —		
Other equity awards under 2021 Plan				
Restricted Stock Units ("RSUs")	$ 9,565	$ 7,261	$ 96,309	2.8 years
Market Stock Units ("MSUs")	4,619	1,887	14,328	3.0 years
Other equity awards under 2021 Plan expense	$ 14,184	$ 9,148	$ 110,637	
Employee Stock Purchase Plan "ESPP"	$ 573	$ 395		
Total Stock-Based Compensation Expense	**$ 15,738**	**$ 11,306**	**$ 113,648**	

Integral Ad Science Holding Corp. Amended and Restated 2018 Non-Qualified Stock Option Plan

On August 1, 2018, the Company adopted the 2018 Non-Qualified Stock Option Plan (“2018 Plan”). Under the 2018 Plan, the Company issued (i) Time-Based Options that vest over four years with 25% vesting after twelve months and an additional 6.25% vesting at the end of each successive quarter thereafter; and (ii) Return-Target Options that were to vest upon the first to occur of sale of the Company, or, sale or transfer to any third party of shares, as a result of which, any person or group other than Vista, obtains possession of voting power to elect a majority of the Board or any other governing body and the achievement of a total equity return multiple of 3.0 or greater.

The 2018 Plan contained a provision wherein, the Time-Based Options could be repurchased by the Company at cost upon resignation of the employee. Due to this repurchase feature, the Time-Based Options did not provide the employee with the potential benefits associated with a stock award holder, and therefore, these awards were not accounted for as a stock-based award under ASC 718, *Compensation - Stock Compensation* but instead, compensation cost was recognized when the benefit to the employee was determined to be probable.

The Return-Target Options were considered to contain both market (total stockholder return threshold) and performance (exit event) conditions. As such, the award was measured on the date of grant. Since the conditions for vesting related to the Return-Target Options were not met prior to the IPO, no stock-based compensation was recognized in the pre-IPO financial statements of the Company.

In connection with the IPO, the 2018 Plan was amended and restated (the "Amended and Restated 2018 Plan") with the following modifications: (i) the provision to repurchase the Time-Based Options at cost upon resignation of the employee was removed and (ii) the Return-Target Options were modified to include vesting upon a sale of shares by Vista following the IPO resulting in Vista realizing a cash return on its investment in the Company equaling or exceeding $1.17 billion.

As a result of the modification to the Time-Based Options, the awards became subject to the guidance in ASC 718, *Compensation - Stock Compensation*. As the return multiple and vesting conditions associated with the Return-Target Options were also modified, the Company fair valued the Return-Target Options using a Monte Carlo simulation model. The Return-Target Options become exercisable following both (i) a registration of shares of common stock held by Vista and (ii) Vista realizing a cash return on its investment in the Company equaling or exceeding $1.17 billion.

Vesting of the Time-Based Options accelerates when the Return-Target Options vest and therefore, recognition of the remaining unamortized stock compensation expense related to the Time-Based Options will accelerate when the Return-Target Options vest.

The total number of Time-Based Options and Return Target Options outstanding under the Amended and Restated 2018 Plan as of March 31, 2024 were 2,251,431 and 1,342,092, respectively. The Company does not expect to issue any additional awards under the Amended and Restated 2018 Plan.

2021 Omnibus Incentive Plan ("2021 Plan")

On June 29, 2021, the Company adopted the 2021 Plan to incentivize executive officers, management, employees, consultants and directors of the Company and to align the interests of the participants with those of the Company's shareholders. As of March 31, 2024, there were 43,059,189 shares reserved for issuance under the 2021 Plan. The total number of shares reserved for issuance under the 2021 Plan is increased on January 1 of each of the first 10 calendar years during the term of the 2021 Plan, by the lesser of (i) 5% of the total number of shares of common stock outstanding on each December 31st immediately prior to the date of increase or (ii) such number of shares of common stock determined by our Board or compensation committee.

As of March 31, 2024, there were 1,147,846 total options outstanding under the 2021 Plan, consisting of 764,908 Time-Based Options and 382,938 Return-Target Options. The vesting conditions for the options issued under the 2021 Plan are identical to those described under the Amended and Restated 2018 Plan.

Stock option activity for the three months ended March 31, 2024 is as follows:

Time-Based Options

	Stock options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of December 31, 2023	3,060,388	$ 7.70	5.70	$ 23,251
Canceled or forfeited	—	—	—	—
Exercised	(44,049)	7.10	—	—
Outstanding at March 31, 2024	3,016,339	$ 7.70	5.44	$ 12,978
Vested and expected to vest at March 31, 2024	3,016,339	$ 7.70	5.44	$ 12,978
Exercisable as of March 31, 2024	2,725,775	$ 6.82	5.26	$ 12,815

Return-Target Options

	Stock options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of December 31, 2023	1,725,030	$ 7.47	5.78	$ 13,318
Canceled or forfeited	—	—	—	—
Exercised	—	—	—	—
Outstanding at March 31, 2024	1,725,030	$ 7.47	5.53	$ 7,386
Vested and expected to vest at March 31, 2024	1,725,030	$ 7.47	5.53	$ 7,386
Exercisable as of March 31, 2024	—	—	—	—

Restricted Stock Units ("RSUs")

RSUs under the 2021 Plan granted prior to May 2022 vest 25% each year and become fully vested after four years of service. RSUs under the 2021 Plan granted during or after May 2022 vest 6.25% at the end of each successive quarter and become fully vested after four years of service.

RSU activity for the three months ended March 31, 2024 is as follows:

	RSUs	
	Number of shares	Weighted average grant date fair value
Outstanding as of December 31, 2023	9,014,435	$ 12.41
Granted	382,425	13.67
Canceled or forfeited	(137,820)	11.53
Vested	(732,894)	12.31
Outstanding as of March 31, 2024	8,526,146	$ 12.49
Expected to vest as of March 31, 2024	8,526,146	

Market Stock Units ("MSUs")

The Company granted MSUs under the 2021 Plan to certain executive officers. MSUs vest over four years, 25% on the first anniversary of the vesting commencement date and 6.25% at the end of each quarter thereafter. The number of MSUs eligible to vest is based on the performance of the Company's common stock over each applicable vesting period. The number of shares eligible to vest is calculated based on a payout factor. The payout factor is calculated by dividing (i) the average closing price of the Company's stock during the ten trading days immediately preceding the applicable vesting date by (ii) the closing price of the Company's stock on the vesting commencement date. The payout factor is zero if such quotient is less than 0.60 and is capped at 2.25. Such quotient is then multiplied by the target number of MSUs granted to the relevant officer to determine the number of shares to be issued to the officer at vesting. The grant date fair value of the MSUs was determined using a Monte-Carlo simulation. The Company uses the accelerated attribution method to account for these awards.

MSU activity for the three months ended March 31, 2024 is as follows:

	MSUs	
	Number of shares	Weighted average grant date fair value
Outstanding as of December 31, 2023	1,800,486	$ 19.28
Granted	—	—
Canceled or forfeited	—	—
Change in awards based on performance	17,249	15.15
Vested	(73,652)	19.04
Outstanding as of March 31, 2024	1,744,083	$ 19.41
Expected to vest as of March 31, 2024	1,744,083	

2021 Employee Stock Purchase Plan

The Company adopted the ESPP for the primary purpose of incentivizing employees in future periods. As of March 31, 2024, 6,161,033 shares of common stock are reserved for issuance under the ESPP. The number of shares available for issuance under the ESPP is increased on January 1st of each calendar year, ending in and including 2031, by an amount equal to the lesser of (i) 1% of the shares outstanding on the final day of the immediately preceding calendar year and (ii) such smaller number 1of shares as is determined by our Board, subject to a maximum of 16,000,000 shares of our common stock for the portion of the ESPP intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. All Company employees and employees of designated subsidiaries are eligible to participate in the ESPP and may purchase shares through payroll deductions of up to 15% of their eligible compensation, subject to a maximum of $25 in any annual period for the portion of the ESPP intended to qualify as an employee purchase plan under Section 423 of the Internal Revenue Code.

The ESPP provides eligible employees the opportunity to purchase shares of the Company's common stock through payroll deductions at a price equal to 85% of the fair market value of the shares on (i) the first business day of the offering period or (ii) the last business day of the offering period, whichever is lower. The ESPP is offered to employees in six-month windows, with phases beginning on February 1 and August 1 of each calendar year. For the window that ended on January 31, 2023, employees purchased 111,163 shares at a price of $7.93 per share. For the window that ended on January 31, 2024, employees purchased 153,239 shares at a price of $12.37 per share. As of March 31, 2024, 5,734,225 shares were available for future purchase under the ESPP.

12. Stockholders' equity

As of March 31, 2024, our authorized common stock consists of 500,000,000 shares of common stock, par value $0.001 per share and 50,000,000 preferred stock, par value $0.001 per share.

For the three months ended March 31, 2024, the Company issued 806,546 shares of common stock for vested RSUs and MSUs, employees exercised stock options in exchange for 44,049 shares of common stock for $313, and employees purchased 153,239 shares of common stock through the ESPP.

For the three months ended March 31, 2023, the Company issued 371,740 shares of common stock for vested RSUs, employees exercised stock options in exchange for 338,949 shares of common stock for $2,115, and employees purchased 111,163 shares of common stock through the ESPP.

13. Commitments and contingencies

Indemnifications

In its normal course of business, the Company has made certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. Those indemnities include intellectual property indemnities to the Company's customers, indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware, and indemnifications related to the Company's lease agreements. In addition, the Company's advertiser and distribution partner agreements contain certain indemnification provisions which are generally consistent with those prevalent in the Company's industry. The Company has not incurred any obligations under indemnification provisions historically and does not expect to incur significant obligations in the future. Accordingly, the Company has not recorded any liability for these indemnities, commitments, and guarantees in the accompanying balance sheets.

Purchase commitments

In the ordinary course of business, the Company enters into various purchase commitments primarily related to third-party cloud hosting and data services, and information technology operations. Total non-cancelable purchase commitments as of March 31, 2024 were approximately $145,129 for periods through 2028.

14. Net (loss) income per share

Basic and diluted income (loss) per share is computed by dividing net income (loss) by the weighted-average shares outstanding:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Numerator:		
Net (loss) income	$ (1,255)	$ 3,146
Denominator:		
Basic Shares:		
Weighted-average shares outstanding	159,385,167	154,315,219
Diluted Shares:		
Basic weighted-average shares outstanding	159,385,167	154,315,219
Dilutive effect of stock-based awards	—	3,569,396
Weighted-average diluted shares outstanding	159,385,167	157,884,615
Net (loss) income per share:		
Basic	$ (0.01)	$ 0.02
Diluted	$ (0.01)	$ 0.02

The following potential outstanding equity awards were excluded from the computation of diluted net income (loss) per share attributable to common stockholders for the periods presented given that their inclusion would have been anti-dilutive.

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Options to purchase common stock	4,758,393	3,624,277
Restricted stock units	8,753,048	1,806,679
Market stock units	1,286,166	—
ESPP	201,034	—
Total	14,998,641	5,430,956

15. Fair value disclosures

Assets and liabilities measured at fair value on a recurring basis

The Company invests in money market funds, which are measured and recorded at fair value on a recurring basis at each reporting period. Money market funds are valued based on quoted market prices in active markets and classified within Level 1 of the fair value hierarchy.

The following table summarizes our cash equivalents measured at fair value on a recurring basis:

	Fair value hierarchy	Fair value
Money market funds		
March 31, 2024	Level 1	$ 15,529
December 31, 2023	Level 1	$ 15,331

The carrying value of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximated fair value due to their short maturities.

Financial instruments

Financial instruments are valued based on observable inputs and classified within Level 2 of the fair value hierarchy. The carrying value of long-term debt approximates its fair value based on Level 2 inputs as the principal amounts outstanding are subject to variable interest rates that are based on market rates (see Note 8).

16. Related-party transactions

The Company incurs various travel and other expenses related to services provided by Vista Equity Partners Management, LLC (“VEP”). For the three months ended March 31, 2024 and 2023, the Company incurred expenses of $16 and $25, respectively. These costs were included in general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Amounts due to VEP as of March 31, 2024 and December 31, 2023 were $10 and $30, respectively.

The Company had other related party transactions with companies owned by Vista Equity Partners that are immaterial individually and in aggregate to the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

In January 2024, underwriters exercised their option to purchase an additional 1,650,000 shares of the Company's common stock from funds affiliated with Vista, in connection with the secondary offering completed in December 2023. The Company did not receive any proceeds from these sales.

17. Restructuring

In December 2022, the Company announced a reduction in workforce of approximately 120 employees to better align resources, consistent with the Company’s strategy of increasing operational efficiency and improving productivity. There was no activity during the quarter ended March 31, 2024 as there was no remaining liability as of December 31, 2023. Activity for the three months ended March 31, 2023, was as follows:

Balance at December 31, 2022	$	4,315
Payments and impact of FX		(3,069)
Balance at March 31, 2023	$	1,246

18. Subsequent Events

Equity Grants

Subsequent to March 31, 2024, the Company granted (i) RSUs with a grant date fair value aggregating $29.8 million to employees and (ii) MSUs with a grant date fair value aggregating $20.7 million to certain executive officers. The terms of the RSU and MSU awards are consistent with existing awards as described in Note 11.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (“Quarterly Report”) contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Quarterly Report are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance, including guidance, and business, including pipeline and industry trends. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “can have,” “likely,” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected costs, expenditures, cash flows, growth rates and financial results or our plans and objectives for future operations, growth initiatives, or strategies are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- the adverse effect on our business, operating results, financial condition, and prospects from various macroeconomic factors, including instability in geopolitical or market conditions generally;
- our failure to innovate or make the right investment decisions;
- our ability to provide digital or cross-platform analytics;
- our failure to maintain or achieve industry accreditation standards;
- our dependence on integrations with advertising platforms, demand side providers (“DSPs”), and proprietary platforms that we do not control;
- our ability to compete successfully with our current or future competitors in an intensely competitive market;
- our inability to use software licensed from third parties;
- our international expansion;
- our ability to expand into new channels;
- our ability to sustain our profitability and revenue growth rate;
- risks that our customers do not pay or choose to dispute their invoices;
- risks of material changes to revenue share agreements with certain DSPs;
- our dependence on the overall demand for advertising;
- our ability to effectively manage our growth;
- the impact that any acquisitions we have completed in the past and may consummate in the future, strategic investments, or alliances may have on our business, financial condition, and results of operations;
- our ability to successfully execute our international plans;
- the risks associated with the seasonality of our market;
- our ability to maintain high impression volumes;
- the difficulty in evaluating our future prospects given our short operating history;
- uncertainty in how the market for buying digital advertising verification solutions will evolve;
- interruption by man-made problems such as terrorism, computer viruses, or social disruption;
- the risk of failures in the systems and infrastructure supporting our solutions and operations;
- our ability to avoid operational, technical, and performance issues with our platform;
- risks associated with any unauthorized access to user, customer, or inventory and third-party provider data;
- our ability to provide the non-proprietary technology, software, products, and services that we use;
- the risk that we are sued by third parties for alleged infringement, misappropriation, or other violation of their proprietary rights;
- our ability to obtain, maintain, protect, or enforce intellectual property and proprietary rights that are important to our business;.

- our involvement in lawsuits to protect or enforce our intellectual property;
- risks that our employees, consultants, or advisors have wrongfully used or disclosed alleged trade secrets of their current or former employers;
- risks that our trademarks and trade names are not adequately protected;
- the impact of unforeseen changes to privacy and data protection laws and regulation on digital advertising;
- our ability to maintain our corporate culture;
- public health outbreaks, epidemics, pandemics, or other public health crises;
- risks posed by earthquakes, fires, floods, and other natural catastrophic events;
- the risk that a perceived failure to comply with laws and industry self-regulation may damage our reputation; and
- other factors disclosed in the section entitled “Risk Factors” and elsewhere in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K, as well as in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other SEC filings and public communications. You should evaluate all forward-looking statements made in this Quarterly Report in the context of these risks and uncertainties.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in the sections titled “Risk Factors” and "Forward-Looking Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K") and in this Quarterly Report on Form 10-Q. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Our historical results are not necessarily indicative of the results that may be expected for any period in the future, and our interim results are not necessarily indicative of the results we expect for the full fiscal year or any other period. Unless the context otherwise requires, the terms “Company,” “Integral Ad Science Holding Corp.,” “IAS,” “we,” “us,” “our,” or similar terms refer to Integral Ad Science Holding Corp. and, where appropriate, its subsidiaries.

Overview

We are a leading global media measurement and optimization platform. Through our cloud-based technology platform and the actionable insights it provides, we deliver independent measurement and verification of digital advertising across all devices, channels, and formats, including desktop, mobile, connected TV (“CTV”), social, display, video and emerging media like audio and gaming. Our proprietary and Media Rating Council (the “MRC”) accredited Quality Impressions® metric is designed to verify that digital ads are served to a real person rather than a bot in a brand-safe and suitable environment within the correct geography.

Without an independent evaluation of digital advertising quality, brands and their agencies previously relied on a wide range of publishers and ad platforms to self-report and measure the effectiveness of campaigns without a global benchmark to understand success. We are an independent, trusted partner for buyers and sellers of digital advertising to increase accountability, transparency, and effectiveness in the market. We help advertisers optimize their ad spend and better measure consumer engagement with campaigns across platforms, while enabling publishers to improve their inventory yield and revenue.

As a leading global media measurement and optimization platform, we have deep integrations with all the major advertising and technology platforms including Facebook, Instagram, Google, YouTube, LinkedIn, Amazon, Microsoft, Pinterest, Snap, Spotify, TikTok, The Trade Desk, X (formerly known as Twitter), Xandr, and Yahoo. Our platform uses advanced artificial intelligence ("AI") and machine learning ("ML") technologies to process over 280 billion daily digital interactions globally on average, as of December 31, 2023. With this data, we deliver actionable data to our global customers through our easy-to-use reporting platform, IAS Signal™, helping brands, agencies, publishers, and platform partners improve media quality.

Our pre-bid optimization and post-bid measurement and verification solutions enable advertisers to measure campaign performance and value across viewability, ad fraud prevention, brand safety and suitability, and contextual targeting for ads on desktop, mobile in-app, social, and CTV platforms. Our pre-bid solution is directly integrated with DSPs to help optimize return on ad spend (“ROAS”) by directing budget to the best available inventory. Our contextual ability is enabled through our deep integrations with all major DSPs. In addition, our targeting and pre-bid solutions extend to the social platforms. Additionally, our Total Visibility® offering provides marketers with actionable insights to optimize their campaign spend and drive higher yield by focusing on the most efficient and cost-effective pathways. Our solutions help hundreds of publishers globally deliver high quality ad inventory that is fraud free, viewable, brand safe and suitable, and geographically targeted.

Macroeconomic and Geopolitical Conditions

Current adverse macroeconomic and geopolitical conditions, including high interest rates, currency fluctuations, high inflation, changes to fiscal and monetary policy, instability in the financial markets and geopolitical instability may adversely affect our results. In response to high levels of inflation, central banks, including the U.S. Federal Reserve and the European Central Bank, have increased interest rates. Our operating expenses are denominated in the currencies of the countries in which our operations are located, and our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. In that regard, over the last few years, we incurred foreign exchange losses resulting from fluctuations primarily attributable to the British Pound and Euro currency movements relative to the U.S. dollar. In addition, as a result of increased interest rates, the interest rate under our debt instruments has increased from 6.7% at March 31, 2023 to 7.4% at March 31, 2024, increasing our cost of capital.

Our business depends on the overall demand for advertising and on the economic health of advertisers that benefit from our platform. Economic downturns, recessions or unstable market conditions are difficult to predict and cause advertisers to decrease their advertising budgets, which in turn reduces spend through our platform.

Our Business Model

We generate revenue based on the volume of purchased digital ads that our solution measures. Advertisers and publishers use our media quality solutions for ad viewability, brand safety and suitability, optimization, context control, and ad fraud prevention. Our customers primarily pay us based on usage, where the customer pays a fee based on the total volume of ads measured. Certain contracts with customers utilize other pricing arrangements, including minimum commitments, overages based on tiered pricing or flat fees. We maintain an expansive set of integrations across the digital advertising ecosystem, including with leading programmatic and social platforms, which enables us to cover all key channels, formats and devices.

Key Factors Affecting Our Performance

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by our ability to:

Innovate and Develop New Products for Key High-Growth Segments

- *Optimization*. We aim to deliver greater performance on programmatic ad buying via innovative solutions including contextual targeting and brand safety and suitability. These solutions include traditional open web media buying and select retail media platforms.
- *Social*. We aim to develop deeper integrations with social platforms, also known as Walled Gardens, including video-based brand safety and suitability, to deliver continued transparency to our customers.
- *CTV*. We plan to continue to expand our CTV-specific verification solutions and context control capabilities to address the fast-growing CTV segment. Our Publica business powers new methods of measuring and optimizing performant CTV impressions.
- *Adjacent product expansion*. We plan to expand our platforms and integrations to address new measurement and optimization needs for our clients.

Increase Sales Within Our Existing Customer Base

We aim to increase the use of our products among existing customers across more campaigns and impressions. Given our comprehensive product portfolio, we believe we can cross-sell additional or new solutions to our existing customers in order to better provide end-to-end coverage to more clients from pre-bid viewability to post-bid verification, fraud prevention, safety, suitability, and targeting.

Acquire New Customers and Increase Market Share

Our ability to acquire new customers and increase our market share is dependent upon a number of factors, including the effectiveness of our solutions, marketing and sales to drive new business prospects and execution, client digital marketing investment adoption, new products and feature offerings, global reach and the growth of the market for digital ad verification. There is a market opportunity to provide advertisers directly or through advertising agencies with verification services, specifically around ad viewability, ad fraud prevention and brand safety and suitability. We aim to work with top 500 global advertisers and mid-tier performance-based advertisers by targeting high-spend verticals and brands with a natural sensitivity for brand safety, brand suitability, and ROAS needs. We believe we will increase our market share by strengthening our relationships with the leading social platforms, enhancing our programmatic solutions, deriving benefit from our broad global position, and leveraging our differentiated data science and market-leading contextual capabilities.

Expand Customer Base Internationally

Our ability to expand our customer base internationally is dependent upon a number of factors, including effectively implementing our business processes and go-to-market strategy, our ability to adapt to market or cultural differences, the general competitive landscape, our ability to invest in our sales and marketing channels, the maturity and growth trajectory of our services by region and our brand awareness and perception. Global marketers are becoming increasingly cognizant of the value of sophisticated verification strategies and, as such, we believe there is growing demand for our services internationally. Our investments in international markets resulted in a 13% growth in revenue year-over-year. We believe that Latin America, EMEA and APAC regions may represent substantial growth opportunities, and we are investing in developing our business in those markets by way of expanded in-market customer service investment and by leveraging our global relationships. We aim to continue to grow outside the U.S. in Europe and other established markets such as Australia and Japan and view ourselves as best positioned to continue penetrating these markets given our market-leading global footprint.

Seasonality

We experience fluctuations in revenue that coincide with seasonal fluctuations in the digital ad spending of our customers. The global advertising industry experiences seasonal trends that affect the vast majority of participants in the digital advertising ecosystem. Most notably, advertisers have historically spent relatively more in the fourth quarter of the calendar year to coincide with the holiday shopping season, and relatively less in the first quarter. We expect seasonality trends to continue, and our ability to manage our resources in anticipation of these trends will affect our operating results. Consequently, the fourth quarter usually reflects the highest level of measurement activity and the first quarter reflects the lowest level of activity. Our revenue, cash flow, operating results and other key operating and performance metrics may vary from quarter to quarter due to the seasonal nature of our clients' spending on advertising campaigns. While our revenue is highly re-occurring, seasonal fluctuations in ad spend may impact quarter-over-quarter results. We believe that the year-over-year comparison of results more appropriately reflects the overall performance of the business.

Key Business Metrics

In addition to our U.S. GAAP financial information, we review a number of operating and financial metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. The key business metrics presented are based on our advertising customers, as revenue from these customers represents substantially all the revenue.

The following table sets forth our key performance indicators for the periods set forth below:

	March 31,	
	2024	2023
Net revenue retention of advertising customers (%) (as of the end of the period)	113 %	118 %
Total number of large advertising customers (as of the end of the period)	227	204

Net revenue retention of advertising customers

We define net revenue retention of advertising customers as a metric to reflect the expansion or contraction of our advertising customers' revenue by measuring the period-over-period change in trailing-twelve-month revenues from customers who were also advertising customers in the prior trailing-twelve-month period. As such, this metric includes the impact of any churned, or lost, advertising customers from the prior trailing-twelve-month period as well as any increases or decreases in their spend, including the positive revenue impacts of selling new services to an existing advertising customer. The numerator and denominator include revenue from all advertising customers that we served and from which we recognized revenue in the earlier of the two trailing-twelve-month periods being compared. For purposes of discussing our key business metrics, we define an advertising customer as any advertiser account that spends at least $3,000 in the applicable trailing-twelve-month periods. We calculate our net revenue retention of advertising customers as follows:

Numerator: The total revenue earned during the current trailing-twelve-month period from the cohort of advertising customers in the prior trailing-twelve-month period.

Denominator: The total revenue earned during the immediately preceding trailing-twelve-month period from such cohort of advertising customers in such trailing-twelve-month period.

The quotient obtained from this calculation is our net revenue retention rate of advertising customers.

Our calculation of net revenue retention of advertising customers may differ from similarly titled metrics presented by other companies.

Our net revenue retention of advertising customers decreased from 118% as of March 31, 2023 to 113% as of March 31, 2024. The decrease in the net revenue retention of advertising customers as of March 31, 2023 compared to March 31, 2024 was primarily due lower advertising revenue growth during the trailing-twelve-month period of 15% in 2024 compared to 22% in 2023.

Total number of large advertising customers

Historically, our revenue has been primarily driven by large advertising customers. Increasing awareness of our solutions, further developing our sales and marketing expertise, and continuing to build solutions that address the unique needs of the top 500 global advertisers have increased our number of large advertising customers. We determine our number of large advertising customers by counting the total number of advertising accounts who have spent at least $200,000 per year. We believe our ability to recruit and cross-sell our products to large advertising customers is critical to our long-term success. Our total number of large advertising customers increased from 204 as of March 31, 2023 to 227 as of March 31, 2024. Revenue from large advertising customers represented 85% of our total advertising revenue (measurement and optimization revenue) for the trailing-twelve-month period ended March 31, 2024, 87% for the trailing-twelve-month period ended December 31, 2023, and 84% for the trailing-twelve-month period ended March 31, 2023. As macroeconomic conditions continue to be uncertain with high inflation and high interest rates, there is no guarantee that we will continue to see an increase of large advertising customers.

Components of Results of Operations

Revenue

We derive revenue primarily from advertisers (buy-side) and publishers (sell-side). Our post-bid measurement solutions enable advertisers to measure campaign performance and value across viewability, ad fraud prevention, brand safety and suitability for ads on desktop, mobile, CTV, social, display audio, gaming and video platforms. Our pre-bid optimization solutions are directly integrated with DSPs to help optimize return on ad spend by directing budgets to the best available inventory. Our publisher solutions drive yield by identifying high quality ad inventory that is fraud free, viewable, brand safe and suitable, and geographically targeted on a global basis.

We recognize revenue when control of the promised services are transferred to customers. We recognize revenue by multiplying the cost per thousand impressions ("CPM") and the number of impressions measured. An impression is measured by the platform when a digital ad is served to a real person rather than a bot in a brand-safe and suitable environment within the correct geography. Contracts with our customers primarily utilize a usage-based structure, where the customer pays a fee to the Company based on the total ads measured. Depending on our customer needs, our contracts may also utilize other pricing arrangements, including minimum commitments, overages based on tiered pricing or flat fees.

Operating Expenses

Cost of revenue. Cost of revenue consists of data center costs, hosting fees, revenue share with our DSP partners and personnel costs. Personnel costs include salaries, bonuses, equity-based compensation, and employee benefit costs, primarily attributable to our customer operations group. Our customer operations group is responsible for onboarding, integration of new clients and providing support for existing customers, including technical support for our technology platform and product offering. We allocate overhead such as rent and occupancy and information technology infrastructure charges based on headcount.

Sales and marketing. Sales and marketing expenses consist primarily of personnel costs, including salaries, bonuses, equity-based compensation, employee benefits costs and commission costs, for our sales and marketing personnel. Sales and marketing expense also includes costs for advertising, promotional and other marketing activities. We allocate overhead such as rent and occupancy and information technology infrastructure charges based on headcount. Sales commissions are expensed as incurred.

Technology and development. Technology and development expenses consist primarily of personnel costs of our engineering, product, and data sciences activities. Personnel costs including salaries, bonuses, equity-based compensation and employee benefits costs, third-party consultant costs associated with the ongoing development and maintenance of our technology platform and product offering. We allocate overhead such as rent and occupancy and information technology infrastructure charges based on headcount. Technology and development costs are expensed as incurred, except to the extent that such costs are associated with software development that qualifies for capitalization, which are then recorded as capitalized software development costs included in internal use software, net on our Consolidated Balance Sheet.

General and administrative. General and administrative expenses consist of personnel costs, including salaries, bonuses, equity-based compensation, and employee benefits costs for our executive, finance, legal, human resources, information technology, and other administrative employees. General and administrative expenses also include outside consulting, legal and accounting services, allocated facilities costs, and travel and entertainment primarily related to intra-office travel and conferences.

Depreciation and amortization. Depreciation and amortization expense consists primarily of depreciation and amortization expenses related to customer relationships, developed technologies, trademarks, favorable leases, equipment, leasehold improvements and other tangible and intangible assets. We depreciate and amortize our assets in accordance with our accounting policies. Maintenance and repairs, which do not extend the useful life of the respective assets, are charged to expense as incurred. Intangible assets are amortized on a straight-line basis over their estimated useful lives or using an accelerated method. Useful lives of intangible assets range from five years to fifteen years.

Foreign exchange loss, net. Foreign exchange loss, net, is impacted by fluctuations in exchange rates and the amount of foreign-currency denominated cash, receivables, intercompany balances, and payables.

Interest expense, net

Interest expense, net. Interest expense consists primarily of interest payments on our outstanding borrowings under our prior credit agreement, the Credit Agreement (as defined below under "Liquidity and Capital Resources") and amortization of related debt issuance costs net of interest income.

Benefit from income taxes

Benefit from income taxes. The income tax benefit resulted from pre-tax book loss multiplied by statutory tax rate, increased by non-deductible expenses relating to stock-based compensation and offset by R&D and other tax credits and discrete items.

Results of Operations

The following table sets forth our consolidated statement of operations for the periods indicated:

(in thousands, except percentages)	**Three Months Ended March 31,**	
	2024	**2023**
Revenue	$ 114,530	$ 106,092
Operating expenses:		
Cost of revenue (excluding depreciation and amortization shown below)	26,161	21,682
Sales and marketing	31,825	26,260
Technology and development	17,978	15,529
General and administrative	21,380	20,723
Depreciation and amortization	15,080	12,825
Foreign exchange loss (gain), net	1,569	(516)
Total operating expenses	113,993	96,503
Operating income	537	9,589
Interest expense, net	(1,926)	(3,417)
Net (loss) income before income taxes	(1,389)	6,172
Benefit (provision) from income taxes	134	(3,026)
Net (loss) income	$ (1,255)	$ 3,146
Net (loss) income margin	(1)%	3 %

The following table sets forth our consolidated statement of operations data expressed as a percentage of total revenue for the periods indicated:

	Three Months Ended March 31,	
	2024	2023
Revenue	100 %	100 %
Operating expenses:		
Cost of revenue (excluding depreciation and amortization shown below)	23 %	20 %
Sales and marketing	28 %	25 %
Technology and development	16 %	15 %
General and administrative	19 %	20 %
Depreciation and amortization	13 %	12 %
Foreign exchange loss (gain), net	1 %	— %
Total operating expenses	100 %	91 %
Operating income	— %	9 %
Interest expense, net	(2)%	(3)%
Net (loss) income before income taxes	(1)%	6 %
Benefit (provision) from income taxes	— %	(3)%
Net (loss) income	(1)%	3 %

Comparison of the Three Months Ended March 31, 2024 and 2023

(in thousands, except percentages)	Three Months Ended March 31,			
	2024	2023	$ change	% change
Revenue	$ 114,530	$ 106,092	$ 8,438	8 %
Operating expenses:				
Cost of revenue (excluding depreciation and amortization shown below)	26,161	21,682	4,479	21 %
Sales and marketing	31,825	26,260	5,565	21 %
Technology and development	17,978	15,529	2,449	16 %
General and administrative	21,380	20,723	657	3 %
Depreciation and amortization	15,080	12,825	2,255	18 %
Foreign exchange loss (gain), net	1,569	(516)	2,085	(404)%
Total operating expenses	113,993	96,503	17,490	18 %
Operating income	537	9,589	(9,052)	(94)%
Interest expense, net	(1,926)	(3,417)	1,491	(44)%
Net (loss) income before income taxes	(1,389)	6,172	(7,561)	(123)%
(Benefit) provision for income taxes	134	(3,026)	3,160	(104)%
Net (loss) income	$ (1,255)	$ 3,146	$ (4,401)	(140)%

Revenue

Total revenue increased by $8.4 million, or 8%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023.

(in thousands, except percentages)	Three Months Ended March 31,			
	2024	2023	$ change	% change
Optimization revenue	$ 52,461	$ 51,033	$ 1,428	3 %
Measurement revenue	46,315	40,703	5,612	14 %
Publisher revenue	15,754	14,356	1,398	10 %
Total revenue	$ 114,530	$ 106,092	$ 8,438	8 %

Total revenue for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023 increased primarily due to higher measurement revenue of $5.6 million, or 14%, reflecting growth in volume of impressions of 22%, offset in part by a 7% decline in average CPMs. In addition, optimization revenue increased $1.4 million, or 3%, attributable to growth in volume of impressions of 3%, reflecting softer demand on a comparable basis. Average optimization CPMs were consistent when compared to the three months ended March 31, 2023.

Operating expenses

Cost of Revenue. Cost of revenue increased by $4.5 million, or 21%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This increase was driven by an increase in hosting fees of $4.5 million.

Sales and marketing. Sales and marketing expenses increased by $5.6 million, or 21%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This increase was due to an increase in compensation expenses of $3.5 million to support the continued revenue growth, an increase in stock-based compensation expense of $1.9 million, and an increase in travel expenses of $0.2 million.

Technology and development. Technology and development expenses increased by $2.4 million, or 16%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This increase was primarily due to an increase in software application expenses of $2.0 million and an increase in stock-based compensation expense of $1.2 million. These increases were partially offset by a decrease in compensation expenses of $0.2 million, as a result of higher capitalization of labor due to long-term investments in our product and a decrease in professional services of $0.3 million. The remaining change in technology and development expenses is aggregated from several immaterial variances.

General and administrative. General and administrative expenses increased by $0.7 million, or 3%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This increase was primarily due to an increase in stock-based compensation expense of $1.3 million, offset in part by a decrease in our bad debt reserve of $0.7 million. The remaining increase in general and administrative expenses is aggregated from several immaterial variances.

Depreciation and amortization. Depreciation and amortization expenses increased by $2.3 million, or 18%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. This increase results from an increase in amortization expense related to capitalization of internal-use software of $2.4 million and an increase in depreciation expense of $0.1 million, offset by a decrease in amortization expense for intangible assets of $0.2 million.

Foreign exchange loss (gain), net. Foreign exchange loss, net was $1.6 million for the three months ended March 31, 2024 as compared to a foreign exchange gain, net of $0.5 million for the three months ended March 31, 2023. The loss resulted from fluctuations primarily attributable to the British Pound and Euro currency movements relative to the U.S. Dollar.

Interest expense, net

Interest expense, net. Interest expense, net decreased by $1.5 million, or 44%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. The decrease was due to a $1.0 million decrease in interest expense resulting from a lower average outstanding balance on the Revolver, which was partially offset by an increase in the interest rate on the Revolver from 6.7% at March 31, 2023 to 7.4% at March 31, 2024. Also contributing to the decrease in interest expense was a $0.5 million increase in interest income on our cash balances.

Provision for income taxes

Benefit (provision) from income taxes. Benefit for income taxes increased by $3.2 million, or 104%, for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023. The tax benefit in the current year resulted mainly from the net loss incurred during the three months ended March 31, 2024, as compared to net income generated during the three months ended March 31, 2023, and non-deductible executive compensation pursuant to Section 162(m) of the Internal Revenue Code and discrete items, including stock-based compensation.

Non-GAAP Financial Measures

We use supplemental measures of our performance, which are derived from our consolidated financial information, but which are not presented in our consolidated financial statements prepared in accordance with U.S. GAAP. Adjusted EBITDA is the primary financial performance measure used by management to evaluate our business and monitor ongoing results of operations. We define Adjusted EBITDA as net income (loss) before depreciation and amortization, stock-based compensation, interest expense, income taxes, acquisition, restructuring and integration costs, employee retention tax credit, foreign exchange gains and losses and other one-time, non-recurring costs. Adjusted EBITDA margin represents the Adjusted EBITDA for the applicable period divided by the revenue for that period presented in accordance with U.S. GAAP.

We use non-GAAP financial measures to supplement financial information presented on a U.S. GAAP basis. We believe that excluding certain items from our U.S. GAAP results allows management to better understand our consolidated financial performance from period to period, and better project our future consolidated financial performance, as forecasts are developed at a level of detail different from that used to prepare U.S. GAAP-based financial measures. Moreover, we believe these non-GAAP financial measures provide our shareholders with useful information to help them evaluate our operating results by facilitating an enhanced understanding of our operating performance and enabling them to make more meaningful period-to-period comparisons. Although we believe these measures are useful to investors and analysts for the same reasons they are useful to management, these measures are not a substitute for, or superior to, U.S. GAAP financial measures or disclosures and should be read only in conjunction with financial information presented on a GAAP basis. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Reconciliation of Adjusted EBITDA to its most directly comparable U.S. GAAP financial measure, net income (loss), is presented below. We encourage you to review the reconciliations in conjunction with the presentation of the non-GAAP financial measures for each of the periods presented. In future fiscal periods, we may exclude such items and may incur income and expenses similar to these excluded items.

Adjusted EBITDA

(in thousands, except percentages)	Three Months Ended March 31,	
	2024	2023
Net (loss) income	$ (1,255)	$ 3,146
Depreciation and amortization	15,080	12,825
Stock-based compensation	15,738	11,306
Interest expense, net	1,926	3,417
(Benefit) provision from income taxes	(134)	3,026
Acquisition, restructuring and integration costs	126	811
Foreign exchange loss (gain), net	1,569	(516)
Asset impairments and other costs	—	38
Adjusted EBITDA	$ 33,050	$ 34,053
Revenue	$ 114,530	$ 106,092
Net (loss) income margin	(1)%	3 %
Adjusted EBITDA margin	29 %	32 %

Liquidity and Capital Resources

General

As of March 31, 2024, our principal sources of liquidity were cash and cash equivalents totaling $83.9 million, which was held for working capital purposes, as well as the available balance of our Revolver, defined below.

Our principal commitments consist of obligations under operating leases for office space, our purchase commitments related to hosting and data services and repayments of long-term debt. We lease office space under operating leases, which expire on various dates through November 2032 and the total noncancellable payments under these leases, net of rentals under subleases, were $30.6 million as of March 31, 2024. Total noncancellable purchase commitments related to hosting services as of March 31, 2024, were $145.1 for periods through 2028, of which $38.3 million are committed for the next 12 months and $106.8 million thereafter. As of March 31, 2024, we had no short-term debt. Information about our long-term debt is provided below.

We have financed our operations primarily through cash on our balance sheet and debt financing. We believe our existing cash and cash equivalents, our Revolver and cash provided by operations will be sufficient to meet our working capital and capital expenditure and cash needs for the next twelve months and beyond. We expect our operating cash flows to further improve as we increase our operational efficiency and experience economies of scale. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products and services offerings, and the continuing market acceptance of our products. In the future, we may enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights.

We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies, it could reduce our ability to compete successfully and harm our results of operations.

Credit Agreement

On September 29, 2021, we entered into a new credit agreement with various lenders (the “Credit Agreement”), which provides for an initial $300.0 million in commitments for revolving credit loans (the "Revolver"), which amount may be increased or decreased under specific circumstances, with a $30.0 million letter of credit sublimit and a $100.0 million alternative currency sublimit. In addition, the Credit Agreement provides for the ability to request incremental term loan facilities, in a minimum amount of $5.0 million for each facility. Borrowings under the Credit Agreement may be used for working capital and other general corporate purposes, including for acquisitions permitted under the Credit Agreement. The Company used borrowings under the Credit Agreement, together with cash on hand, to repay all outstanding balances under the prior credit agreement.

On June 23, 2023, the Company entered into the First Amendment to Credit Agreement, which changed the market interest rate on outstanding borrowings from LIBOR to SOFR. The First Amendment to the Credit Agreement became effective at the end of the applicable interest period for any LIBOR borrowings outstanding on the amendment effective date, which was June 30, 2023. Following the First Amendment, the interest rates applicable to the Revolver under the Credit Agreement are, at our option, either (i) in the case of U.S. dollar loans, (x) a base rate, which is equal to the greater of (a) the Prime Rate (as defined in the Credit Agreement), (b) the Federal Funds Effective Rate plus 0.5%, and (c) Adjusted Term SOFR, which is calculated as the sum of (i) term SOFR as published by the Federal Reserve Bank of New York for a one-month Interest Period and (ii) a credit spread adjustment of 0.10% per annum (subject to a floor of 0.0%) (each term as defined in the Credit Agreement) plus 1%, or (ii) in the case of RFR Loans (as defined in the Credit Agreement) denominated in sterling or euro, (x) the applicable RFR (as defined in the Credit Agreement) or (y) the applicable Term RFR (as defined in the Credit Agreement), plus in the case of each of clauses (i) and (ii), the Applicable Rate (as defined in the Credit Agreement). The Applicable Rate (i) for base rate loans range from 0.75% to 1.50% per annum, (ii) for Term SOFR Loans (as defined in the Credit Agreement) ranges from 1.75% to 2.50% per annum, (iii) for RFR Loans denominated in sterling range from 1.7826% to 2.5326%, and (iv) for RFR Loans denominated in euro range from 1.7965% to 2.5456%, in each case, based on the Senior Secured Net Leverage Ratio (as defined in the Credit Agreement). Base rate borrowings may only be made in dollars. The Company also pays a commitment fee during the term of the Credit Agreement ranging from 0.20% to 0.35% per annum of the average daily undrawn portion of the revolving commitments based on the Senior Secured Net Leverage Ratio (as defined in the Credit Agreement). The interest rate at March 31, 2024 was 7.4%.

The Credit Agreement contains covenants requiring certain financial information to be submitted quarterly and annually. In addition, we are also required to comply with certain financial covenants such as maintaining a Total Net Leverage Ratio (as defined in the Credit Agreement) of 3.50 to 1.00 or lower and maintaining a minimum Interest Coverage Ratio (as defined in the Credit Agreement) of 2.50 to 1.00. As of March 31, 2024, the Company was in compliance with all covenants contained in the Credit Agreement. Based upon current facts and circumstances, we believe existing cash coupled with the cash flows generated from operations will be sufficient to meet our cash needs and comply with covenants.

Restrictions on Subsidiaries under the Credit Agreement

The Company is a holding company that conducts substantially all its activities through its subsidiaries and has no material operations of its own or direct outstanding debt obligations. The Company's wholly owned subsidiaries are subject to the terms and restrictions set forth in the Credit Agreement, which among other things, limit the ability of Company's subsidiaries to make loans or advances or pay dividends or distributions. As is customary, these restrictions are subject to specific exceptions set forth in the Credit Agreement. The restrictions placed on the Company's subsidiaries under the Credit Agreement have not had, nor are they expected to have, an impact on the Company's ability to meet its cash obligations because substantially all of the Company's consolidated cash obligations are obligations of the Company's subsidiaries, which payment is generally permitted under the terms of the Credit Agreement.

Cash Flows

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

(in thousands)	Three Months Ended March 31,	
	2024	2023
Net cash (used in) provided by operating activities	$ (1,131)	$ 22,956
Net cash used in investing activities	(10,291)	(8,342)
Net cash used in financing activities	(28,294)	(7,098)
Net (decrease) increase in cash and cash equivalents, and restricted cash	$ (39,716)	$ 7,516
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	(847)	305
Cash, cash equivalents, and restricted cash, at beginning of period	127,290	89,671
Cash, cash equivalents and restricted cash, at end of period	$ 86,727	$ 97,492

Operating Activities

For the three months ended March 31, 2024, net cash used in operating activities was $1.1 million, resulting from a decrease in working capital of $32.0 million, offset by the net loss of $1.3 adjusted for non-cash expenses of depreciation and amortization of $15.1, stock-based compensation of $15.7 million, and unrealized foreign currency losses of $1.4 million. The decrease in working capital primarily reflects unfavorable timing of payments for operating expenses and taxes, as well as the payment of the annual employee bonus liability.

For the three months ended March 31, 2023, net cash provided by operating activities was $23.0 million, resulting from a net income of $3.1 million adjusted for non-cash expenses of depreciation and amortization of $12.8 million, stock-based compensation of $11.3 million, bad debt expense of $0.5 million, partially offset by a decrease in working capital of $1.5 million, foreign currency gains of $0.7 million and a deferred tax benefit of $2.8 million.

Investing Activities

Cash used in investing activities was $10.3 million for the three months ended March 31, 2024, reflecting capitalized costs related to our internal use software of $9.2 million, and the purchase of property and equipment of $1.1 million.

Cash used in investing activities was $8.3 million for the three months ended March 31, 2023, reflecting capitalized costs related to our internal use software of $7.1 million and the purchase of property and equipment of $1.3 million.

Financing Activities

Cash used in financing activities was $28.3 million for the three months ended March 31, 2024, due to a net repayment of outstanding long-term debt of $30.0 million, offset by receipt of $0.3 for stock options exercised and $1.4 million for share purchases under the ESPP.

Cash used in financing activities was $7.1 million for the three months ended March 31, 2023, due to a net repayment of outstanding long-term debt of $10.0 million offset by receipt of $2.1 million for stock options exercised and $0.8 million for share purchases under the ESPP.

Indemnification Agreements

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, including, but not limited to, losses arising out of the breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. No demands have been made upon us to provide indemnification under such agreements and there are no claims that we are aware of that could have a material effect on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, or Condensed Consolidated Statements of Cash Flows.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting estimates described in "Note 2—Basis of presentation and summary of significant accounting policies" to our consolidated financial statements appearing in our 2023 Form 10-K.

Recent Accounting Pronouncements

For a description of our recently issued accounting standards not yet adopted, see Note 2(h) to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

Market risks at March 31, 2024 have not materially changed from those discussed in the Annual Report on Form 10-K for the year ended December 31, 2023 under the heading Part II, Item 7A"Quantitative and Qualitative Disclosures about Market Risk."

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of March 31, 2024.

Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2024.

Changes in Internal Control over Financial Reporting

As described above in the “Evaluation of Disclosure Controls and Procedures” section, there were no changes during the three months ended March 31, 2024, in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Because of its inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we have been and may be involved in various legal proceedings and claims arising in our ordinary course of business. At this time, neither we nor any of our subsidiaries is a party to, and none of our respective property is the subject of, any legal proceeding that, if determined adversely to us, would have a material adverse effect on us.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Part 1, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Insider Trading Arrangements

During the quarter ended March 31, 2024, none of our directors or officers (as defined in Section 16 of the Securities Exchange Act of 1934, as amended), adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (each as defined in Item 408(a) and (c) of Regulation S-K).

ITEM 6. EXHIBITS

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit Number	Description
3.1	Certificate of Incorporation of Integral Ad Science Holding Corp., dated June 29, 2021 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on July 2, 2021).
3.2	Bylaws of Integral Ad Science Holding Corp., dated June 29, 2021 (incorporated by reference to the Company's Exhibit 3.2 to the Company's Form 8-K filed on July 2, 2021).
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, furnished herewith.
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, furnished herewith.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

** The certifications furnished in Exhibit 32.1 and Exhibit 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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.

Integral Ad Science Holding Corp. (Registrant)

Date: May 9, 2024	By:	/s/Tania Secor
		Tania Secor
		Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Lisa Utzschneider, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Integral Ad Science Holding Corp.;
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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ Lisa Utzschneider
Lisa Utzschneider
Director and Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tania Secor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Integral Ad Science Holding Corp.;
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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 9, 2024

/s/ Tania Secor
Tania Secor
Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Integral Ad Science Holding Corp. (the “Company”) for the period ended March 31, 2024, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Lisa Utzschneider, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2024

/s/ Lisa Utzschneider
Lisa Utzschneider
Director and Chief Executive Officer

Exhibit 32.2

Certification of the Chief Financial Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Integral Ad Science Holding Corp. (the “Company”) for the period ended March 31, 2024, as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), I, Tania Secor, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 9, 2024

/s/ Tania Secor

Tania Secor
Chief Financial Officer