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, 2022

OR

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

For the transition period from ______________ to ______________

Commission File Number: 001-40557

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

Delaware	**83-0731995**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Not Applicable[1]	
(Address of principal executive offices)	**(Zip Code)**

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

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 10, 2022, the Registrant had 155,115,262 shares of common stock, $0.001 par value, outstanding.

[1]Any stockholder or other communication required to be sent to our principal executive offices may be directed to our mailing address: 99 Wall Street, #1950, New York, NY 10005

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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, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 82,255	$ 73,210
Restricted cash	78	70
Accounts receivable, net	53,956	53,028
Unbilled receivables	35,549	36,210
Prepaid expenses and other current assets	9,768	7,647
Total current assets	181,606	170,165
Property and equipment, net	1,378	1,413
Internal use software, net	18,808	18,100
Intangible assets, net	248,102	258,316
Goodwill	675,632	676,513
Operating lease right-of-use assets	20,150	—
Deferred tax asset, net	876	887
Other long-term assets	4,313	4,143
Total assets	$ 1,150,865	$ 1,129,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 47,684	$ 56,257
Due to related party	97	74
Deferred revenue	370	160
Operating lease liabilities, current	5,772	—
Total current liabilities	53,923	56,491
Accrued rent	—	854
Net deferred tax liability	52,470	53,523
Long-term debt	242,914	242,798
Operating lease liabilities, non-current	21,878	—
Other long-term liabilities	1,639	8,681
Total liabilities	372,824	362,347
Commitments and Contingencies (Note 15)		
Stockholders' Equity		
Preferred Stock, $0.001 par value, 50,000,000 shares authorized at March 31, 2022; 0 shares issued and outstanding at March 31, 2022 and December 31, 2021.	—	—
Common Stock, $0.001 par value, 500,000,000 shares authorized, 155,016,271 and 154,398,495 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively.	155	154
Additional paid-in-capital	792,616	781,951
Accumulated other comprehensive loss	(1,289)	(315)
Accumulated deficit	(13,441)	(14,600)
Total stockholders' equity	778,041	767,190
Total liabilities and stockholders' equity	$ 1,150,865	$ 1,129,537

See notes to the unaudited condensed consolidated financial statements.

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

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)	Three Months Ended March 31, 2022	2021
Revenue	$ 89,242	$ 66,952
Operating expenses:		
Cost of revenue (excluding depreciation and amortization shown below)	16,561	11,420
Sales and marketing	23,057	16,545
Technology and development	16,987	12,769
General and administrative	16,769	8,547
Depreciation and amortization	12,458	14,395
Total operating expenses	85,832	63,676
Operating income	3,410	3,276
Interest expense, net	(1,426)	(6,960)
Net income (loss) before income taxes	1,984	(3,684)
(Provision) benefit from income taxes	(825)	912
Net income (loss)	$ 1,159	$ (2,772)
Net income (loss) per share – basic and diluted [1]	$ 0.01	$ (0.02)
Weighted average shares outstanding:		
Basic	154,477,403	134,007,742
Diluted	157,159,026	134,007,742
Other comprehensive income (loss):		
Foreign currency translation adjustments	(974)	(1,904)
Total comprehensive income (loss)	$ 185	$ (4,676)

[1] Amounts for periods prior to the Company's conversion to a Delaware corporation have been retrospectively adjusted to give effect to the corporate conversion described in Note 1.

See notes to the unaudited condensed consolidated financial statements.

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

Three Months Ended March 31, 2022

(IN THOUSANDS, EXCEPT SHARES)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
Balance, December 31, 2021	154,398,495	$ 154	$ 781,951	$ (315)	$ (14,600)	$ 767,190
RSUs vested	12,094	—	—	—	—	—
Option exercises	605,682	1	2,531	—	—	2,532
Stock-based compensation	—	—	8,134	—	—	8,134
Foreign currency translation adjustment	—	—	—	(974)	—	(974)
Net income	—	—	—	—	1,159	1,159
Balance, March 31, 2022	155,016,271	$ 155	$ 792,616	$ (1,289)	$ (13,441)	$ 778,041

Three Months Ended March 31, 2021

(IN THOUSANDS, EXCEPT UNITS AND SHARES)	Member's Interest Units[1]	Member's Interest Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total members' equity
Balance, December 31, 2020	134,039,494	$ 553,717	$ —	$ 4,523	$ (126,761)	$ 431,479
Repurchase of units	(99,946)	(413)	—	—	(789)	(1,202)
Foreign currency translation adjustment	—	—	—	(1,904)	—	(1,904)
Net loss	—	—	—	—	(2,772)	(2,772)
Balance, March 31, 2021	133,939,548	$ 553,304	$ —	$ 2,619	$ (130,322)	$ 425,601

[1] Amounts for periods prior to the Company's conversion to a Delaware corporation have been retrospectively adjusted to give effect to the corporate conversion described in Note 1.

See notes to the unaudited condensed consolidated financial statements.

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

(IN THOUSANDS)	**Three Months Ended March 31, 2022**	**2021**
Cash flows from operating activities:		
Net income (loss)	$ 1,159	$ (2,772)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	12,458	14,395
Stock-based compensation	8,139	—
Deferred tax benefit	(719)	—
Amortization of debt issuance costs	116	341
Allowance for (reversal of) doubtful accounts	314	(266)
Non-cash interest expense	—	395
Impairment of assets	49	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(1,673)	3,556
Decrease in unbilled receivables	649	2,939
Increase in prepaid expenses and other current assets	(2,612)	(3,743)
Operating leases, net	(195)	—
Increase in other long-term assets	(185)	(151)
Decrease in accounts payable and accrued expenses	(6,520)	(6,833)
Increase in accrued rent	—	31
Increase (decrease) in deferred revenue	173	(44)
Increase (decrease) in due to/from related party	34	(151)
Net cash provided by operating activities	11,187	7,697
Cash flows from investing activities:		
(Purchase of) proceeds from sale of property and equipment	(328)	5
Acquisition and development of internal use software and other	(2,677)	(6,382)
Net cash used in investing activities	(3,005)	(6,377)
Cash flows from financing activities:		
Principal payments on capital lease obligations	—	(136)
Cash paid for unit repurchases	—	(1,202)
Repayment of short-term debt	(1,934)	—
Exercise of stock options	2,532	—
Net cash provided by (used in) financing activities	598	(1,338)
Net increase (decrease) in cash, cash equivalents and restricted cash	8,780	(18)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	278	(846)
Cash, cash equivalents and restricted cash at beginning of period	76,078	54,721
Cash, cash equivalents, and restricted cash, at end of period	$ 85,137	$ 53,857
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	$ 1,298	$ 6,281
Taxes	$ 977	$ 326
Non-cash investing and financing activities:		
Deferred offering costs accrued, not yet paid	$ —	$ 1,676
Property and equipment acquired included in accounts payable	$ 16	$ 93
Internal use software acquired included in accounts payable	$ 1,128	$ 480
Lease liabilities arising from right of use assets	$ 27,650	$ —

See notes to the unaudited condensed consolidated financial statements.

1. Description of business

Integral Ad Science Holding Corp. and its wholly-owned subsidiaries (together, the “Company”), formerly known as Kavacha Topco, LLC, 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 deliver 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, viewable on-screen, and appear in a brand-safe and suitable environment in 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 has its operations within the United States ("U.S.") in New York, California, and Illinois. Operations outside the U.S. are within the United Kingdom ("U.K."), Germany, Italy, Spain, Sweden, Singapore, Australia, France, Japan, Canada, Brazil and India.

Corporate conversion

On February 23, 2021, the Company amended the certificate of formation of Kavacha Topco, LLC to change the name of the Company to Integral Ad Science Holding LLC and on June 29, 2021, the Company converted to a Delaware corporation pursuant to a statutory conversion and changed its legal name to Integral Ad Science Holding Corp. in connection with its initial public offering ("IPO"). All of the outstanding member units were converted into 134,203,403 shares of common stock of the Company on a proportion of 1 member unit for 242 shares of common stock with the same voting rights. On June 29, 2021, the Company priced its IPO, which closed on July 2, 2021.

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 sheet as of March 31, 2022, the condensed consolidated statements of operations and comprehensive income (loss), of cash flows and of members’/stockholders’ equity for the three months ended March 31, 2022 and 2021, 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, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022, or for any future period.

The Company’s significant accounting policies are discussed in Note 2 to the consolidated financial statements for the years ended December 31, 2021, 2020 and 2019. There have been no significant changes to these policies, except for the adoption of ASC 842, *Leases* as disclosed in Note 2(g), that have had a material impact on the Company’s condensed consolidated financial statements and related notes for the three months ended March 31, 2022. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission (“SEC”) on March 3, 2022.

(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. Actual results could differ from these estimates. 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 doubtful accounts, 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 the COVID-19 pandemic.

(d) Cash, cash equivalents, and restricted cash

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, 2022	December 31, 2021
Cash and cash equivalents	$ 82,255	$ 73,210
Short term restricted cash	78	70
Long term restricted cash (held in other long-term assets)	2,804	2,798
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	$ 85,137	$ 76,078

(e) Accounts receivable, net

Accounts receivable are carried at the original invoiced amount less an allowance for doubtful accounts. The allowance is estimated based on management’s knowledge of its customers’ financial condition, credit history, and existing economic conditions. 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 Consolidated Statements of Operations and Comprehensive Income (Loss).

The activity in our allowance for doubtful accounts consists of the following as of:

	March 31, 2022	March 31, 2021
Balance, beginning of period	$ 5,883	4,257
Additional provision (reversal)	314	(266)
Receivables written off	(207)	(574)
Balance, end of period	$ 5,990	3,417

(f) 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 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 Vista Equity Partners ("Vista"), the Company's equity sponsor and funds controlled by Vista and registration of the shares held by Vista.

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 — Since the Company does not have substantive trading history of its common stock, volatility is estimated based upon observed option-implied volatilities for 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 units.

Fair value —Prior to the IPO, because there was no public market for the Company's common stock/units, the board of directors determined the best estimate of the fair value of the Company's option grants, based on reasonable judgment and numerous objective and subjective factors, including independent third-party valuations of the Company's common stock/units, operating and financial performance, and general and industry-specific economic outlook, amongst other factors. Following the pricing of the IPO, the Company's shares are traded in the public market, 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, 2022			March 31, 2021 [1]		
Estimated fair value	$8.16	-	$14.04		$2.29	
Expected volatility (%)	65%	-	80%	70%	-	75%
Expected term (in years)	3.00	-	10.00	3.25	-	6.63
Risk-free interest rate (%)	0.46%	-	0.98%	0.26%	-	0.55%
Dividend yield		—			—	

[1] For issuances prior to the pricing of the IPO, the fair value of the Company's option grants was estimated at the grant date using the Monte Carlo simulation model and relate to the Return-Target Options only as the Time-Based Options were not within the scope of ASC 718, *Compensation - Stock Compensation* for the three months ended March 31, 2021.

(g) Recently adopted accounting pronouncements

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU No. 2019-12”) effective January 1, 2021, which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. Most amendments within ASU No. 2019-12 are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company early adopted ASU No. 2019-12, which did not have a material impact on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (“ASU No. 2018-15”), which requires customers in a cloud computing arrangement that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets. The guidance requires certain costs incurred during the application development stage to be capitalized and other costs incurred during the preliminary project and post-implementation stages to be expensed as they are incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrange is ready for its intended use. A customer’s accounting for the hosting component of the arrangement is not affected. The Company adopted this guidance on January 1, 2021 on a prospective basis. The adoption of ASU 2018-15 did not have a material impact on the Company’s condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-2, “Leases (Topic 842)” (“ASU No. 2016-2”). Under ASU No. 2016-2, lessees are required to put most leases on their balance sheets but to recognize expenses in the income statement in a manner similar to current accounting. ASU No. 2016-2 also eliminated the current real estate-specific provisions and changes the guidance on sale-leaseback transactions, initial direct costs, and lease executory costs for all entities. The updated guidance is effective for the Company beginning January 1, 2022. Upon adoption, entities will be required to use the modified retrospective approach for leases that exist, or are entered into, after the beginning of the earliest comparative period in the financial statements. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), Targeted Improvements, which allows entities to not apply the new leases standard, including its disclosure requirements, in the comparative periods they present in their financial statements in the year of adoption.

The Company adopted ASU No. 2016-2 on January 1, 2022 using the modified retrospective transition approach, which resulted in the recognition of right-of-use assets ("ROU assets") of $21,666 and lease liabilities of $29,361. Differences between ROU assets and lease liabilities are attributed to deferred rent, lease incentive obligations and cease-use liability previously recognized under ASC 420 *Exit or Disposal Cost Obligations.* The Company elected the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. In addition, the Company elected the expedient permitting the combination of lease and non-lease components into a single lease component. The Company made a policy election to not recognize right-of-use assets and lease liabilities for short-term leases for all asset classes.

The adoption of ASU No. 2016-2 did not have a material impact on the Consolidated Statements of Operations and Comprehensive Income (Loss) or the Consolidated Statement of Cash Flows. Expanded disclosures around the Company's lease agreements under ASU No. 2016-2 are included in Note 14, Leases.

(h) Accounting pronouncements not yet adopted

In October 2021, the FASB issued ASU 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers," which is intended to improve the accounting for acquired revenue contracts with customers in a business combination and create consistency in practice related to (i) the recognition of an acquired contract liability, and (ii) payment terms and their effect on subsequent revenue recognized by the acquirer. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2023. The Company will evaluate the impact of this guidance on future acquisitions as transactions occur.

In March 2020, the FASB issued ASU 2020-4, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” (“ASU No. 2020-4”) which is intended to address accounting consequences that could result from the global markets’ anticipated transition away from the use of the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. The amendments in ASU No. 2020-4 provide operational expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions to affected by reference rate reform if certain criteria are met. The amendments in ASU No. 2020-4 apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of the reference rate reform. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022. The Company intends to elect to apply certain of the optional expedients when evaluating the impact of reference rate reform on its debt instruments that reference LIBOR. The Company does not expect the adoption of ASU No. 2020-4 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” (“ASU No. 2016-13”) which is intended to provide more decision-useful information about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. ASU No. 2016-13 revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses on financial instruments, including, but not limited to accounts receivable. This guidance will be effective for the Company beginning January 1, 2023, including interim periods within that reporting period. Early adoption is permitted and the update allows for a modified retrospective method of adoption. The Company is currently evaluating the potential effect that adopting this guidance will have on its Condensed Consolidated Financial Statements.

3. Business combinations

Publica LLC

On August 9, 2021, a wholly-owned subsidiary of the Company acquired, directly or indirectly, all the membership units and membership interests of Publica LLC ("Publica"). The purchase price related to this acquisition was $171,366 in cash and 2,888,889 shares of common stock of the Company, valued at $49,631. The acquisition was financed with proceeds received from the Company's IPO.

The acquisition was accounted for in accordance with ASC 805, using the acquisition method of accounting. The assets and liabilities of Publica, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs. Determining the fair value of the assets acquired and liabilities assumed requires judgement and involved the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, assets useful lives, market multiples, and other items. The use of different estimates and judgements could yield materially different results.

The fair values allocated to the assets acquired are based on management's estimates and assumptions and may be subject to change as additional information becomes available. The fair value of the customer relationship intangible asset acquired was determined using the excess earnings method. The fair value of the trademark and developed technology intangible assets acquired were determined using the relief from royalty method.

The excess of the purchase price, over the fair value of net assets acquired, including the amount assigned to the identifiable intangible assets, has been recorded to goodwill. The resulting goodwill has been allocated to the Company's single reporting unit. $57,972 of goodwill will be deductible for tax purposes.

The allocation of purchase consideration to the assets acquired and liabilities assumed is as follows:

	Fair Value	Useful Life
Assets acquired:		
Cash and cash equivalents	$ 4,482	
Accounts receivable	2,391	
Property, plant and equipment	46	
Prepaid expenses	188	
Security deposits	12	
Intangible assets:		
Developed technology	15,200	5 years
Trademarks	2,200	5 years
Customer relationships	42,800	6 years
Total intangible assets	60,200	
Total identifiable assets acquired	**$ 67,319**	
Liabilities assumed:		
Accounts payable	$ 560	
Other current liabilities	2	
Deferred tax liability	36,161	
Total liabilities assumed	**36,723**	
Goodwill	190,401	Indefinite
Total purchase consideration	**$ 220,997**	

Context

On December 31, 2021, a wholly-owned subsidiary of the Company acquired, directly or indirectly, all the common equity of Nobora SAS ("Context"). The Context acquisition builds on the Company's current, market-leading media classification and contextual targeting capabilities. The integration of Context's technology will enable marketing partners to identify brand suitable content beyond standard frameworks and contextually target with granularity. The purchase price related to this acquisition was $22,575 in cash, of which $1,354 is payable on May 15, 2022 and $966 is payable on December 31, 2023, and 457,959 shares of common stock of the Company, valued at $10,391.

The Context acquisition was accounted for in accordance with ASC 805, using the acquisition method of accounting. The assets and liabilities of Context, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs. Determining the fair value of the assets acquired and liabilities assumed requires judgement and involved the use of significant estimates and assumptions, including assumptions with respect to discount rates, opportunity costs, and assets useful lives. The use of different estimates and judgements could yield materially different results.

The fair values allocated to the assets acquired are based on management's estimates and assumptions and may be subject to change as additional information becomes available. The fair value of the developed technology intangible asset acquired was determined using the cost method.

The excess of the purchase price, over the fair value of net assets acquired, including the amount assigned to the identifiable intangible assets, has been recorded to goodwill. The resulting goodwill has been allocated to the Company's single reporting unit, none of which will be deductible for tax purposes.

The allocation of purchase consideration to the assets acquired and liabilities assumed is as follows:

	Fair Value	Useful Life
Assets acquired:		
Accounts receivable	$ 122	
Other assets	112	
Developed technology	7,670	5 years
Total identifiable assets acquired	**$ 7,904**	
Liabilities assumed:		
Accounts payable	$ 318	
Short-term debt	2,354	
Deferred tax liability	142	
Total liabilities assumed	**2,814**	
Goodwill	27,876	Indefinite
Total purchase consideration	**$ 32,966**	

The Company recognized a deferred tax liability of $142 on its purchase of Context.

4. Property and equipment, net

Property and equipment consisted of the following:

	Estimated useful life (in years)	March 31, 2022	December 31, 2021
Computer and office equipment	1 - 3 years	$ 3,324	$ 3,100
Computer software	3 - 5 years	218	218
Leasehold improvements	Various	405	412
Furniture	5 years	78	66
Total property and equipment		4,025	3,796
Less: accumulated depreciation		(2,647)	(2,383)
Total property and equipment, net		$ 1,378	$ 1,413

Depreciation expense of property and equipment for the three months ended March 31, 2022 and 2021 was $218 and $510, respectively.

5. Internal use software, net

Internal use software consisted of the following:

	Estimated useful life (in years)	March 31, 2022	December 31, 2021
Internal use software	3 - 5 years	$ 35,489	$ 32,591
Less: Accumulated amortization		(16,681)	(14,491)
Total internal use software, net		$ 18,808	$ 18,100

Amortization expense for the three months ended March 31, 2022 and 2021 was $2,227 and $1,686, respectively. For the three months ended March 31, 2022, the Company impaired $49 of costs related to projects that were no longer being implemented, recorded in general and administrative expenses within the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

6. Intangible assets, net

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

	March 31, 2022				
	Estimated useful life	Gross book value	Accumulated amortization	Net book value	Weighted average remaining useful life
Customer relationships	5 - 15 years	$ 302,005	$ (89,727)	$ 212,278	10.2 years
Developed technology	4 - 5 years	138,098	(114,006)	24,092	4.2 years
Trademarks	5 - 9 years	19,700	(8,043)	11,657	5.1 years
Favorable leases	6 years	198	(123)	75	2.3 years
Total		$ 460,001	$ (211,899)	$ 248,102	

	December 31, 2021				
	Estimated useful life	Gross book value	Accumulated amortization	Net book value	Weighted average remaining useful life
Customer relationships	5 - 15 years	$ 302,026	$ (82,105)	$ 219,921	10.4 years
Developed technology	4 - 5 years	138,342	(112,347)	25,995	4.5 years
Trademarks	5 - 9 years	19,700	(7,384)	12,316	5.4 years
Favorable leases	6 years	198	(114)	84	2.5 years
Total		$ 460,266	$ (201,950)	$ 258,316	

Amortization expense related to intangibles for the three months ended March 31, 2022 and 2021 was $10,013 and $12,067, respectively.

7. Goodwill

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

Goodwill as of December 31, 2021	$ 676,513
Measurement period adjustments	(252)
Impact of exchange rates	(629)
Goodwill as of March 31, 2022	$ 675,632

8. Accounts payable and accrued expenses

Accounts payable and accrued expenses consisted of the following:

	March 31, 2022	December 31, 2021
Accounts payable	$ 17,383	$ 8,307
Accrued payroll	5,908	5,047
Accrued professional fees	1,496	2,334
Accrued interest	48	33
Accrued bonuses and commissions	6,210	16,454
Accrued revenue sharing	3,428	8,497
Taxes payable	6,230	6,076
Short term debt	—	1,976
Accrued hosting fees	3,089	2,465
Cease use liability (short-term)	—	1,298
Other accrued expenses	3,892	3,770
Total accounts payable and accrued expenses	$ 47,684	$ 56,257

Other long-term liabilities consisted of the following:

	March 31, 2022	December 31, 2021
Purchase price payable for the acquisition of Context	$ 967	$ 2,320
Cease use liability (long-term)	—	5,689
Security deposit received	672	672
Total Other long-term liabilities	$ 1,639	$ 8,681

9. Long-term debt

New Credit Agreement

On September 29, 2021, the Company entered into a new credit agreement with various lenders (the “New Credit Agreement” or the “New Revolver”), that provides for an initial $300,000 in commitments for revolving credit loans, 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 New 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 New Credit Agreement may be used for working capital and other general corporate purposes, including for acquisitions permitted under the New Credit Agreement. The Company drew down $235,000 on the New Revolver on September 29, 2021 and an additional $10,000 on December 23, 2021.

Borrowings under the New Credit Agreement are scheduled to mature on September 29, 2026. The New Credit Agreement contains certain customary events of default including failure to make payments when due thereunder, and failure to observe or perform certain covenants.

The proceeds of the New Revolver, together with cash on hand, were used to repay the outstanding balance of the Term Loan and Revolving Loan. In connection with the New Revolver, the Company incurred costs of $2,318 that are included in Long-term debt, net, in the Condensed Consolidated Balance Sheets. In connection with the extinguishment of the Term Loan and Revolving Loan, the Company wrote off deferred financing costs of $3,721 as a loss on extinguishment.

The interest rates for the New Revolver under the New Credit Agreement for U.S. dollar loans are equal to (i) the applicable rate for base rate loans range from 0.75% to 1.50% per annum, (ii) for LIBO Rate (as defined in the New Credit Agreement) loans range from 1.75% to 2.50% per annum, (iii) for RFR Loans (as defined in the New 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 New Credit Agreement). Base rate borrowings may only be made in dollars. The Company will pay a commitment fee during the term of the New 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, 2022 was 2.5%.

Any borrowings under the New 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 New 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 Net Leverage Ratio (as defined in the New Credit Agreement) of 3.50:1.00 or lower and maintaining a minimum Interest Coverage Ratio (as defined in the New Credit Agreement) of 2.50 to 1.00. As of March 31, 2022, the Company was in compliance with all covenants contained in the New Credit Agreement.

	March 31, 2022	December 31, 2021
New Revolver	$ 245,000	$ 245,000
Less: Unamortized debt issuance costs	(2,086)	(2,202)
Total carrying amount	$ 242,914	$ 242,798

Amortization of debt issuance costs for the three months ended March 31, 2022 and 2021 was $116 and $341, respectively. Amortization of debt issuance costs is recorded to interest expense, net on the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company recognized interest expense of $1,312 and $6,222 during the three months ended March 31, 2022 and 2021, respectively. Future principal payments of long-term debt as of March 31, 2022 are as follows:

Year Ending	
2022 (remaining nine months)	$ —
2023	—
2024	—
2025	—
2026	245,000
	$ 245,000

10. 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, 2022 and 2021, the Company recorded an income tax provision of $825 and an income tax benefit of $912, respectively. The Company’s effective tax rate for the three months ended March 31, 2022 and 2021 was 41.6% and 24.8%, respectively. The Company's effective tax rate for the three months ended March 31, 2022 is higher than for the respective three months ended March 31, 2021 primarily due to non-deductible stock-based compensation as the Company became subject to the provisions of Section 162(m) of the Internal Revenue Code as a result of becoming a public company.

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.

11. 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 Company’s 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,	
	2022	2021
North and South America (“Americas”)	$ 60,559	$ 41,190
Europe, Middle East and Africa (“EMEA”)	21,658	18,917
Asia and Pacific Rim (“APAC”)	7,025	6,845
Total	$ 89,242	$ 66,952

For the three months ended March 31, 2022 and 2021, revenue in the U.S. was $57,432 and $38,901, respectively.

The following table summarizes long lived assets by geographic area:

	March 31, 2022	December 31, 2021
Long lived assets		
Americas	$ 16,748	$ 876
EMEA	887	181
APAC	3,893	356
Total	$ 21,528	$ 1,413

12. Stock-based compensation

Integral Ad Science Holding Corp. Amended and Restated 2018 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 had 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 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 Company’s board of directors 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 can 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 Company’s IPO, the 2018 Plan was amended and restated (“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*. During the three months ended March 31, 2022, the Company recognized stock compensation expense of $3,876 related to the Time-Based Options.

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. As of March 31, 2022, the condition relating to Vista's cash return was not deemed probable and therefore, no stock-based compensation expense was recognized relating to the Return-Target Options.

Vesting of the Time-Based Options accelerate 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 it becomes probable that the Return-Target Options would vest.

The total number of Time-Based Options and Return Target Options outstanding under the Amended and Restated 2018 Plan as of March 31, 2022 were 4,586,408 and 2,270,455, 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, 2022, there were 27,421,802 shares reserved for issuance under the 2021 Plan and the total number of shares reserved for issuance under the 2021 Plan will be 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 31 immediately prior to the date of increase or (ii) such number of shares of common stock determined by our Board or compensation committee.

During the three months ended March 31, 2022, the Company recognized stock compensation expense of $868 related to the stock options. As of March 31, 2022, there are 1,883,690 total options outstanding under the 2021 Plan, consisting of two-thirds or 1,255,471 Time-Based Options and one-third or 628,219 Return-Target Options. The vesting conditions for the options issued under the 2021 Plan are identical to the those described under the Amended and Restated 2018 Plan.

Stock option activity for the three months ended March 31, 2022 is as follows:

Time-Based Options

	Stock options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding at January 1, 2022	6,648,975	$ 7.46	7.76	$ 98,055
Granted	—	—	—	—
Canceled or forfeited	(201,414)	4.13	—	—
Exercised	(605,682)	4.18	—	—
Outstanding at March 31, 2022	5,841,879	$ 7.92	7.61	$ 39,635
Vested and expected to vest at March 31, 2022	5,841,879	$ 7.92	7.61	—
Exercisable as of March 31, 2022	2,883,956	$ 4.64	6.83	$ 26,425

Return-Target Options

	Stock options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding at January 1, 2022	3,265,126	$ 7.53	7.27	47,947
Granted	—	—	—	—
Canceled or forfeited	(366,452)	4.13	—	—
Exercised	—	—	—	—
Outstanding at March 31, 2022	2,898,674	$ 7.95	7.75	$ 19,582
Vested and expected to vest at March 31, 2022	2,898,674	$ 7.95	7.75	—
Exercisable as of March 31, 2022	—	—	—	—

As of March 31, 2022, unamortized stock-based compensation expense related to the Time-Based Options was $31,102, which will be recognized over the weighted average vesting term of 2.3 years. In addition, unamortized stock-based compensation expense related to the Return-Target Options of $35,236 will be recognized when events that trigger vesting are deemed probable.

2021 Employee Stock Purchase Plan ("ESPP")

The Company adopted the ESPP for the primary purpose of incentivizing employees in future periods. As of March 31, 2022, 3,033,556 shares of common stock are reserved for issuance under the ESPP, and the number of shares available for issuance will be increased on January 1 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 of 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 can purchase shares through payroll deductions of up to 15% of their eligible compensation, subject to a maximum of $25,000 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. There are no shares issued under the ESPP plan as of March 31, 2022.

Integral Ad Science Holding Corp. Long-Term Incentive Plan

In 2018, the Company adopted the Long-Term Incentive Plan (“LTIP”). Under the LTIP, certain employees were granted long-term target incentive cash awards which would be payable subject to continued employment, upon the sale of the Company, or, sale to a third party of at least 50% of the Vista’s equity interest, provided if such sale of equity interests is through a public offering (whether initial or secondary), it would require the transfer of an aggregate of at least 75% of Vista’s equity interest and the achievement of a total equity return multiple of 3.0 or greater. Since the liquidity events described above were contingent and generally not considered probable until the event occurred, no stock-based compensation expense was recognized in the three months ended March 31, 2022.

In July 2021, the Company offered employees with LTIP grants the opportunity to convert their cash award into Restricted Stock Units (“RSUs”). The conversion was at a 10% premium to the cash value of the award. The RSUs issued in exchange for LTIP grants vest 50% each year and become fully vested after two years of service. Certain employees did not convert their cash award to RSUs and to cover those cash awards, the Company adopted the Amended and Restated Long-Term Incentive Plan (“Amended and Restated LTIP”) to modify the vesting conditions to include vesting upon the occurrence of a sell down event by Vista following the IPO resulting in Vista realizing a cash return on its investment in the Company equaling or exceeding $1.17 billion. The fair value of the cash awards held by employees under the Amended and Restated LTIP as of March 31, 2022 was $159. As of March 31, 2022, since the sell down event was not deemed probable, no stock-based compensation expense was recognized relating to these LTIP cash awards.

Restricted Stock Units

The majority of RSUs under the 2021 Plan vest 25% each year and become fully vested after 4 years of service.

The RSU activity for the three months ended March 31, 2022 is as follows:

	RSUs	
	Number of Shares	**Weighted Average Grant Date Fair Value**
Outstanding as of January 1, 2022	2,426,147	$ 19.43
Granted	524,411	18.14
Canceled or forfeited	(152,088)	18.64
Vested	(12,094)	12.40
Outstanding as of March 31, 2022	2,786,376	$ 19.27
Expected to vest as of March 31, 2022	2,786,376	

During the three months ended March 31, 2022, the Company recognized $3,395 of stock-based compensation expense related to these RSU awards. Unamortized stock-based compensation expense related to RSUs was $44,257, which will be recognized over the weighted average vesting term of 3.2 years.

Performance Stock Units

The Company granted Performance Stock Units under the 2021 Plan, which are contingent upon achieving specified revenue performance goals by December 31, 2023. As of March 31, 2022, no stock-based compensation expense has been recognized as performance vesting conditions were not deemed probable to occur. The unrecognized compensation expense is $12,000 assuming performance at the highest tier.

Total stock-based compensation expense for all equity arrangements for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,	
	2022	**2021**
Cost of revenue	$ 56	$ —
Sales and marketing	2,531	—
Technology and development	1,536	—
General and administrative	4,016	—
Total	$ 8,139	$ —

13. Members'/ Stockholders' equity

As discussed in Note 1, the Company converted to a Delaware corporation, which created new elements of the capital structure upon its IPO.

Common stock

As of March 31, 2022, 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, 2022, the Company issued 12,094 shares of common stock for vested RSUs and employees exercised stock options in exchange for 605,682 shares of common stock for $2,532.

Members' equity

Prior to the IPO, the Company was a single member LLC, and the Company's Board of Directors, through the Kavacha Topco, LLC Amended and Restated Limited Liability Company Agreement (the "Operating Agreement"), had the authority to admit additional members. Under the terms of the Operating Agreement, the members of the Company were not obligated for debt, liabilities, contracts or other obligations of the Company. Profits and losses are allocated to members as defined in the Operating Agreement.

In conjunction with the pricing of the IPO, the Operating Agreement was terminated, and the Company converted from a Delaware domestic limited liability company to a Delaware domestic corporation. All outstanding member units were converted into 134,203,403 shares of common stock of the Company on a proportion of 1 member unit for 242 shares of common stock.

For the three months ended March 31, 2021, the Company repurchased 99,946 shares of common stock from members of the Company for $1,202. The repurchases in excess of par value for the three months ended March 31, 2021 was $789. The repurchase of shares has been accounted for as a reduction in members'/shareholders' equity in these condensed consolidated financial statements.

14. Leases

Determination of a leasing arrangement is performed at inception. Right-of-use assets represent the Company's right to use leased assets over the term of the lease, adjusted for lease incentives such as tenant improvements. Lease liabilities represent the Company's contractual obligation to make lease payments over the lease term. Right-of-use assets and lease liabilities are determined based on the present value of future lease payments using the interest rate implicit in the loan or, if that rate cannot be readily determined, the incremental borrowing rate. Incremental borrowing rates were determined for each lease based on the Company's borrowing rate adjusted for term differences and foreign currency risk.

Some real estate leases contain lease and non-lease components. Non-lease components generally represent use-based charges for common area maintenance, taxes and utilities. The Company has elected not to separate lease and non-lease components. Variable lease payments consist primarily of common area maintenance, utilities and taxes, which are not included in the recognition of ROU assets and related lease liabilities. Some contracts also contain lease incentives such as tenant improvement allowances and rent holidays, which are treated as a reduction of lease payments for the measurement of the lease liability.

The Company leases office spaces under non-cancelable lease terms, and have a remaining lease term of up to 4.9 years, with a number of month-to-month leases that are accounted for as short-term leases. The Company has not recognized renewal options as part of its right-of-use assets and lease liabilities, as the renewal options are not reasonably certain of exercise or occurrence as of March 31, 2022. Additionally, these lease arrangements do not contain residual value guarantees, and there are no other restrictions or covenants in the contracts.

The weighted-average remaining term of the Company's operating leases was 4.5 years as of March 31, 2022. The weighted-average discount rate used to measure the present value of the operating lease liabilities was 4.5% as of March 31, 2022.

The following table presents components of lease cost recorded in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2022.

	Three Months Ended March 31, 2022	
Lease costs:		
Operating lease costs	$	1,651
Short-term lease costs		727
Variable lease costs		85
Sublease income		(656)
Total lease costs	$	1,808

For the three months ended March 31, 2022, operating cash flows included $1,848 of cash paid for operating lease liabilities. For the three months ended March 31, 2022, there was no cash received from the sublease. As of March 31, 2022, there are no material operating leases that have not yet commenced.

As of March 31, 2022, the maturities of remaining lease payments included in the measurement of operating leases are as follows:

Year Ended December 31,		
2022 (remaining nine months)	$	5,248
2023		6,284
2024		6,328
2025		6,451
2026		5,154
Thereafter		1,149
Total lease payments		30,614
Less: imputed interest		2,964
Total operating lease liability	$	27,650

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, the following table summarizes the future minimum lease payments related to operating leases as of December 31, 2021 under ASC 840.

Year Ended December 31,		
2022	$	6,957
2023		6,276
2024		6,345
2025		6,467
2026		5,157
2027 and thereafter		1,149
	$	32,351

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021,the following table summarizes the future minimum sublease rentals, by year and in the aggregate under the non-cancelable sublease, under ASC 840.

Year Ended December 31,		
2022	$	1,569
2023		2,756
2024		2,825
2025		2,896
2026		2,968
2027 and thereafter		761
	$	13,775

15. 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, 2022 were approximately $114,250 for periods through 2026.

16. Net income (loss) per share

For periods prior to the Company's conversion to a Delaware corporation, including fiscal 2021 for which a portion of the period preceded the conversion, the Company has retrospectively presented net income (loss) per share as if the conversion had occurred at the beginning of the earliest period presented. The weighted average shares used in computing net income (loss) per share in these periods are based on the number of units held by members after giving effect to the conversion ratio.

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,	
	2022	2021
Numerator:		
Net income (loss)	$ 1,159	$ (2,772)
Denominator:		
Basic Shares:		
Weighted-average shares outstanding	154,477,403	134,007,742
Diluted Shares:		
Basic weighted-average shares outstanding	154,477,403	134,007,742
Dilutive effect of stock based awards	2,681,623	—
Weighted-average diluted shares outstanding	157,159,026	134,007,742
Net income (loss) per share		
Basic	$ 0.01	$ (0.02)
Diluted	$ 0.01	$ (0.02)

The following potential outstanding Time-Based Options were excluded from the computation of diluted net income (loss) per share attributable to common stock/unit-holders for the periods presented given that their inclusion would have been anti-dilutive. Since the conditions associated with the vesting of the Return-Target Options have not occurred as of the reporting date, such options are excluded from potentially dilutive securities.

	Three months ended March 31,	
	2022	2021
Options to purchase common stock/member units	1,655,206	6,235,372
Restricted stock units	1,034,418	39,025
Total	2,689,624	6,274,397

17. Fair value disclosures

Financial instruments

The carrying value of cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximated fair value due to their short maturities. 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 9).

18. Related-party transactions

The Company incurs expenses for consulting services and other expenses related to services provided by Vista Consulting Group, LLC (“VCG”). For the three months ended March 31, 2022 and 2021, the Company incurred expenses of $15 and $88, respectively. These costs were included in general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to VCG as March 31, of 2022 and December 31, 2021 were $7 and $0, respectively.

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, 2022 and 2021, the Company incurred expenses of $10 and $0.5, respectively. These costs were included in general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to VEP as of March 31, 2022 and December 31, 2021 were $3 and $0, respectively.

The Company has revenue arrangements with companies owned by Vista as follows:

Total revenue contracted by the Company for TripleLift Inc. (“TripleLift”) (the Vista related party) were $62 and $0, respectively, for the three months ended March 31, 2022 and 2021. These revenues were included in the Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due from TripleLift as of March 31, 2022 and December 31, 2021 were $0 and $2, respectively.

Total revenues contracted by the Company for VideoAmp Inc. (“VideoAmp”) (the Vista related party) were $9 and $2, respectively, for the three months ended March 31, 2022 and 2021. These revenues are included in the Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due from VideoAmp as of March 31, 2022 and December 31, 2021 were $25 and $13, respectively.

The Company has subscription software arrangements with companies owned by Vista as follows:

Total expenses incurred by the Company for Mediaocean LLC (“Mediaocean”) (the Vista related party) were $10 and $30, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in cost of revenue. Amounts due to Mediaocean as of March 31, 2022 and December 31, 2021 were $0 and $10.

Total expenses incurred by the Company for Navex Global, Inc. (“Navex”) (the Vista related party) were $4 and $27, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to Navex as of March 31, 2022 and December 31, 2021 were $15 and $0.

Total expenses incurred by the Company for Cvent, Inc. (“Cvent”) (the Vista related party), were $0 and $20, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in sales and marketing expenses. There were no amounts due to Cvent as of March 31, 2022 and December 31, 2021.

Total expenses incurred by the Company for Marketo, Inc. (“Marketo”) (the Vista related party) were $40 and $34, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in sales and marketing expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to Marketo as of March 31, 2022 and December 31, 2021 were $40 and $40, respectively.

Total expenses incurred by the Company for Poppulo, Inc. (“Poppulo”) (the Vista related party) were $8 and $8, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in sales and marketing expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to Poppulo as of March 31, 2022 and December 31, 2021 were $26 and $0, respectively.

Total expenses incurred by the Company for Lucid, Inc. (“Lucid”) (the Vista related party) were $3 and $1, respectively, for the three months ended March 31, 2022 and 2021. The majority of these costs were included in technology and development in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to Lucid as of March 31, 2022 and December 31, 2021 were $0 and $16, respectively.

Total expenses incurred by the Company for A Cloud Guru, Inc. (“A Cloud Guru”) (the Vista related party) were $5 and $4, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in technology and development expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). There were no amounts due to A Cloud Guru as of March 31, 2022 and December 31, 2021.

Total expenses incurred by the Company for Pluralsight, Inc. (“Pluralsight”) (the Vista related party) were $5 and $2 , respectively, for the three months ended March 31, 2022 and 2021. These costs were included in general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to Pluralsight as of March 31, 2022 and December 31, 2021 were $6 and $0, respectively.

Total expenses incurred by the Company for Statista Limited (“Statista”) (the Vista related party) were $1 and $0, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in sales and marketing expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to Statista as of March 31, 2022 and December 31, 2021 were $0 and $8, respectively.

Total expenses incurred by the Company for InVisionApp, Inc. (“InVisionApp”) (the Vista related party) were $2 and $1, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in technology and development expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss). Amounts due to InVisionApp as of March 31, 2022 and December 31, 2021 were $1 and $0.

Total expenses incurred by the Company for Drift.com, Inc. ("Drift.com") (the Vista related party) were $10 and $0, respectively, for the three months ended March 31, 2022 and 2021. These costs were included in sales and marketing expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss). There were no amounts due to Drift.com as of March 31, 2022 and December 31, 2021.

19. Subsequent Events

Equity grants

Subsequent to quarter end, the Company approved the issuance of RSUs aggregating approximately $40,000 to employees and market performance based restricted stock units ("MSUs") aggregating $17,150 to certain executive officers. The RSUs vest quarterly over a four year period and the MSUs vest based on the ratio of the stock price at the vesting date to the stock price at the grant date with a cap on the maximum number of shares. The MSUs vest 25% after 12 months and an additional 6.25% vesting at the end of each successive quarter thereafter.

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 and business. 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 the current COVID-19 pandemic and related economic downturns;
- our dependence on the overall demand for advertising;
- a failure to innovate or make the right investment decisions;
- our failure to maintain or achieve industry accreditation standards;
- our ability to compete successfully with our current or future competitors in an intensely competitive market;
- our dependence on integrations with advertising platforms, digital service providers ("DSPs"), and proprietary platforms that we do not control;
- our international expansion;
- our ability to expand into new channels;
- our ability to sustain our profitability and revenue growth rate decline;
- 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 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;
- our ability to provide digital or cross-platform analytics;.
- our ability to maintain our corporate culture;
- risks posed by earthquakes, fires, floods, and other natural catastrophic events;
- interruption by man-made problems such as terrorism, computer viruses, social disruption or geopolitical, economic and market conditions, including disruptions in European economies as a result of the conflict in Ukraine;
- 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 inability to use software licensed from third parties;
- 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;
- 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.

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, 2021. 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 LLC and its consolidated subsidiaries before the corporate conversion, and Integral Ad Science Holding Corp. and, where appropriate, its subsidiaries after the Corporate Conversion.

Overview

We are a leading digital media quality company by revenue. With 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, and video. 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, viewable on-screen, and appear in a brand-safe and suitable environment in 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 media quality partner, we have deep integrations with all the major advertising and technology platforms including Amazon, Facebook, Google, Instagram, LinkedIn, Microsoft, Pinterest, Snap, Spotify, TikTok, The Trade Desk, Twitter, Xandr, Yahoo, and YouTube. Our platform uses advanced artificial intelligence ("AI") and machine learning ("ML") technologies to process over 100 billion daily web transactions on average. With this data, we deliver real-time insights and analytics to our global customers through our easy-to-use reporting platform, IAS Signal™, helping brands, agencies, publishers, and platform partners improve media quality and campaign performance.

Our pre-bid and post-bid 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 programmatic solution is directly integrated with DSPs to help optimize return on ad spend ("ROAS") by directing budget to the best available inventory. With our Context Control solution, advertisers can leverage more than 300 contextual segments from the Company on a pre-bid basis to avoid undesirable content or target towards content that is more suitable for their campaigns. 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.

COVID-19

Due to the pandemic, we temporarily closed our offices globally, including our corporate headquarters. As the pandemic has continued to evolve, we are continuing to operate with substantially all staff working remotely. Management reviews operations on a continuous basis and there have been minimal interruptions in our customer facing operations to date.

In addition, to date, we have not experienced a material increase in customers' cancellations, or requests for more favorable contractual terms, or concessions, and we have not experienced a significant deterioration in the collectability of our receivables or a material negative impact from our vendors and third-party service providers. Further, we have not incurred impairment losses in the carrying values of our assets as result of the pandemic and are not aware of any specific events or circumstances that would require a revision to the estimates reflected in our consolidated financial statements.

We have had sufficient liquidity and capital resources to continue to meet our operating needs and service our debt.

However, the severity, magnitude and duration of the current COVID-19 pandemic continues to be uncertain, rapidly changing, and hard to predict and depends on events beyond our knowledge or control.

Our Business Model

We generate revenue based on the volume of purchased digital ads that our solution measures. Advertisers use our digital marketing solutions for ad viewability, brand safety, optimization, context control, and ad fraud prevention. Advertisers pay us based on the total volume of impressions, which is our primary contracting model. Certain contracts with advertisers have pricing with a minimum commitment and/or fixed fee, plus overage, based on a predetermined number of impressions. 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. We generate revenue from sell-side customers from contracts that are generally for twelve-month terms (with auto renew), and a fixed fee each month (tied to a total number of impressions), and an overage cost per thousand impressions ("CPM") that is applied when impressions exceed the impression threshold for a particular tier.

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

- *Programmatic*. We aim to deliver transparency to programmatic ad buying via innovative solutions including contextual targeting and brand safety and suitability.
- *Social*. We plan to develop deeper integrations with social platforms, also known as Walled Gardens, including feed-based brand safety and suitability, to be able to deliver continued transparency to our customers.
- *Connected TV*. We plan to continue to expand CTV-specific verification solutions and contextual capabilities to address the fast-growing CTV segment.
- *Adjacent product expansion*. We aim to expand our platforms to address new areas of verification and measurement needs for our clients.

For example, with the introduction of our pre-bid contextual capability in 2020, we not only enhanced our core verification offering, but we were also able to expand into contextual targeting addressing new needs and providing new value to our customers. Similarly, in 2019, our CTV solution expanded our presence into this important and emerging digital channel. In 2021, we acquired Publica LLC, a leading CTV ad platform and launched our brand safety solution for in-feed video ads on TikTok.

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 provide end-to-end coverage to more clients from pre-bid viewability to post-buy 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. Based on a March 2021 analysis by Frost & Sullivan, we estimate the global market opportunity for our ad verification solutions to be $9.5 billion and expect it to grow at a 16.2% CAGR from 2021 to 2025. We plan to work with the top 500 global 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 work 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 29% growth in revenue year-over-year for the year ended December 31, 2021. We believe that Latin America and the APAC region 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 of each calendar year. 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 are presented 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,	
	2022	2021
Net revenue retention of advertising customers (%) (as of the end of the period)	126 %	110 %
Total advertising customers (as of the end of the period)	2,104	1,924
Total number of large advertising customers (as of the end of the period)	184	172

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 includes 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 increased from 110% as of March 31, 2021 to 126% as of March 31, 2022. The increase in the net revenue retention of advertising customers as of March 31, 2021 compared to March 31, 2022 was primarily due to the strong revenue growth during the trailing-twelve-month period of 33% in 2022 compared to 16% in 2021.

Total advertising customers

We view the number of advertising customers as a key indicator of our scale and growth and the adoption of our platform. We determine our number of advertising customers by counting the total number of advertiser accounts who have spent at least $3,000 in the trailing twelve months. The total number of advertising customers has limitations as an operating metric as it does not reflect the product mix chosen by our advertising customers, the order frequency, or the purchasing behavior of our advertising customers. Because of these and other limitations, we consider, and you should consider, advertising customers in conjunction with our other metrics, including net revenue retention, net income (loss), adjusted EBITDA, and average revenue per advertising customer.

Total number of large advertising customers

Historically, our revenue has been driven primarily by a subset of large advertising customers who have leveraged our platform substantially from a usage standpoint. Increasing awareness of our solutions, further developing our sales and marketing expertise and partner ecosystem, and continuing to build solutions that address the unique identity 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 the recruitment and cultivation of large advertising customers is critical to our long-term success. Our total number of large advertising customers increased from 172 as of March 31, 2021 to 184 as of March 31, 2022, primarily due to economic recoveries and improved macroeconomic conditions since the prior year. As macroeconomic conditions fluctuate, including inflationary pressures due to the COVID-19 pandemic, 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 and programmatic services offered through a demand side platform to our customers across the digital advertising platform, which is our performance obligation. Fees associated with our contracts include impression-based fees driven by impression volume and a CPM.

We deliver our products and solutions to serve two customer types (i) buy-side (advertisers and agencies) and (ii) sell-side (publishers, advertising/audience networks, and supply side platforms). We generally generate revenue by charging a CPM based on the volume of purchased digital ads that we measure and optimize on behalf of these customers. There are no separate fees to access our platform. Depending on our customer needs, our contracts have (i) usage-based pricing, or (ii) monthly, quarterly or annual minimum commitments, or (iii) fixed fees. Usage based pricing is our primary contracting model. For these minimum commitment contracts, if a customer uses fewer impressions than the minimum, there are no discounts or prorating to adjust the minimum fees, and if a customer uses more impressions than the minimum, then an overage fee is applied on such usage.

We recognize revenue when control of the promised services is transferred to customers. Revenue from the cloud-based technology platform is primarily recognized based on impressions delivered to customers. An “impression” is delivered when an advertisement appears on pages viewed by users. A significant majority (i.e., over 90%) of the Company’s contracts are usage-based contracts with no substantive minimum commitments. We have certain contracts for which pricing is variable through tiered pricing arrangements or include annual base fees that do not coincide with the calendar year, requiring an estimate of the transaction price attributable to each year. The majority of our contracts have a duration of one year or less.

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 expense consists 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 expense consists primarily of personnel costs of our engineering, product, and data sciences activities, as well as software licenses. 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 expense 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 four years to fifteen years.

Interest expense, net

Interest expense, net. Interest expense consists primarily of interest payments on our outstanding borrowings under our Prior Credit Agreement (as defined below), New Credit Agreement (as defined below) and amortization of related debt issuance costs net of interest income.

Provision (benefit) from income taxes

Provision (benefit) from income taxes. The provision (benefit) from income taxes resulted primarily from the current period book income (loss) multiplied by the effective tax rate.

Results of Operations

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

	Three Months Ended March 31,	
	2022	2021
(in thousands except percentages)		
Revenue	$ 89,242	$ 66,952
Operating expenses:		
Cost of revenue (excluding depreciation and amortization shown below)	16,561	11,420
Sales and marketing	23,057	16,545
Technology and development	16,987	12,769
General and administrative	16,769	8,547
Depreciation and amortization	12,458	14,395
Total operating expenses	85,832	63,676
Operating income	3,410	3,276
Interest expense, net	(1,426)	(6,960)
Net income (loss) before income taxes	1,984	(3,684)
(Provision) benefit from income taxes	(825)	912
Net income (loss)	$ 1,159	$ (2,772)
Net income (loss) margin	1 %	(4)%

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,	
	2022	2021
Revenue	100 %	100 %
Operating expenses:		
Cost of revenue (excluding depreciation and amortization shown below)	19 %	17 %
Sales and marketing	26 %	25 %
Technology and development	19 %	18 %
General and administrative	19 %	13 %
Depreciation and amortization	14 %	22 %
Total operating expenses	96 %	95 %
Operating income	4 %	5 %
Interest expense, net	(2)%	(10)%
Net income (loss) before income taxes	2 %	(5)%
(Provision) benefit from income taxes	(1)%	1 %
Net income (loss)	1 %	(4)%

Comparison of the Three Months Ended March 31, 2022 and 2021

	Three Months Ended March 31,			
	2022	2021	$ change	% change
(in thousands except percentages)				
Revenue	$ 89,242	$ 66,952	$ 22,290	33 %
Operating expenses:				
Cost of revenue (excluding depreciation and amortization shown below)	16,561	11,420	5,141	45 %
Sales and marketing	23,057	16,545	6,512	39 %
Technology and development	16,987	12,769	4,218	33 %
General and administrative	16,769	8,547	8,222	96 %
Depreciation and amortization	12,458	14,395	(1,937)	(13)%
Total operating expenses	85,832	63,676	22,156	35 %
Operating income	3,410	3,276	134	4 %
Interest expense, net	(1,426)	(6,960)	5,534	(80)%
Net income (loss) before income taxes	1,984	(3,684)	5,668	(154)%
(Provision) benefit from income taxes	(825)	912	(1,737)	(190)%
Net income (loss)	$ 1,159	$ (2,772)	$ 3,931	(142)%

Revenue

Total revenue increased by $22.3 million, or 33%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021.

	Three Months Ended March 31,			
	2022	2021	$ change	% change
(in thousands)				
Programmatic revenue	$ 40,575	$ 26,574	$ 14,001	53 %
Advertiser direct revenue	34,615	32,598	2,017	6 %
Supply side revenue	14,052	7,780	6,272	81 %
Total revenue	$ 89,242	$ 66,952	$ 22,290	33 %

Total revenue increased primarily due to a significant increase in our programmatic revenue of $14.0 million, or 53%, attributable to growth in volume of impressions of 34% and an increase of 16% in average CPMs. The increase in average CPMs was attributable to significant growth of our Context Control solution. Revenue from our advertiser direct customers increased $2.0 million, or 6%, reflecting volume growth in volume of impressions of 14% as well as the acquisition of a number of new large customers. These increases were partially offset by a decrease of 3% in average CPMs. Revenue from our supply side customers increased $6.3 million, or 81%, primarily due to the impact of the acquisition of Publica.

Operating expenses

Cost of Revenue. Cost of revenue increased by $5.1 million, or 45%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. This increase was driven by a $2.3 million increase in data center and hosting fees resulting from overall revenue growth and migration of data centers to Amazon Web Services cloud and an increase of $2.8 million in revenue share to our DSP partners on account of our growth in programmatic revenue.

Sales and marketing. Sales and marketing expenses increased by $6.5 million, or 39%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. This increase was primarily due to a $2.5 million stock-based compensation expense, which we did not incur in the three months ended March 31, 2021, an increase in sales commissions of $1.1 million due to higher revenue growth, an increase in compensation expenses of $1.4 million to support our growth and international expansion, an increase in restructuring costs of $0.5 million, an increase of $0.5 million in marketing and advertising expenses, increase in professional fees of $0.2 million and an increase of $0.2 million in travel expenses.

Technology and development. Technology and development expenses increased by $4.2 million, or 33%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. This increase was primarily due to a $1.5 million stock-based compensation expense, which we did not incur in the three months ended March 31, 2021, an increase in compensation expenses of $1.8 million, an increase in hosting and license fees of $1.3 million to support our growth, and an increase in professional fees of $0.5 million. These increases were partially offset by a decrease of $0.9 million in cloud migration related fees.

General and administrative. General and administrative expenses increased by $8.2 million, or 96%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. This increase was primarily due to a $4.0 million stock-based compensation expense, which we did not incur in the three months ended March 31, 2021, an increase in compensation expenses of $1.5 million due to increased headcount, an increase in insurance costs of $1.4 million related to public company costs, an increase of $1.8 million in professional fees incurred for audit, tax, legal and other services, an increase of $0.5 million for software licenses and computer maintenance, and an increase in reserves for bad debts of $0.6 million. This was offset by a decrease in facilities expense of $0.6 million due to the sublease of the facility previously used as our New York corporate headquarters and decrease in IPO related professional fees of $0.9 million incurred during the three months ended March 31, 2021.

Depreciation and amortization. Depreciation and amortization expenses decreased by $1.9 million, or 13%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. This decrease results from decreased depreciation of our property and equipment of $0.3 million and decreased amortization of our intangible assets of $2.1 million, resulting from the use of the accelerated method to amortize the asset. These decreases were offset by an increase in amortization expense related to our internal-use software of $0.5 million.

Interest expense, net

Interest expense, net. Interest expense decreased by $5.5 million, or 80%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. The decrease in interest expense was primarily attributable to reduced Paid in Kind ("PIK") interest expense of $0.4 million and a decrease in interest expense by $5.1 million due to partial repayment of our long-term debt of $100.0 million and a reduction in the interest rates as a result of refinancing our debt.

(Provision) benefit from income taxes

(Provision) benefit from income taxes. Provision (benefit) from income taxes increased by $1.7 million, or 190%, for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021. The tax provision increased due to higher book income for the three months ended March 31, 2022.

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. Adjusted EBITDA is defined as income (loss) before depreciation and amortization, stock-based compensation, interest expense, income taxes, acquisition, restructuring and integration costs, IPO readiness costs 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, as discussed below, these measures are not a substitute for, or superior to, U.S. GAAP financial measures or disclosures. 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.

The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for net income (loss) prepared in accordance with U.S. GAAP and should be read only in conjunction with financial information presented on a U.S. GAAP basis. 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

	Three Months Ended March 31,	
(in thousands)	2022	2021
Net income (loss)	$ 1,159	$ (2,772)
Depreciation and amortization	12,458	14,395
Stock-based compensation	8,139	—
Interest expense, net	1,426	6,960
(Provision) benefit from income taxes	825	(912)
Acquisition, restructuring and integration costs	749	171
IPO readiness costs	—	945
Loss on disposal of assets	49	—
Adjusted EBITDA	$ 24,805	$ 18,787
Revenue	$ 89,242	$ 66,952
Net income (loss) margin	1 %	(4)%
Adjusted EBITDA margin	28 %	28 %

Liquidity and Capital Resources

General

As of March 31, 2022, our principal sources of liquidity were cash and cash equivalents totaling $82.3 million, which was held for working capital purposes, as well as the available balance under our New Revolver, described further below. We expect that our cash and cash equivalents on hand at March 31, 2022 will enable us to continue to make investments in the future. We expect our operating cash flows to further improve as we increase our operational efficiency and experience economies of scale.

We believe our existing cash and cash equivalents, availability under our New Revolver and cash provided by operations will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months and beyond. 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, 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.

Some of our customers pay in advance for subscriptions, a portion of which is recorded as deferred revenue. Deferred revenue consists of the unearned portion of billed fees for our subscriptions, which is later recognized as revenue in accordance with our revenue recognition policy. As of March 31, 2022 and December 31, 2021, we had deferred revenue of $0.4 million and $0.2 million, respectively, all of which was recorded as a current liability and is expected to be recorded as revenue in the next twelve months, provided all other revenue recognition criteria have been met.

Credit Facilities

On July 19, 2018, we entered into the Prior Credit Agreement with a syndicate of lenders, comprised of the $325.0 million (the “Term Loan”) and the $25.0 million (the "Revolving Loan"), with maturity dates of July 19, 2024 and July 19, 2023, respectively (the "Prior Credit Agreement"). Pursuant to the Incremental Facility Assumption Agreement No. 1, dated as of November 19, 2019 (the “ Prior Credit Agreement Amendment”), the Term Loan was increased to $345.0 million. As explained below, on September 29, 2021, the Company repaid the outstanding balances and terminated the Prior Credit Agreement.

In addition to the cash pay interest, the Prior Credit Agreement included PIK interest at a rate of 1.25% per annum. All PIK interest due was paid by capitalizing such interest and adding such applicable PIK interest to the principal amount of the outstanding Term Loan. Effective February 1, 2021, and subject to maintaining a total leverage ratio less than 6.50 to 1.00, additional PIK interest was not accrued pursuant to the Prior Credit Agreement. The interest rate during the period prior to the repayment was 6.0%.

On September 29, 2021, we entered into a new credit agreement with various lenders (the “New Credit Agreement” or the “New Revolver”), which provides for an initial $300.0 million in commitments for revolving credit loans, 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 New 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 to the New Credit Agreement may be used for working capital and other general corporate purposes, including for acquisitions permitted under the New Credit Agreement.

The interest rates applicable to revolving borrowings under the New 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, (b) the Federal Funds Effective Rate plus 0.5%, and (c) the Adjusted LIBOR (subject to a floor of 0.0%) for a one month Interest Period (each term as defined in the New Credit Agreement) plus 1%, or (y) the Adjusted LIBOR (subject to a floor of 0.0%) equal to the LIBOR (as defined in the New Credit Agreement) for the applicable Interest Period multiplied by the Statutory Reserve Rate (each term as defined in the New Credit Agreement) or (ii) in the case of RFR Loans (as defined in the New Credit Agreement) denominated in sterling or euro, (x) the applicable RFR (as defined in the New Credit Agreement) or (y) the applicable Term RFR (as defined in the New Credit Agreement), plus in the case of each of clauses (i) and (ii), the Applicable Rate (as defined in the New Credit Agreement). The Applicable Rate (i) for base rate loans range from 0.75% to 1.50% per annum, (ii) for LIBOR loans range 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 New Credit Agreement). Base rate borrowings may only be made in dollars. A commitment fee during the term of the New 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 New Credit Agreement). The interest rate at March 31, 2022 was 2.5%.

The New 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 Net Leverage Ratio (as defined in the New Credit Agreement) of 3.50 to 1.00 or lower and maintaining a minimum Interest Coverage Ratio (as defined in the New Credit Agreement) of 2.50 to 1.00. As of March 31, 2022, the Company was in compliance with all covenants contained in the New 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.

Cash Flows

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

	Three Months Ended March 31,	
	2022	2021
Net cash provided by operating activities	$ 11,187	$ 7,697
Net cash used in investing activities	(3,005)	(6,377)
Net cash provided by (used in) financing activities	598	(1,338)
Net increase (decrease) in cash and cash equivalents, and restricted cash	$ 8,780	$ (18)
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	278	(846)
Cash, cash equivalents, and restricted cash, at beginning of period	76,078	54,721
Cash, cash equivalents and restricted cash, at end of period	$ 85,137	$ 53,857

Operating Activities

For the three months ended March 31, 2022, net cash provided by operating activities was $11.2 million, resulting from a net income of $1.2 million adjusted for non-cash expenses of depreciation and amortization of $12.5 million, stock-based compensation of $8.1 million, bad debt expense of $0.3 million, partially offset by a decrease in working capital of $10.4 million, a decrease in net operating leases of $0.2 million and a deferred tax benefit of $0.7 million.

For the three months ended March 31, 2021, net cash provided by operating activities was $7.7 million, resulting from a net loss of $2.8 million adjusted for non-cash expenses of depreciation and amortization of $14.7 million, non-cash interest expense of $0.4 million, offset by a decrease in the allowance for doubtful accounts of $0.3 million and a decrease in working capital of $4.4 million.

Investing Activities

Cash used in investing activities was $3.0 million for the three months ended March 31, 2022, reflecting capitalized costs related to our internal use software of $2.7 million and the purchase of property and equipment of $0.3 million.

Cash used in investing activities was $6.4 million for the three months ended March 31, 2021, reflecting our asset purchase of internal use software for $4.5 million in January 2021, and $1.7 million of capitalized costs relating to internal use software.

Financing Activities

Cash provided by financing activities was $0.6 million for the three months ended March 31, 2022, reflecting $2.5 million in stock options exercised, offset by a repayment of outstanding short-term debt of $1.9 million.

Cash used in financing activities was $1.3 million for the three months ended March 31, 2021, reflecting $0.1 million in principal payment on our capital leases, and $1.2 million in unit repurchases.

Contractual Obligations and Commitments

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 March 2027 and the total non-cancelable payments under these leases were $30.6 million as of March 31, 2022. Total non-cancelable purchase commitments related to hosting services as of March 31, 2022 were $114.3 million for periods through 2026. The New Revolver matures in 2026.

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, in connection with the completion of this offering we intend to enter 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 consolidated balance sheets, consolidated statements of operations and comprehensive loss, or consolidated statements of cash flows.

JOBS Act

We qualify as an “emerging growth company” pursuant to the provisions of the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). For as long as we are an “emerging growth company,” we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory “say-on-pay” votes on executive compensation and shareholder advisory votes on golden parachute compensation.

The JOBS Act also permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to “opt-in” to this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that comply with such new or revised accounting standards on a non-delayed basis.

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 Annual Report on Form 10-K for the year ended December 31, 2021.

Recent Accounting Pronouncements

For a description of our recently adopted accounting pronouncements and recently issued accounting standards not yet adopted, see Note 2 to our condensed consolidated financial statements: “Basis of presentation and summary of significant accounting policies—Accounting pronouncements not yet adopted” 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.

Foreign Currency Exchange Risk

The functional currencies of our foreign subsidiaries are the respective local currencies. Most of our sales are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the U.S., U.K., France, Germany, Italy, and Singapore. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments. During the three months ended March 31, 2022, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our consolidated financial statements.

Interest Rate Risk

Our primary market risk exposure is changing eurodollar-based interest rates. Interest rate risk is highly sensitive due to many factors, including E.U. and U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. The New Revolver carries interest at an applicable margin, for U.S. dollar loans equal to the greater of (a) the rate last quoted by The Wall Street Journal as the “prime rate” in the U.S., (b) the Federal Funds Rate in effect on such day plus 0.5%, or the Adjusted LIBOR (subject to a floor of 0.0%) for a one month interest period on such day multiplied by the Statutory Reserve Rate. For eurodollar borrowings, the New Revolver carries interest at an applicable margin equal to applicable RFR or the applicable Term RFR, plus (i) the Applicable Rate (as defined in the New Credit Agreement) for base rate loans range from 0.75% to 1.50% per annum, (ii) for LIBO Rate (as defined in the New Credit Agreement) loans range 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 New Credit Agreement). In addition, we will 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 (as defined in the New Credit Agreement).

At March 31, 2022, we had total outstanding debt of $245.0 million under our New Revolver. Based on these amounts outstanding, a 100-basis point increase or decrease in market interest rates over a twelve-month period would result in a change to interest expense of $2.4 million or a benefit of $2.4 million, respectively.

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, 2022.

Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of March 31, 2022 due to the material weaknesses in our internal control over financial reporting described below.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

We previously identified material weaknesses in our internal control over financial reporting that continue to exist. We did not design policies to maintain evidence of the operation of key control procedures, nor were monitoring controls evidenced at a sufficient level to provide the appropriate oversight of activities related to our internal control over financial reporting. Additionally, we did not design and maintain controls to ensure (i) appropriate segregation of duties in the operation of manual controls and (ii) account reconciliations, journal entries, and balance sheet and income statement fluctuation analyses were reviewed at the appropriate level of precision. In addition, the Company did not design and maintain effective controls over information technology, or IT, general controls for information systems that are relevant to the preparation of the consolidated financial statements. Specifically, we did not design and maintain (i) program change management controls for financial systems to ensure that IT program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately, (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate personnel, (iii) computer operations to ensure that critical batch jobs are monitored, privileges are appropriately granted, and data backups are authorized and monitored, and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements for financially relevant IT systems.

Management's Remediation Efforts

We are implementing measures to remediate the identified material weaknesses. The measures include (i) formalizing the Company's accounting policies with respect to maintaining evidence in the operation of control procedures, (ii) improving our control framework to include both the appropriate segregation of duties and definition around the appropriate levels of precision for controls, including account reconciliations, journal entries, and balance sheet and income statement fluctuation analyses, and (iii) designing and documenting the execution of IT general controls for systems and applications impacting internal control over financial reporting, specifically related to user access, change management, computer operations, and program development controls.

While we are performing remediation activities to strengthen our controls, the material weaknesses will not be considered remediated until management completes the design and implementation of the measures described above and the controls operate for a sufficient period of time and management has concluded, through testing, that these controls are effective. We will continue to monitor the effectiveness of our remediation measures in connection with our future assessments of the effectiveness of internal control over financial reporting and disclosure controls and procedures, and we will make any changes to the remediation plan and take such other actions that we deem appropriate given the circumstances.

Changes in Internal Control over Financial Reporting

Effective January 1, 2022, we adopted FASB Accounting Standards Codification ("ASC") No. 842, *Leases* which resulted in changes to the relevant business processes in order to monitor and maintain appropriate internal controls over financial reporting.

Except as noted above, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the period ended March 31, 2022.

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, 2021.

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

None.

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, filed herewith.
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, filed 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 11, 2022	By:	/s/ Joseph Pergola
		Joseph Pergola
		Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

Certification Pursuant to Section 302 of 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)) for the registrant and have:

    1. 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;
    2. 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
    3. 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 11, 2022

/s/ Lisa Utzschneider

Lisa Utzschneider

Director and Chief Executive Officer

Exhibit 31.2

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

I, Joseph Pergola, 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)) for the registrant and have:

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

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

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

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

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

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

Date: May 11, 2022

/s/ Joseph Pergola

Joseph Pergola

Chief Financial Officer

Exhibit 32.1

Certification of the Chief Executive Officer

Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Integral Ad Science Holding Corp. (the “Company”) for the period ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission (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, as amended; 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 11, 2022

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

Exhibit 32.2

Certification of the Chief Financial Officer

Pursuant to Rule 18 U.S.C. Section 1350

In connection with the Quarterly Report on Form 10-Q of Integral Ad Science Holding Corp. (the "Company") for the period ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Joseph Pergola, 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, as amended; 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 11, 2022

/s/ Joseph Pergola

Joseph Pergola
Chief Financial Officer