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

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2023**

**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 001-40048**

# Innovid Corp.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **87-3769599** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **30 Irving Place, 12th Floor**<br>**New York, New York** | **10003** |
| (Address of Principal Executive Offices) | (Zip Code) |

**+1 (212) 966-7555**
Registrant's telephone number, including area code

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common stock, par value $0.0001 per share | CTV | New York Stock Exchange |
| Warrants to purchase one share of Common stock, each at an exercise price of $11.50 per share | CTVWS | New York Stock Exchange |

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 Act). Yes☐ No ☒

The registrant had outstanding 140,564,259 shares of common stock as of November 6, 2023.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to expectations for future financial performance, business strategies or expectations for our business. These statements are based on the beliefs and assumptions of the management of Innovid. Although Innovid believes that its plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, it cannot assure you that it will achieve or realize these plans, intentions or expectations. These statements constitute projections, forecasts and forward-looking statements, and are not guarantees of performance. Such statements can be identified by the fact that they do not relate strictly to historical or current facts. When used in this Form 10-Q, words such as “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “seek,” “should,” “strive,” “target,” “will,” “would” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

Should one or more of a number of known and unknown risks and uncertainties materialize, or should any of our assumptions prove incorrect, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause actual results to differ include, but are not limited to:

• our public securities’ potential liquidity and trading;

• our ability to raise financing in the future;

• our success in retaining or recruiting, or changes required in, our officers, key employees or directors;

• changes in applicable laws or regulations;

• our ability to maintain and expand relationships with advertisers;

• decreases and/or changes in CTV audience viewership behavior;

• Innovid’s ability to make the right investment decisions and to innovate and develop new solutions;

• the accuracy of Innovid’s estimates of market opportunity, forecasts of market growth and projections of future financial performance;

• the extent of investment required in Innovid’s sales and marketing efforts;

• Innovid’s ability to effectively manage its growth;

• sustained overall demand for advertising;

• actual or potential impacts of international conflicts and humanitarian crises on global markets

• the impact of the COVID-19 pandemic;

• the continued acceptance of digital advertising by consumers and the impact of opt-in, opt-out or ad-blocking technologies;

• Innovid’s ability to scale its platform and infrastructure to support anticipated growth and transaction volume;

• the impact of increasing competition in the digital advertising space, including with competitors who have significantly more resources;

• other risks and uncertainties indicated in this report, including those set forth under the section titled “Risk Factors” and those incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the “2022 Annual Report on Form 10-K”), which was filed with the Securities and Exchange Commission (“SEC”) on March 3, 2023.

These forward-looking statements are based on information available as of the date of this Quarterly Report on Form 10-Q and current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward-looking statements. You should not place undue reliance on these forward-looking statements.

WHERE TO FIND MORE INFORMATION

Our website address is www.innovid.com. We may use our website as a means of disclosing material non-public information. Such disclosures will be included on our website in the "Investors" section or at investors.innovid.com. We may also use certain social media channels, such as LinkedIn, Facebook or Twitter, as a means of disclosing information about us and our business to our colleagues, customers, investors and the public. While not all of the information that the Company posts to the Innovid website or to social media accounts is of a material nature, some information could be deemed to be material. Accordingly, investors should monitor our website and certain of our social media channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. However, information contained on, or that can be accessed through, these communications channels do not constitute a part of this Quarterly Report and are not incorporated by reference herein. Our SEC filings are available to you on the SEC's website at http://www.sec.gov. This site contains reports and other information regarding issuers that file electronically with the SEC. The information on that website is not part of this Quarterly Report and is not incorporated by reference herein.

**Part I**

***Item 1. Financial Statements***

**INNOVID, CORP. AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
*(In thousands, except stock and per stock data)*

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 47,680 | $ 37,541 |
| Short-term bank deposits | — | 10,000 |
| Trade receivables, net (allowance for credit losses of $270 and $65 at September 30, 2023, and December 31, 2022, respectively) | 43,559 | 43,653 |
| Prepaid expenses and other current assets | 3,905 | 2,640 |
| **Total current assets** | **95,144** | **93,834** |
| Long-term deposit | 253 | 277 |
| Long-term restricted deposits | 387 | 430 |
| Property and equipment, net | 18,097 | 14,322 |
| Goodwill | 102,473 | 116,976 |
| Intangible assets, net | 26,529 | 29,918 |
| Operating lease right of use asset | 1,559 | 2,910 |
| Other non-current assets | 787 | 938 |
| **Total non-current assets** | **150,085** | **165,771** |
| **TOTAL ASSETS** | **$ 245,229** | **$ 259,605** |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Trade payables | 3,325 | 3,361 |
| Employees and payroll accruals | 11,935 | 10,165 |
| Lease liabilities - current portion | 1,325 | 2,186 |
| Accrued expenses and other current liabilities | 5,183 | 5,474 |
| **Total current liabilities** | **21,768** | **21,186** |
| Long-term debt | 20,000 | 20,000 |
| Lease liabilities - non-current portion | 814 | 1,636 |
| Other non-current liabilities | 9,113 | 6,554 |
| Warrants liability | 613 | 4,301 |
| **Total non-current liabilities** | **30,540** | **32,491** |
| **TOTAL LIABILITIES** | **52,308** | **53,677** |
| ***COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)*** | | |
| Common stock: $0.0001 par value - Authorized: 500,000,000 at September 30, 2023, and December 31, 2022; Issued and outstanding: 140,136,905 and 133,882,414 at September 30, 2023, and December 31, 2022, respectively | 13 | 13 |
| Additional paid-in capital | 374,047 | 356,801 |
| Accumulated deficit | (181,139) | (150,886) |
| **Total stockholders' equity** | **192,921** | **205,928** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$ 245,229** | **$ 259,605** |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**INNOVID, CORP. AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
*(In thousands, except stock and per stock data)*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| Revenues | $ 36,234 | $ 34,469 | $ 101,265 | $ 93,419 |
| Cost of revenues (1) | 8,428 | 8,534 | 25,284 | 21,811 |
| Research and development (1) | 6,486 | 7,312 | 20,479 | 24,276 |
| Sales and marketing (1) | 11,175 | 13,726 | 34,272 | 38,397 |
| General and administrative (1) | 9,753 | 9,046 | 28,327 | 30,456 |
| Depreciation, amortization and long-lived assets impairment | 4,714 | 1,882 | 8,808 | 3,481 |
| Goodwill impairment | — | — | 14,503 | — |
| **Operating loss** | **(4,322)** | **(6,031)** | **(30,408)** | **(25,002)** |
| Finance (income) expenses, net | (290) | 4,962 | (3,013) | (10,655) |
| **Loss before taxes** | **(4,032)** | **(10,993)** | **(27,395)** | **(14,347)** |
| Taxes on income | (1,301) | 839 | 2,858 | 634 |
| **Net loss** | **(2,731)** | **(11,832)** | **(30,253)** | **(14,981)** |
| | | | | |
| **Net loss attributable to common stockholders** | **$ (2,731)** | **$ (11,832)** | **$ (30,253)** | **$ (14,981)** |
| **Net income (loss) per stock attributable to common stockholders** | | | | |
| Basic and diluted | $ (0.02) | $ (0.09) | $ (0.22) | $ (0.12) |
| **Weighted-average number of stock used in computing net loss per stock attributable to common stockholders** | | | | |
| Basic and diluted | 139,607,389 | 132,959,511 | 137,826,099 | 129,768,724 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

(1) Exclusive of depreciation, amortization, long-lived assets and goodwill impairment presented separately.

**INNOVID, CORP. AND ITS SUBSIDIARIES CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
*(In thousands, except stock data)*

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Number | Amount | Additional paid-in capital | Accumulated deficit | Total stockholders' equity |
| **Balance as of December 31, 2021** | **119,017,380** | **$ 12** | **$ 293,719** | **$ (132,476)** | **$ 161,255** |
| Common stock and equity awards issued for acquisition of TVS | 11,549,465 | 1 | 47,151 | — | 47,152 |
| Stock-based compensation | — | — | 1,496 | — | 1,496 |
| Stock options exercised | 1,521,927 | — | 462 | — | 462 |
| Net loss | — | — | — | (7,449) | (7,449) |
| **Balance as of March 31, 2022 (unaudited)** | **132,088,772** | **$ 13** | **$ 342,828** | **$ (139,925)** | **$ 202,916** |
| Stock-based compensation | — | — | 4,628 | — | 4,628 |
| Stock options exercised | 322,943 | — | 174 | — | 174 |
| Net income | — | — | — | 4,300 | 4,300 |
| **Balance as of June 30, 2022 (unaudited)** | **132,411,715** | **$ 13** | **$ 347,630** | **$ (135,625)** | **$ 212,018** |
| Stock-based compensation | — | — | 4,612 | — | 4,612 |
| Stock options exercised and RSUs vested | 1,080,799 | — | 181 | — | 181 |
| Net loss | — | — | — | (11,832) | (11,832) |
| **Balance as of September 30, 2022 (unaudited)** | **133,492,514** | **$ 13** | **$ 352,423** | **$ (147,457)** | **$ 204,979** |

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Number | Amount | Additional paid-in capital | Accumulated deficit | Total stockholders' equity |
| **Balance as of December 31, 2022** | **133,882,414** | **$ 13** | **$ 356,801** | **$ (150,886)** | **$ 205,928** |
| Stock-based compensation | — | — | 4,897 | — | 4,897 |
| Stock options exercised and RSUs vested | 2,734,320 | — | 250 | — | 250 |
| Net loss | — | — | — | (8,563) | (8,563) |
| **Balance as of March 31, 2023 (unaudited)** | **136,616,734** | **$ 13** | **$ 361,948** | **$ (159,449)** | **$ 202,512** |
| Stock-based compensation | — | — | 5,658 | — | 5,658 |
| Stock options exercised and RSUs vested | 2,120,370 | — | 364 | — | 364 |
| Net loss | — | — | — | (18,959) | (18,959) |
| **Balance as of June 30, 2023 (unaudited)** | **138,737,104** | **$ 13** | **$ 367,970** | **$ (178,408)** | **$ 189,575** |
| Stock-based compensation | — | — | 5,919 | — | $ 5,919 |
| Stock options exercised and RSUs vested | 1,399,801 | — | 158 | — | $ 158 |
| Net loss | — | — | — | (2,731) | $ (2,731) |
| **Balance as of September 30, 2023 (unaudited)** | **140,136,905** | **$ 13** | **$ 374,047** | **$ (181,139)** | **$ 192,921** |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**INNOVID, CORP. AND ITS SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(In thousands, except stock and per stock data)*

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2023 | 2022 |
| **Cash flows from operating activities:** | (Unaudited) | (Unaudited) |
| Net loss | $ (30,253) | $ (14,981) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation, amortization and long-lived assets impairment | 8,808 | 3,481 |
| Goodwill impairment | 14,503 | — |
| Stock-based compensation | 15,470 | 9,956 |
| Change in fair value of warrants | (3,688) | (11,382) |
| Changes in operating assets and liabilities | | |
| Trade receivables, net | 94 | (1,294) |
| Prepaid expenses and other current assets | (1,167) | 514 |
| Operating lease right of use assets | 1,351 | 1,332 |
| Trade payables | (36) | (1,032) |
| Employees and payroll accruals | 1,770 | 2,227 |
| Operating lease liabilities | (1,683) | (1,782) |
| Accrued expenses and other current liabilities | 2,268 | 2,872 |
| **Net cash provided by / (used in) operating activities** | **7,437** | **(10,089)** |
| **Cash flows from investing activities:** | | |
| Acquisition of business, net of cash acquired | — | (99,568) |
| Internal use software capitalization | (7,795) | (6,975) |
| Purchase of property and equipment | (395) | (282) |
| Withdrawal of short-term bank deposits | 10,000 | — |
| Increase in deposits | 77 | 38 |
| **Net cash provided by / (used in) investing activities** | **1,887** | **(106,787)** |
| **Cash flows from financing activities:** | | |
| Proceeds from loans | 20,000 | 9,000 |
| Repayment of loans | (20,000) | — |
| Payment of SPAC merger transaction costs | — | (3,185) |
| Proceeds from exercise of options | 772 | 817 |
| **Net cash provided by financing activities** | **772** | **6,632** |
| Increase (decrease) in cash, cash equivalents, and restricted cash | 10,096 | (110,243) |
| Cash, cash equivalents, and restricted cash at the beginning of the period | 37,971 | 157,158 |
| **Cash, cash equivalents, and restricted cash at the end of the period** | **$ 48,067** | **$ 46,915** |
| **Supplemental disclosure of cash flows activities:** | | |
| (1) Cash paid during the period for: | | |
| Income taxes paid, net of tax refunds | $ 1,129 | $ 727 |
| Interest | $ 1,141 | $ 371 |
| (2) Non-cash transactions: | | |
| Business combination consideration paid in stock | $ — | $ 47,152 |
| **Reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets** | | |
| Cash and cash equivalents | 47,680 | 46,509 |
| Long-term restricted deposits | 387 | 406 |
| **Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows** | **$ 48,067** | **$ 46,915** |

The accompanying notes are an integral part of the condensed consolidated financial statements.

## 1. DESCRIPTION OF BUSINESS

Innovid Corp. together with its consolidated subsidiaries, the “Company” or “Innovid”, is a leading independent software platform that provides an ad serving and creative personalization platform for the creation, delivery, and measurement of TV ads across connected TV (“CTV”), mobile TV and desktop TV environments to advertisers, publishers and media agencies.

Innovid Corp. was originally incorporated as ION Acquisition Corp. 2 Ltd. (“ION”), a special purpose acquisition company, on November 23, 2020 and Innovid Corp. was the surviving entity following the completion of its merger with ION on November 30, 2021 (the “ION Transaction”).

On February 28, 2022, the Company completed the acquisition of TV Squared Limited (“TVS”, together with ION’s Transaction, the “Transactions”) by way of stock purchase agreement (“Stock Purchase Agreement”).

Innovid Corp.’s common stock and warrants are trading on the NYSE under the symbols “CTV” and “CTV.WS,” respectively, since December 1, 2021.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

The unaudited interim condensed consolidated financial statements have been prepared in accordance with US GAAP. Any reference in these notes to applicable guidance is meant to refer to the authoritative US GAAP as found in the Accounting Standards Codification (“ASC”) and Accounting Standards Updates (“ASU”) of the Financial Accounting Standards Board (“FASB”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by US GAAP for complete financial statements. The unaudited interim condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation. The Company’s interim period results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

The condensed consolidated balance sheet as of December 31, 2022, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes included in the Company’s 2022 Annual Report on Form 10-K.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2022, have been applied consistently in these unaudited interim condensed consolidated financial statements, unless otherwise stated.

**Use of Estimates**

The preparation of the condensed consolidated financial statements in conformity with US GAAP requires management to make estimates, judgments, and assumptions. The Company’s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Accounting Policies

***Software development costs***

Software development costs, which are included in property and equipment, net, consists of capitalized costs related to the purchase and development of internal-use software. The Company uses such software to provide services to its customers. The costs to purchase and develop internal-use software are capitalized from the time that the preliminary project stage is completed, and it is considered probable that the software will be used to perform the function intended. These costs include personnel and personnel-related employee benefits for employees directly associated with the software development and external costs of the materials or services consumed in developing or obtaining the software.

Any costs incurred for upgrades and functionality enhancements of the software are also capitalized. Once this software is ready for use in providing the Company's services, these costs are amortized on a straight-line basis over the estimated useful life of the software, which is three years. The amortization is presented within depreciation and amortization in the condensed consolidated statements of operations. During the three and nine months ended September 30, 2023 (unaudited), the Company capitalized $2,518 and $8,799, respectively, and during the three and nine months ended September 30, 2022 (unaudited), the Company capitalized $3,749 and $7,755, respectively, related to internal-use software cost.

***Impairment of long-lived assets***

Long-lived assets, including property and equipment and finite-lived intangible assets, are reviewed for impairment whenever facts or circumstances either internally or externally may indicate that the carrying value of an asset may not be recoverable. If there are indications of an impairment, the Company tests for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of the asset to the carrying amount of the asset or asset group. If the asset or asset group is determined to be impaired, any excess of the carrying value of the asset or asset group over its estimated fair value is recognized as an impairment loss. During the three and six months ended June 30, 2023 (unaudited), the Company tested its long-lived assets for recoverability and concluded that no impairment should be recognized. In September 2023, the Company identified an impairment indicator for its legacy measurement product. As a result of the impairment assessment the Company recorded an impairment in the amount of approximately $2,000 for the three months ended September 30, 2023.

***Goodwill and acquired intangible assets***

Goodwill and acquired intangible assets have been recorded in the Company's financial statements resulting from various business combinations. Goodwill represents the excess of the purchase price in a business combination over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Goodwill is subject to an annual impairment test.

Reporting units are evaluated when changes in the Company’s operating structure occur, and if necessary, goodwill is reassigned using a relative fair value allocation approach. The Company currently has one reporting unit.

ASC 350, Intangibles—Goodwill and other (“ASC 350”) requires goodwill to be tested for impairment at least annually and, in certain circumstances, between annual tests. The accounting guidance gives the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment considers events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. If it is determined, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative test is performed. The Company elects to perform an annual impairment test of goodwill as of October 1 of each year, or more frequently if impairment indicators are present. During the three months ended June 30, 2023, the Company recorded goodwill impairment in the amount of $14,503. There were no goodwill impairment during the three months ended March 31, 2023 and September 30, 2023. Refer to Note 3 for further details.

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Customer relationships, acquired technology and trade name are being amortized over the estimated useful life of approximately 11 years, 6 years, and 4 years, respectively, using the straight-line amortization method.

The amortization of customer relationships, acquired technology and trade names, is presented within depreciation and amortization in the condensed consolidated statements of operations.

*(In thousands, except stock and per stock data)*

***Fair value of financial instruments***

The Company applies a fair value framework to measure and disclose its financial assets and liabilities. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The Company's financial instruments consist of cash and cash equivalents, restricted deposits, trade receivables, net, trade payables, employees, payroll accruals, accrued expenses and other current liabilities and current portion of long-term debts. Their historical carrying amounts represent the approximate fair value due to the short-term maturities of these instruments.

The Company's investments in money market funds are classified as cash equivalents and measured at fair value. The Company measures its warrant liability at fair value.

The goodwill impairment recorded in the second quarter of 2023 was estimated using the Company's stock price, a Level 1 input, adjusted for an estimated control premium.

The following tables present information about the Company's financial instruments that are measured at fair value on a recurring basis:

| | September 30, 2023 (Unaudited) | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | |
| Money market funds | $ 32,749 | $ — | $ — |
| Liabilities: | | | |
| Warrants liability | $ 613 | $ — | $ — |

| | December 31, 2022 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Assets: | | | |
| Money market funds | $ 18,948 | $ — | $ — |
| Certificates of deposit | — | 20,000 | — |
| Liabilities: | | | |
| Warrants liability | $ 1,265 | $ — | $ 3,036 |

*(In thousands, except stock and per stock data)*

The change in the fair value of the Level 3 warrant liability is summarized below:

| | September 30, 2023 (Unaudited) | December 31, 2022 | September 30, 2022 (Unaudited) |
|---|---|---|---|
| Beginning of the period | $ 3,036 | $ 15,462 | $ 15,462 |
| Change in fair value | (2,330) | (12,426) | (9,390) |
| Transfer to level 1 * | (706) | — | — |
| End of the period | $ — | $ 3,036 | $ 6,072 |

*There was a transfer from level 3 to level 1 during the three months ended June 30, 2023. There was no further activity during the three months ended September 30, 2023.

As of September 30, 2023, the Company's warrant liability includes the warrants (refer to Note 5), that were originally issued in connection with ION's initial public offering, the "ION IPO," which were transferred to the Company as part of the ION's Transaction. The Company's Warrants are recorded on the balance sheet at fair value with changes in fair value recognized through earnings. This valuation is subject to re-measurement at each balance sheet date. With each re-measurement the valuation will be adjusted to fair value, with the change in fair value recognized in the Company's statement of operations.

The Company has determined that the fair value of the Public Warrants and Transferred Private Warrants (refer to Note 5) *Warrants*, at the balance sheet date is determined by the closing price of the Company's warrants, and are within Level 1 of the fair value hierarchy. The closing price of the Public Warrants and Transferred Private Warrants was $0.06 as of September 30, 2023. The price for Public Warrants was $0.40 as of December 31, 2022.

The Transferred Private Warrants are no longer classified as Level 3 as of September 30, 2023. Refer to Note 5, *Warrants* for further discussion.

Gains and losses from the remeasurement of the Public and Private Warrants' liability is recognized in finance (income) expenses, net in the condensed consolidated statements of operations.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

***Concentrations of credit risks***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, deposits and trade receivables, net.

Most of the Company's cash and cash equivalents are invested in deposits with major banks in the US. The Company is exposed to credit risk in the event of default by the financial institutions to the extent of the amounts recorded on the accompanying consolidated balance sheets exceed federally insured limits. Generally, these investments may be redeemed upon demand and, therefore, bear minimal risk.

The Company's trade receivables, net is mainly derived from sales to customers located in the US, APAC, EMEA, and LATAM. The Company mitigates its credit risks by performing an ongoing credit evaluations of its customers' financial conditions.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

*(In thousands, except stock and per stock data)*

One of the Company's customers accounted for more than 10% of the Company's total revenues during the three and nine months ended September 30, 2023.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Customer A | 16 % | 12 % | 16 % | 10 % |
| Customer B | 10 % | 13 % | *) | *) |

*) less than 10%

***Revenue recognition***

Most of the Company's revenues are derived from digital ad solutions, where the Company provides an ad serving platform for use by advertisers, media agencies and publishers. Standard, interactive and data driven digital video ads are delivered through this ad serving platform. Advertising impressions are served via the Company's ad serving platform to various digital publishers across CTV, mobile TV, desktop TV, display and other channels.

InnovidXP, the Company's cross-platform TV Ad measurement solution, measures the efficiency of CTV advertising and in-flight optimizations for TV marketers. The customers get insights into the effectiveness of their TV and digital advertising.

The Company also provides creative services for the design and development of interactive data-driven and dynamic ad formats by adding data, interactivity and dynamic features to standard ad units.

The Company recognizes revenue when its customer obtains control of promised services in an amount that reflects the consideration that the Company expects to receive in exchange for those services. The Company recognizes revenue in accordance with ASC Topic 606, Revenue from contracts with customers ("ASC 606") and determines revenue recognition through the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when a performance obligation is satisfied.

For arrangements with multiple performance obligations, which represent promises within an arrangement that are capable of being distinct and are separately identifiable, the Company allocates the contract consideration to all distinct performance obligations based on their relative standalone selling price ("SSP"). SSP is typically estimated based on observable transactions when these services are sold on a standalone basis.

Revenues related to ad serving are recognized when impressions are delivered via the Company's ad serving platform. The Company recognizes revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to users.

Revenues related to Innovid XP solution are recognized over time, since the customer simultaneously receives and consumes the benefits provided by the Company's performance. Revenues for this measurement subscription is recognized over the service period.

Revenues related to creative projects are recognized when the Company delivers an ad unit. Creative services projects are usually delivered within a week.

The Company's accounts receivable consist primarily of receivables related to products and services described above, for which the Company's contracted performance obligations have been satisfied, the amount has been billed and the Company has an unconditional right to payment. The Company typically bills customers monthly based on actual delivery. The payment terms vary, mainly with terms of 60 days or less.

The typical contract term is 12 months or less for ASC 606 purposes. Most of the Company's contracts can be canceled without cause. The Company has the unconditional right to payment for the services provided as of the date of the termination of the contracts.

The Company applies the practical expedient in ASC 606 and does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Deferred revenues represent mostly unrecognized fees billed or collected for measurement platform services. Deferred revenues are recognized as (or when) we perform under the contract.

Revenue from ad serving solutions via Innovid's ad serving platform were 76.8% and 77.5% of the Company's revenues for the three months ended September 30, 2023 (unaudited) and 2022 (unaudited), respectively and were 77.1% and 81.2% for the nine months ended September 30, 2023 (unaudited) and 2022 (unaudited). Revenue from measurement subscriptions were 23.2% and 22.5% for the three months ended September 30, 2023 (unaudited) and September 30, 2022 (unaudited), respectively and were 22.9% and 18.8% of the Company's revenues for the nine months ended September 30, 2023 (unaudited) and 2022 (unaudited).

***Costs to obtain a contract***

Contract costs include commission programs to compensate sales employees for generating sales orders with new customers or for new services with existing customers. The Company elected to apply the practical expedient and recognize incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less. Most of the Company's incremental commission costs are commensurate. If commissions are not eligible for the practical expedient, the Company capitalizes these commissions. Capitalized commission costs were immaterial for the three and nine months ended September 30, 2023 (unaudited) and September 30, 2022 (unaudited).

***Trade receivable, net***

The Company records trade receivable for amounts invoiced and yet unbilled invoices. The Company makes estimates of expected credit losses for the allowance for doubtful accounts based upon its assessment of various factors, including historical experience, the age of the trade receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. The estimated credit loss allowance is recorded as general and administrative expenses on the Company's condensed consolidated statements of operations.

***Income taxes and tax contingencies***

Income taxes are computed using a balance sheet approach reflecting both current and deferred taxes. Current and deferred taxes reflect the tax impact of all of the events included in the financial statements. The basic principles employed in the balance sheet approach are to reflect a current tax liability or asset that is recognized for the estimated taxes payable or refundable on tax returns for the current and prior years, a deferred tax liability or asset that is recognized for the estimated future tax effects attributable to temporary differences and carryforwards, the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law of which the effects of future changes in tax laws or rates are not anticipated, and the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. There are certain situations in which deferred taxes are not provided. Some basis differences are not temporary differences because their reversals are not expected to result in taxable or deductible amounts.

The Company regularly evaluates deferred tax assets for future realization and establishes a valuation allowance to the extent that a portion is not more likely than not to be realized. The Company considers whether it is more likely than not that the deferred tax assets will be realized, including existing cumulative losses in recent years, expectations of future taxable income, carryforward periods and other relevant quantitative and qualitative factors. The recoverability of the deferred tax assets is evaluated by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely on estimates.

*(In thousands, except stock and per stock data)*

ASC 740, Income Taxes ("ASC 740") contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. The Company classifies interest related to unrecognized tax benefits in taxes on income.

On December 20, 2017, Congress passed the "US Tax Act." The US Tax Act requires complex computations to be performed that were not previously required by US tax law, significant judgments to be made in interpretation of the provisions of the US Tax Act, significant estimates in calculations and the preparation and analysis of information not previously relevant or regularly produced. The US Tax Act provides that a person who is a US shareholder of any CFC is required to include its GILTI in gross income for the tax year in a manner generally similar to that for Subpart F inclusions. The term "global intangible low taxed income" is defined as the excess (if any) of the US shareholder's net CFC tested income for that tax year, over the US shareholder's net deemed tangible income return for that tax year. The Company's policy is to treat GILTI as a period expense in the provision for income taxes.

***Recently Adopted Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 requires enhanced qualitative and quantitative disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The adoption has impacted how the Company assesses its estimates for credit losses but did not have a material impact on these unaudited interim condensed consolidated financial statements.

## 3. GOODWILL

The changes in the carrying amount of goodwill:

| Goodwill | | Total value |
|---|---|---|
| Balance as of January 1, 2023 | $ | 116,976 |
| Goodwill impairment | | (14,503) |
| Balance as of September 30, 2023 | $ | 102,473 |

The Company periodically analyzes whether any indicators of goodwill impairment have occurred. In the second quarter of 2023, the Company experienced a decline in its stock price resulting in its market capitalization being less than the carrying value of its one reporting unit. Thus, the Company performed quantitative assessments of the Company's reporting unit. The fair value was determined based on the market approach. The market approach utilizes the Company's market capitalization plus an appropriate control premium. Market capitalization is determined by multiplying the number of common stock outstanding by the market price of its common stock. The control premium is determined by utilizing publicly available data from studies for similar transactions of public companies.

As a result of this assessment, the Company recorded a goodwill impairment of $14,503 as of June 30, 2023. There was no goodwill impairment recorded during the three months ended September 30, 2023.

## 4. LEASES

Innovid's lease portfolio primarily consists of real estate properties. Short-term leases with a term of 12 months or less are not recorded on the balance sheet. Innovid does not separate lease components from non-lease components.

*(In thousands, except stock and per stock data)*

The Company is a lessee in all its lease agreements. The Company records lease liabilities based on the present value of lease payments over the lease term. Innovid generally uses an incremental borrowing rate to discount its lease liabilities, as the rate implicit in the lease is typically not readily determinable. Certain lease agreements include renewal options that are under the Company's control. Innovid includes optional renewal periods in the lease term only when it is reasonably certain that Innovid will exercise its option.

Variable lease payments are primarily related to payments to lessors for taxes, maintenance, insurance and other operating costs. The Company's lease agreements do not contain any significant residual value guarantees or restrictive covenants.

The Company has the following operating ROU assets and lease liabilities:

| | September 30, 2023 (Unaudited) | | December 31, 2022 | |
|---|---|---|---|---|
| | ROU assets | Lease liabilities | ROU assets | Lease liabilities |
| Real Estate | $ 1,559 | $ 2,139 | $ 2,886 | $ 3,801 |
| Cars | — | — | 24 | 21 |
| **Total operating leases** | **$ 1,559** | **$ 2,139** | **$ 2,910** | **$ 3,822** |

The following table summarizes the lease costs recognized in the interim condensed consolidated statement of operations:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Operating lease cost | $ 458 | $ 466 | $ 1,379 | $ 1,413 |
| Short term lease cost | 205 | 126 | 788 | 334 |
| Variable lease cost | 31 | 10 | 77 | 20 |
| **Total lease cost** | $ 694 | $ 602 | $ 2,244 | $ 1,767 |

As of September 30, 2023 (unaudited), the weighted-average remaining lease term and weighted-average discount rate for operating leases were 1.7 years and 1.9%, respectively.

The following table presents supplementary cash flow information regarding the Company's operating leases:

| | Nine months ended September 30, 2023 | Nine months ended September 30, 2022 |
|---|---|---|
| | (Unaudited) | (Unaudited) |
| Cash paid for amounts included in the measurement of lease liabilities | $ 1,541 | $ 1,688 |
| Right of use assets obtained in exchange for operating lease liabilities upon lease modification | $ — | $ 610 |

*(In thousands, except stock and per stock data)*

The following table summarizes the future payments of Innovid for its operating lease liabilities:

| | Nine months ended September 30, 2023 |
|---|---|
| | (Unaudited) |
| 2023 Remaining | $ 601 |
| 2024 | 950 |
| 2025 | 616 |
| **Total undiscounted lease payments** | **$ 2,167** |
| Less: Interest | (28) |
| **Total lease liabilities** | **$ 2,139** |

## 5. WARRANTS

As of September 30, 2023, the Company had 3,162,500 Public Warrants and 7,060,000 Private Warrants outstanding. As of June 30, 2023, the majority of the Private Warrants (the "Transferred Private Warrants") had been transferred from their initial holder to other transferees, making the Transferred Private Warrants terms now identical to the Public Warrants resulting in use of the same price for valuation purposes. The remaining private warrants were immaterial.

The Company's Warrants' fair value as of September 30, 2023 (unaudited), and December 31, 2022, was $613 and $4,301, respectively. Gains and losses related to the Company's Warrants are recognized in "Finance (income) expenses, net." See Note 9 for further details.

## 6. LONG-TERM DEBT

On August 4, 2022, two wholly owned subsidiaries of the Company, Innovid LLC and TV Squared Inc, entered an amended and restated loan and security agreement with Silicon Valley Bank (the "2022 A&R Agreement"), to increase the revolving line of credit from $15,000 to $50,000 (the "New Revolving Credit Facility"). The 2022 A&R Agreement and the New Revolving Credit Facility were amended by a First Loan Modification Agreement dated August 2, 2023 (the "2023 Modification Agreement"). The interest for the New Revolving Credit Facility is payable monthly in arrears. The New Revolving Credit Facility bears interest at an annual rate which is the greater of (a) WSJ Prime Rate plus 0.25% or (b) 4.25%, on the aggregate outstanding balance. Additional fees include fees in an amount of 0.20% per annum of the average unused portion of the New Revolving Credit Facility to be paid quarterly in arrears. The Company paid non-refundable commitment fees of $40 and $75 at inception and first anniversary date. A modification fee of $20 was paid on the date of the 2023 Modification Agreement. In addition, a new anniversary fee of $75 related to 2023 Modification Agreement will be paid in 2024. The maturity date of the 2022 A&R Agreement, as amended by the 2023 Modification Agreement, is June 30, 2025. The New Revolving Credit Facility is subject to certain customary conditions precedent to the credit extension as stated in the 2022 A&R Agreement.

The New Revolving Credit Facility requires the Company to comply with all covenants, primarily maintaining an adjusted quick ratio of at least 1.30 to 1.00. As defined in the 2022 A&R Agreement, "adjusted quick ratio" is the ratio of (a) quick assets to (b) current liabilities minus the current portion of deferred revenue. "Quick assets" are determined as the Company's unrestricted cash plus accounts receivable, net, and is determined according to US GAAP. The Company is also required to maintain the minimum quarterly adjusted EBITDA as defined in the 2022 A&R Agreement, as amended by the 2023 Modification Agreement, if the Company does not maintain the quarterly adjusted quick ratio of at least 1.50 to 1.00.

Throughout the reporting period, the Company utilizes the credit line on an as needed basis. The amounts drawn and repaid range from $5,000 to $10,000. As of September 30, 2023 (unaudited), and December 31, 2022, the Company utilized $20,000 of the $50,000 credit line.

As of September 30, 2023 (unaudited), the Company is in compliance with all the covenants.

*(In thousands, except stock and per stock data)*

Prior to the 2023 Modification Agreement, the New Revolving Credit Facility bore interest at an annual rate which was the greater of (a) WSJ Prime Rate plus 0.75% or (b) 4.25%.

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

***Pledges and bank guarantees***

1. In conjunction with the 2022 A&R Agreement (see Note 6, Long-term Debt), Innovid LLC pledged 65,000 common stocks of its Israeli Subsidiary, NIS 0.01 par value each.
2. The Israeli Subsidiary pledged bank deposits in an aggregate amount of $586 in connection with an office rent agreement and credit cards.
3. Innovid Inc. obtained bank guarantees in an aggregate amount of $231 in connection with its office lease agreements.

***Legal contingencies***

On March 4, 2022, a lawsuit was filed in the United States District Court for the Western District of Texas by the Nielsen, Company (US) LLC against TVS alleging infringement of US Patent No.10,063,378. On June 1, 2022, TVS moved to transfer the case to the Southern District of New York. On February 24, 2023, the case was transferred to the Southern District of New York. On March 23, 2023, the parties jointly filed their proposed case management plan and scheduling order, which the Court entered and thereafter opened discovery. That order set the close of fact discovery for October 23, 2023, and the close of expert discovery for January 23, 2024. On September 25, 2023 the Court issued an Amended Case Management Plan and Scheduling Order, postponing the date for close of fact discovery to February 23, 2024 and the date for close of expert discovery to May 23, 2024. Also on March 23, 2023, TV Squared filed a motion for judgment on the pleadings under Federal Rule 12(c) arguing invalidity of all asserted patent claims. Briefing concluded on April 24, 2023, and the motion remains pending. The claims construction hearing is scheduled for January10, 2024. No trial date has been set yet and the plaintiff has not specified the amount sought in the litigation. Given the uncertainty of litigation and the preliminary stage of the lawsuit, the Company is unable at this time to give an estimate of the amount or range of potential loss, if any, which might result to the Company if the outcome in such litigation was unfavorable. As of September 30, 2023, the Company did not record a loss contingency.

## 8. STOCK-BASED COMPENSATION

Stock-based compensation expense is related to awards issued pursuant to the Legacy Innovid Stock Option Plan ("Legacy Plan") and 2021 Innovid Corp. Incentive Plan ("2021 Plan", together with Legacy Plan "Plans")) and is summarized as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Cost of goods sold | $ 522 | $ 307 | $ 1,398 | $ 795 |
| Research and development | 1,249 | 1,039 | 3,652 | 2,438 |
| Sales and marketing | 1,657 | 1,391 | 4,926 | 3,500 |
| General and administrative | 2,177 | 1,546 | 5,587 | 3,095 |
| Total | **$ 5,605** | **$ 4,283** | **$ 15,563** | **$ 9,828** |

In connection with the awards granted to service providers and non-employee consultants, the Company's expense is immaterial in the periods presented.

During the three and nine months ended September 30, 2023 (unaudited), the Company capitalized stock-based compensation expense of $314 and $1,004 of internal-use software costs, respectively.

During the three and nine months ended September 30, 2022 (unaudited), the Company capitalized stock-based compensation expense of $290 and $780, of internal-use software costs, respectively.

*Stock Options*

Stock options may be granted to officers, directors, employees and non-employee consultants of the Company. Each option granted under the Plans expires no later than 10 years from the date of grant. The options vest usually over four years from commencement of employment or service start date. Any options forfeited or not exercised before expiration become available for future grants.

A summary of the employees' stock option activity for the nine months ended September 30, 2023 (unaudited), is as follows:

| | Amount of options | Weighted average exercise price | Weighted average remaining contractual term (in years) | Aggregate intrinsic value (in thousands) |
|---|---|---|---|---|
| **Outstanding at beginning of period** | **10,658,085** | **$ 1.15** | **6.85** | **$ 5,923** |
| Granted | 832,232 | 1.55 | | |
| Forfeited | (259,568) | 1.98 | | |
| Expired | (204,417) | 1.74 | | |
| Exercised | (1,693,432) | 0.44 | | |
| **Outstanding at end of period** | **9,332,900** | **$ 1.28** | **6.68** | **$ 3,735** |
| **Exercisable options at end of period** | **6,583,414** | **$ 1.05** | 6.16 | **$ 3,428** |

A summary of the consultants' stock option activity for the nine months ended September 30, 2023 (unaudited), is as follows:

| | Amount of options | Weighted average exercise price | Weighted average remaining contractual term (in years) | Aggregate intrinsic value (in thousands) |
|---|---|---|---|---|
| **Outstanding at beginning of period** | **69,542** | **$ 0.47** | **4.21** | **$ 86** |
| **Outstanding at end of period** | **69,542** | **$ 0.47** | 3.47 | **$ 56** |
| **Exercisable options at end of period** | **67,033** | **$ 0.46** | 3.33 | **$ 55** |

As of September 30, 2023 (unaudited), the Company had approximately $3,079 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted-average period of 1.78 years.

*Restricted Stock Units*

Restricted Stock Units ("RSUs") may be granted to officers, directors, employees and non-employee consultants of the Company, and generally vest over a three year period.

A summary of the employees' RSU activity under the 2021 Plan for the nine months ended September 30, 2023 (unaudited), is as follows:

| | Number of share units | Weighted average grant date fair value |
|---|---|---|
| **Outstanding at beginning of period** | **7,989,825** | **$ 5.60** |
| Granted | 12,368,971 | 1.28 |
| Vested | (4,497,981) | 4.87 |
| Forfeited | (1,909,467) | 3.89 |
| **Outstanding at end of period** | **13,951,348** | **$ 2.24** |

*(In thousands, except stock and per stock data)*

A summary of the consultants' RSU activity under the 2021 Plan for the nine months ended September 30, 2023 (unaudited), is as follows:

| | Number of share units | Weighted average grant date fair value |
|---|---|---|
| **Outstanding at beginning of period** | **130,268** | **$ 6.60** |
| Granted | 107,343 | 1.18 |
| Vested | (63,078) | 6.60 |
| Forfeited | (10,308) | 5.89 |
| **Outstanding at end of period** | **164,225** | **$ 3.10** |

The weighted-average grant-date fair value of RSUs generally is determined based on the number of units granted and the quoted price of Innovid's common stock on the date of grant.

As of September 30, 2023 (unaudited), $27,186 of unrecognized compensation cost related to RSUs is expected to be recognized as expense over the weighted average period of 2.1 years.

## 9. FINANCE (INCOME) EXPENSES, NET

The Company recognizes the gains and losses from the remeasurement of the warrants liability related to the Public Warrants and Transferred Private Warrants, as defined in Note 5, *Warrants,* in "Finance (income) expenses, net" in the condensed consolidated statements of operations. The unrealized (loss)/gain from changes in the fair value of the Company Warrants for the three months ended September 30, 2023 (unaudited) and 2022 (unaudited), were $410 and ($4,564), respectively. The unrealized changes in the fair value of the Company Warrants for the nine months ended September 30, 2023 (unaudited) and 2022 (unaudited), were $3,688 and $11,382, respectively.

The Company also recognized interest expenses in "Finance (income) expenses, net" in the condensed consolidated statements of operations. Interest expenses for the three months ended September 30, 2023 (unaudited) and 2022 (unaudited), were $360 and $234, respectively. Interest expenses for the nine months ended September 30, 2023 and 2022, were $1,142 and $371, respectively. Interest income for the three months ended September 30, 2023 (unaudited) and 2022 (unaudited), were $445 and $99, respectively. Interest income for the nine months ended September 30, 2023 and 2022, were $1,036 and $141, respectively.

## 10. INCOME TAX

The Company recorded a net benefit for incomes taxes of $(1,301) and a net provision of $839 for the three months ended September 30, 2023 (unaudited) and 2022 (unaudited), representing an effective tax rate of 32.3% and (7.6)% respectively. The decrease in quarter-to-date tax expense primarily resulted from the Company's updated forecast.

The Company recorded a net provision of $2,858 and a net provision of $634 for the nine months ended September 30, 2023 and 2022, representing an effective tax of (10.4)% and (4.4)% respectively. The increase in year-to-date tax expense primarily results from the Company's foreign earnings and large temporary differences in the US associated with the capitalization of research and development costs, resulting in larger current tax expense with no offsetting deferred tax benefit due to Company's valuation allowance.

Further, the temporary differences associated with the capitalization of research and development under IRC Section 174 and deductibility of stock compensation will continue to cause the US to generate current state tax expense with no corresponding deferred tax benefit due to Company's valuation allowance. Unless the US tax rules around research and development (Section 174) are modified, there will continue to be an adverse impact on our effective rates for income taxes paid.

*(In thousands, except stock and per stock data)*

## 11. SEGMENT REPORTING

The Company operates as one operating segment, which primarily focuses on the software platform for advertising, measurement, and creative. Our CEO is the chief operating decision-maker, and manages and allocates resources to the operations of the Company on an entity-wide basis.

Revenue by geographical location are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| US | $ 33,238 | $ 31,579 | $ 92,452 | $ 84,531 |
| Canada | 531 | 390 | 1,385 | 880 |
| APAC | 723 | 1,013 | 2,271 | 2,969 |
| EMEA | 1,542 | 1,280 | 4,580 | 4,323 |
| LATAM | 200 | 207 | 577 | 716 |
| **Total revenues** | **$ 36,234** | **$ 34,469** | **$ 101,265** | **$ 93,419** |

The Company's property and equipment, net and ROU assets by geographical location is as follows:

| | September 30, | December 31, |
|---|---|---|
| | 2023 | 2022 |
| | (Unaudited) | |
| Israel | $ 2,260 | $ 2,707 |
| US | 17,011 | 14,065 |
| Rest of the World | 385 | 460 |
| **Total** | **$ 19,656** | **$ 17,232** |

## 12. BASIC AND DILUTED NET LOSS PER SHARE

Basic and diluted net loss per share attributable to common stockholders was calculated as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Numerator: | | | | |
| Net loss | $ (2,731) | $ (11,832) | $ (30,253) | $ (14,981) |
| **Net loss attributable to common stockholders basic and diluted** | **$ (2,731)** | **$ (11,832)** | **$ (30,253)** | **$ (14,981)** |
| Denominator: | | | | |
| **Weighted-average number of stock used in computing net loss per stock attributable to common stockholders** | | | | |
| Basic and diluted weighted average number of shares outstanding | 139,607,389 | 132,959,511 | 137,826,099 | 129,768,724 |
| **Net loss per stock attributable to common stockholders** | | | | |
| Basic and diluted | **$ (0.02)** | **$ (0.09)** | **$ (0.22)** | **$ (0.12)** |

The Company excluded the following potential common shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

| | Three and nine months ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| | **(Unaudited)** | **(Unaudited)** |
| Unvested RSU outstanding | 14,115,573 | 7,827,545 |
| Options outstanding | 9,402,442 | 11,241,174 |
| Warrants outstanding | 10,222,500 | 10,222,500 |

***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 interim unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report and our audited financial statements and notes contained in our Annual Report on Form 10-K for the year ended December 31, 2022 (our "2022 Annual Report on Form 10-K"). In addition to our historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in our 2022 Annual Report on Form 10-K as such factors may be updated from time to time in our other filings with the SEC, including elsewhere in this Quarterly Report, including under the heading "Cautionary Statements Regarding Forward-Looking Statements."*

## Company Overview

Innovid is an enterprise cloud software platform that provides critical technology infrastructure for the creation, delivery, and measurement of advertising across connected TV (CTV), mobile TV, and desktop TV environments. As of September 30, 2023, according to Kantar Media, over 50% of the top 200 TV advertisers by US advertising spend are utilizing our platform in their advertising delivery infrastructure. Our technology, purposely built for CTV, combined with our position as a media-agnostic provider, has allowed us to win top TV advertisers and grow market share; while the growth of CTV combined with our usage-based revenue model continues to contribute to our overall growth.

We serve advertisers across multiple verticals, including Anheuser-Busch InBev, Verizon, CVS, Kellogg's, Mercedes-Benz, Target, and Sanofi, and target the largest global TV advertisers globally, including in the US, Germany, UK, Mexico, Argentina, Colombia, Israel, Singapore, Japan, and Australia. During the third quarter of 2023, approximately 8% of Innovid's revenue was generated by our customers outside of the US. As part of our measurement solutions go-to-market strategy, we partner with the largest streaming platform providers in the world, including Disney, Hulu, ESPN, and NBCU. In addition, we work closely with agency holding companies such as WPP, Publicis Groupe, Omnicom Group Inc, Interpublic Group of Cos., and Dentsu Inc. Our clients span all major industry verticals, including consumer packaged goods, pharmaceutical and healthcare, retail, financial services, automotive, and technology.

Innovid's revenue growth closely correlates with the growth of CTV advertising. CTV accounted for 55% and 54% of all video impressions served by Innovid during the three months ending September 30, 2023, and September 30, 2022, respectively. During the three months ending September 30, 2023, this represented a year-over-year increase of 7% in CTV video impressions served by Innovid. Video impressions served by Innovid during the third quarters of 2023 and 2022 attributed to mobile were 35% and 33%, respectively, and for desktop TV were 10% and 13%, respectively. In the third quarter of 2023, video impressions volume increased by 8% for mobile TV and declined by 12% for desktop TV compared to the same period in the prior year.

## Transactions

Innovid Corp. was originally incorporated as ION Acquisition Corp. 2 Ltd. ("ION"), a special purpose acquisition company, on November 23, 2020 and Innovid Corp. was the surviving entity following the completion of its merger with ION on November 30, 2021 (the "ION Transaction").

On February 28, 2022, the Company completed the acquisition of TV Squared Limited ("TVS", together with ION's Transaction, the "Transactions") by way of stock purchase agreement ("Stock Purchase Agreement"). The Company acquired all the equity of TVS for an aggregate amount of 100.0 million in cash, 11,549,465 shares of the Company common stock at fair value of $3.80 per share, and other conditions as defined in the Stock Purchase Agreement.

## Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with US GAAP requires us to make estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Global Events

A number of our employees, including some senior employees and two of our directors are residents of Israel. As of today, the Company's business operations have not been disrupted to any significant extent and the Company does not anticipate any material impact to operations going forward amidst the evolving conflict in Israel. All of our infrastructure and internal networks are cloud-based and located completely outside of Israel. Key systems and IT functions are distributed globally, and our customer care and sales teams are situated mainly in the US, the UK and Argentina. Our office in Israel is primarily a research and development facility and is one of three of our worldwide research and development facilities.

## Key Factors Affecting Our Performance

There are several factors that have impacted, and we believe, may continue to impact our results of operations and growth.

These factors include:

**Continued market demand.** Our performance depends on continued global demand across the advertising ecosystem for independent third-party ad serving, personalization, and measurement of digital ads. Advertisers, programmatic platforms, social media channels and digital publishers are collectively placing increased emphasis on the quality and effectiveness of digital ad spend across all channels, formats and devices.

Our growth is primarily driven by CTV, the fastest growing segment of digital ad spend, and our results depend on our ability to monetize continued market growth of CTV ad spend.

**Growth of volume of CTV ad impressions of existing customers.** Our results also depend on our ability to retain our existing customers and on our customers' continued investment in CTV advertising. Customer retention will continue to impact our results as TV investment continues to shift from linear to CTV and the volume of CTV impressions grows.

**Upsell of additional services.** An additional contributor to our efforts in expanding revenue generated by our customers is our investment in cross-selling our solutions. We cross-sell our personalized creative solutions to primary ad serving customers, who, for example, begin using our services with standard digital video ads and then introduce personalized formats over time. We also cross-sell our advanced measurement solutions, which provide real-time metrics to inform optimization of TV campaigns while in market. The success of these efforts will impact our results of operations.

**New client accounts:** We intend to continue targeting new brand, media agency and digital publisher customers who are currently utilizing solutions provided by our competitors or point solutions. Our results of operations will be impacted by our ability to attract new customers.

**Seasonality:** We experience revenue fluctuations that coincide with seasonal changes in the digital ad spending of our customers, in particular television ad spending patterns. Advertisers typically allocate the largest portion of their media budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. As a result, the fourth quarter of the year typically reflects our highest level of revenues while the first quarter typically reflects our lowest level of revenues. However, this traditional revenue seasonality may also be impacted by certain external factors or major events that also impact traditional television advertising patterns such as supply chain disruptions and silicon/chip shortages. We expect our revenues to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole and for these seasonal fluctuations in ad spend to impact quarter-over-quarter results. We believe that the year-over-year comparison of results more appropriately reflects the overall performance of our business.

## Global Markets

The majority of our clients are global advertisers and operate at a significant scale. Innovid serves customers globally through a delivery footprint including the US, APAC, EMEA, and LATAM. During the third quarter of 2023, approximately 8% of Innovid's revenue was generated outside the US.

We continue to service international markets to meet the needs of our global customer base and to accelerate new customer acquisition in key geographies outside of the US. We believe our continuing ability to service international markets will impact our results of operations.

## Components of Results of Operations

***Revenues***

We generate most of our revenues from digital ad solutions via our ad serving platform to advertisers, media agencies and publishers. We focus on standard, interactive and data driven digital video advertising. Ad serving services relate to utilizing Innovid's platform to serve advertising impressions to various digital publishers primarily across CTV, mobile TV, and desktop TV.

InnovidXP, our cross-platform TV Ad measurement solution, launched last year, measures the efficiency of CTV advertising and in-flight optimizations for TV marketers. We will continue to invest in advanced measurement capability and provide solutions to advertisers, streaming platforms and agencies as their needs evolve in the highly fragmented CTV ecosystem.

We provide creative services for the design and development of interactive data-driven and dynamic ad formats by adding data, interactivity and dynamic features to standard ad units.

We generate the majority of our revenues from the sale and delivery of our products within the US. For information with respect to sales by geographic markets, refer to Note 11*, Segment Reporting* to the Condensed Consolidated Financial Statements included under Item 1, *Financial Statements and Supplementary Data*.

We anticipate that revenues from our US sales will continue to constitute a majority of our revenues in future periods.

***Cost of revenues***

Cost of revenues consists primarily of costs to run our ad serving, creative and measurement solutions. These costs include hosting and ad serving fees, data costs, personnel costs including stock-based compensation, professional services costs and facility related costs. We allocate overhead, including rent and other facility related costs and communication costs, based on headcount.

***Research and development***

Research and development expenses consist primarily of personnel costs, including stock-based compensation, professional services costs, hosting and facility related costs. We allocate overhead including rent and other facility related costs and communication costs based on headcount. These expenses may vary from period to period as a percentage of revenue, depending primarily upon when we choose to make more significant investments.

Research and development costs are charged to the condensed consolidated statements of operations as incurred. ASC 350-40, Internal-Use Software ("ASC 350-40"), requires the capitalization of certain costs incurred during the application development stage. Any costs incurred for upgrades and functionality enhancements of the software are also capitalized.

***Sales and marketing***

Sales and marketing expenses consist primarily of personnel costs, including commissions, stock-based compensation, professional services costs and facility related costs, as well as costs related to advertising, promotional materials, public relations, and other sales and marketing programs. We allocate overhead, including rent and other facility related costs and communication costs based on headcount.

***General and administrative***

General and administrative expenses consist primarily of personnel costs, including stock-based compensation, for executive management, finance, accounting, human capital, legal and other administrative functions as well as professional services costs and facility related costs. We allocate overhead, including rent and other facility related costs, and communication costs based on headcount.

## Results of Operations

***Three and nine months ended September 30, 2023, compared to the three and nine months ended September 30, 2022***

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | (in thousands) | % of Revenue | (in thousands) | % of Revenue |
| Revenues | $ 36,234 | 100 % | $ 34,469 | 100 % | $ 101,265 | 100 % | $ 93,419 | 100 % |
| Cost of revenues | 8,428 | 23 % | 8,534 | 25 % | 25,284 | 25 % | 21,811 | 23 % |
| Research and development | 6,486 | 18 % | 7,312 | 21 % | 20,479 | 20 % | 24,276 | 26 % |
| Sales and marketing | 11,175 | 31 % | 13,726 | 40 % | 34,272 | 34 % | 38,397 | 41 % |
| General and administrative | 9,753 | 27 % | 9,046 | 26 % | 28,327 | 28 % | 30,456 | 33 % |
| Depreciation, amortization and long-lived assets impairment | 4,714 | 13 % | 1,882 | 5 % | 8,808 | 9 % | 3,481 | 4 % |
| Goodwill impairment | — | — | — | — | 14,503 | 14 % | — | — |
| **Operating loss** | **(4,322)** | **(12) %** | **(6,031)** | **(17) %** | **(30,408)** | **(30) %** | **(25,002)** | **(27) %** |
| Finance (income) expenses, net | (290) | (1) % | 4,962 | 14 % | (3,013) | (3) % | (10,655) | (11) % |
| **Loss before taxes** | **(4,032)** | **(11) %** | **(10,993)** | **(32) %** | **(27,395)** | **(27) %** | **(14,347)** | **(15) %** |
| Taxes on income | (1,301) | (4) % | 839 | 2 % | 2,858 | 3 % | 634 | 1 % |
| **Net loss** | **$ (2,731)** | **(8)** | **$ (11,832)** | **(34) %** | **$ (30,253)** | **(30) %** | **$ (14,981)** | **(16) %** |

***Revenues***

The growth and scaling of CTV was the key driver of Innovid’s revenue growth in the third quarter of 2023. As TV ad spend continues to shift from linear to CTV, we continue to benefit from the natural volume growth of CTV impressions we delivered for our existing and new customers.

Total revenue increased by $1.8 million, or 5%, from $34.5 million in the three months ended September 30, 2022 to $36.2 million in the three months ended September 30, 2023. The increase is attributed to the ad serving volume growth and the growth of the measurement solution. Cross-selling of the measurement solution to our core clients contributed to the overall increase in the measurement revenue.

Total revenue increased by $7.8 million, or 8%, from $93.4 million in the nine months ended September 30, 2022 to $101.3 million in the nine months ended September 30, 2023. Seven months of TVS activity was included in our operations in the same period in 2022 due to the timing of the acquisition.

There was no meaningful impact of changes in average cost per impression on total revenue.

***Cost of revenues (exclusive of depreciation, amortization, long-lived assets and goodwill impairment shown below)***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Cost of revenues | $ 8,428 | 23 % | $ 8,534 | 25 % | $ (106) | (1) % |

Cost of revenue decreased by $(0.1) million, or (1)%, from $8.5 million in the three months ended September 30, 2022, to $8.4 million in the three months ended September 30, 2023, primarily driven by a decrease of $0.6 million in personnel related costs resulted from our operating efficiency measures including headcount reduction. This was partially offset by $0.5 million increase related to hosting and data costs associated with our measurement solution.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Cost of revenues | $ 25,284 | 25 % | $ 21,811 | 23 % | $ 3,473 | 16 % |

Cost of revenue increased by $3.5 million, or 16%, from $21.8 million in the nine months ended September 30, 2022, to $25.3 million in the nine months ended September 30, 2023, primarily driven by a $4.0 million increase in hosting and data costs associated with our measurement solution included in our operations following the TVS acquisition. This was partially offset by a decrease in personnel related costs resulted from our operating efficiency measures including headcount reduction.

***Research and development (exclusive of depreciation, amortization, long-lived assets and goodwill impairment shown below)***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Research and development | $ 6,486 | 18 % | $ 7,312 | 21 % | $ (826) | (11) % |

Research and development expenses decreased by $(0.8) million, or (11)%, from $7.3 million in the three months ended September 30, 2022, to $6.5 million in the three months ended September 30, 2023, primarily driven by a decrease of $0.7 million in personnel costs resulted from our operating efficiency measures including headcount reduction.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Research and development | $ 20,479 | 20 % | $ 24,276 | 26 % | $ (3,797) | (16) % |

Research and development expenses decreased by $(3.8) million, or (16)%, from $24.3 million in the nine months ended September 30, 2022, to $20.5 million in the nine months ended September 30, 2023, primarily driven by a decrease of $3.7 million in personnel costs, a decrease of $0.8 million in technology infrastructure and hosting fees, and a decrease of $0.6 millions in professional fees resulted from our operating efficiency measures including headcount reduction. This was partially offset by an increase in stock-based compensation of $1.3 million.

***Sales and marketing (exclusive of depreciation, amortization, long-lived assets and goodwill impairment shown below)***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Sales and marketing | $ 11,175 | 31 % | $ 13,726 | 40 % | $ (2,551) | (19) % |

Sales and marketing expenses decreased by $(2.6) million, or (19)%, from $13.7 million in the three months ended September 30, 2022, to $11.2 million in the three months ended September 30, 2023, primarily driven by a decrease in personnel costs of $2.6 million due to lower headcount.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Sales and marketing | $ 34,272 | 34 % | $ 38,397 | 41 % | $ (4,125) | (11) % |

Sales and marketing expenses decreased by $(4.1) million, or (11)%, from $38.4 million in the nine months ended September 30, 2022, to $34.3 million in the nine months ended September 30, 2023, primarily driven by a decrease in personnel costs of $4.1 million due to lower headcount. In addition, there was a decrease in marketing costs of $0.9 million and professional fees of $0.5 million. This was partially offset by an increase in stock-based compensation of $1.4 million.

***General and administrative (exclusive of depreciation, amortization, long-lived assets and goodwill impairment shown below)***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| General and administrative | $ 9,753 | 27 % | $ 9,046 | 26 % | $ 707 | 8 % |

General and administrative expenses increased by $0.7 million, or 8%, from $9.0 million in the three months ended September 30, 2022, to $9.8 million in the three months ended September 30, 2023, primarily mainly driven by an increase in stock-based compensation .

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| General and administrative | $ 28,327 | 28 % | $ 30,456 | 33 % | $ (2,129) | (7) % |

General and administrative expenses decreased by $(2.1) million, or (7)%, from $30.5 million in the nine months ended September 30, 2022, to $28.3 million in the nine months ended September 30, 2023, primarily driven by a decrease in professional fees of $3.0 million and a decrease of $1.9 million in legal fees both related to the TVS acquisition. In addition, there was a decrease of $1.6 million in Directors and Officers insurance expense during the period. This was partially offset by an increase in stock-based compensation of $2.5 million and an increase in executive bonuses and other personnel costs of $1.9 million.

***Depreciation, amortization and long-lived assets impairment***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Depreciation, amortization and long-lived assets impairment | $ 4,714 | 13 % | $ 1,882 | 5 % | $ 2,832 | 150 % |

Depreciation, amortization and long-lived assets impairment expenses increased by $2.8 million, or 150%, from $1.9 million in the three months ended September 30, 2022, to $4.7 million in the three months ended September 30, 2023. The increase was mostly driven by an impairment of approximately $2.0 million related to our legacy measurement product. In addition, there were $0.5 million amortization expense of internal-use software projects during the period and additional $0.2 million amortization expense for TVS intangible assets during the period. This was partially offset by $0.5 million of impairment charges related to the abandonment of certain projects related to our internal-use software projects.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Depreciation, amortization and long-lived assets impairment | $ 8,808 | 9 % | $ 3,481 | 4 % | $ 5,327 | 153 % |

Depreciation, amortization and long-lived assets impairment expenses increased by $5.3 million, or 153%, from $3.5 million in the nine months ended September 30, 2022, to $8.8 million in the nine months ended September 30, 2023. The increase was driven by an impairment of approximately $2.0 million related to our legacy measurement product and additional amortization expense of $1.3 million for TVS intangible assets during the period as well as $1.9 million amortization expenses of internal-use software projects. This was offset by $0.5 million of impairment charges related to the abandonment of certain projects related to our internal software development in 2022.

***Goodwill impairment***

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Goodwill impairment | $ 14,503 | 14 % | $ — | — % | $ 14,503 | 100 % |

Goodwill impairment increased by $14.5 million, or 100%, from $0.0 million in the nine months ended September 30, 2022, to $14.5 million in the nine months ended September 30, 2023. The continued decline in the Company's stock price during the second quarter of 2023 was viewed as a triggering event, which required an assessment for possible goodwill impairment as of June 30, 2023. We performed this assessment during the six months ended June 30, 2023 and determined that the fair value of the reporting unit did not exceed its carrying value during the three months ended June 30, 2023. The fair value was determined based on the market approach. As a result of this assessment, the Company recorded a goodwill impairment in the amount of $14.5 million as of June 30, 2023. There were no further goodwill impairment recorded in the third quarter of 2023.

***Finance (income) expenses, net***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Finance (income) expenses, net | $ (290) | (1) % | $ 4,962 | 14 % | $ (5,252) | (106) % |

Finance (income) expenses changed by $5.3 million, or (106)%, from $5.0 million of finance expenses in the three months ended September 30, 2022, to $(0.3) million finance income in the three months ended September 30, 2023. This was predominantly driven by a decrease of the fair value of our warrants. The fair value of the warrants is influenced by market volatility impacting Company's warrants price which is an underlying input for the valuation.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Finance income, net | $ (3,013) | (3) % | $ (10,655) | (11) % | $ 7,642 | (72) % |

Finance income decreased by $7.6 million, or (72)%, from $(10.7) million in the nine months ended September 30, 2022, to $(3.0) million in the nine months ended September 30, 2023. This was predominantly driven by changes in the fair value of our warrants.

***Taxes on income***

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Taxes on income | $ (1,301) | (4) % | $ 839 | 2 % | $ (2,140) | (255)% |

The Company recorded a net benefit for incomes taxes of $(1,301) and a net provision of $839 for the three months ended September 30, 2023 (unaudited) and 2022 (unaudited), representing an effective tax rate of 32.3% and (7.6)% respectively. The decrease in quarter-to-date tax expense primarily resulted from the Company's updated forecast.

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | (in thousands) | % of Revenue | (in thousands) | % of Revenue | $ Variance | % Variance |
| Taxes on income | $ 2,858 | 3 % | $ 634 | 1 % | $ 2,224 | 351 % |

The Company recorded a net provision of $2,858 and a net provision of $634 for the nine months ended September 30, 2023 and 2022, representing an effective tax of (10.4)% and (4.4)% respectively. The increase in year-to-date tax expense primarily results from the Company's foreign earnings and large temporary differences in the US associated with the capitalization of research and development costs, resulting in larger current tax expense with no offsetting deferred tax benefit due to Company's valuation allowance.

Further, the temporary differences associated with the capitalization of research and development under IRC Section 174 and deductibility of stock compensation will continue to cause the US to generate current state tax expense with no corresponding deferred tax benefit due to Company's valuation allowance. Unless the US tax rules around research and development (Section 174) are modified, there will continue to be an adverse impact on our effective rates for income taxes paid.

## Liquidity and Capital Resources

We have financed our operations and capital expenditures primarily through utilization of cash generated from operations and cash proceeds from the ION's transaction, as well as borrowings under our credit facilities.

As of September 30, 2023, we had cash, cash equivalents and restricted cash of $48.1 million and net working capital, consisting of current assets less current liabilities, of $73.4 million. As of September 30, 2023, we had an accumulated deficit of $181.1 million, $76.0 million thereof results from the cumulative accretion of preferred stock to redemption value prior to the conversion of all preferred stock into our common stock upon the closing of the ION's transaction.

We believe our existing cash and cash equivalents and anticipated net cash provided by operating activities, together with available borrowings under our credit facility, will be sufficient to meet our cash needs and working capital requirements for at least the next 12 months. However, if our operating performance during the next 12 months is below our expectations, our liquidity and ability to operate our business could be adversely affected. We are closely monitoring the effect that current economic conditions may have on our working capital requirements. To date, the global events have not had a material negative impact on our cash flow or liquidity. Our future capital requirements and the adequacy of available funds will depend on many factors.

***Sources of Liquidity***

*Revolving Line of Credit*

On August 4, 2022, two of our wholly owned subsidiaries, Innovid LLC and TV Squared Inc, entered into an amended and restated loan and security agreement with Silicon Valley Bank (the “2022 A&R Agreement”), to increase the revolving line of credit from $15.0 million to $50.0 million (the “New Revolving Credit Facility”). The 2022 A&R Agreement and the New Revolving Credit Facility were amended by a First Loan Modification Agreement dated August 2, 2023 (the “2023 Modification Agreement”). The interest for the New Revolving Credit Facility is payable monthly in arrears. The New Revolving Credit Facility bears interest at an annual rate which is the greater of (a) WSJ Prime Rate plus 0.25% or (b) 4.25%, on the aggregate outstanding balance. Additional fees include fees in an amount of 0.20% per annum of the average unused portion of the New Revolving Credit Facility to be paid quarterly in arrears. The maturity date of the 2022 A&R Agreement, as amended by the 2023 Modification Agreement, is June 30, 2025. The New Revolving Credit Facility is subject to certain customary conditions precedent to the credit extension as stated in the 2022 A&R Agreement.

The New Revolving Credit Facility requires the Company to comply with all covenants, primarily maintaining an adjusted quick ratio of at least 1.30 to 1.00. As defined in the 2022 A&R Agreement “adjusted quick ratio” is the ratio of (a) quick assets to (b) current liabilities minus the current portion of deferred revenue. “Quick assets” are determined as the Company’s unrestricted cash plus accounts receivable, net, and is determined according to US GAAP. The Company is also required to maintain the minimum quarterly adjusted EBITDA as defined in the 2022 A&R Agreement, as amended by the 2023 Modification Agreement, if the Company does not maintain the quarterly adjusted quick ratio of at least 1.50 to 1.00.

As of September 30, 2023, we were in compliance with all covenants.

Throughout the reporting period, we utilize the credit line on an as needed basis. The amounts drawn and repaid range from $5.0 million to $10.0 million. As of September 30, 2023 and December 31, 2022, the Company utilized $20.0 million of the $50.0 million credit line.

Interest expenses for the nine months ended September 30, 2023, and 2022 were $1.1 million and $0.4 million, respectively. They were recorded in the “Finance (income) expenses, net” in the condensed consolidated statements of operations.

## Cash Flows

***Nine months ended September 30, 2023, compared to the nine months ended September 30, 2022***

The following table summarizes our cash flows for the periods presented:

| | Nine months ended September 30, | |
|---|---|---|
| | **2023** | **2022** |
| Net cash provided by / (used in) operating activities | $ 7,437 | $ (10,089) |
| Net cash provided by / (used in) investing activities | 1,887 | (106,787) |
| Net cash provided by financing activities | 772 | 6,632 |
| **Increase (decrease) in cash, cash equivalents and restricted cash** | $ 10,096 | $ (110,243) |

***Operating Activities***

Our cash flows from operating activities are primarily influenced by growth in our operations, increases or decreases in collections from our customers and payments to our vendors, as well as increases in personnel related expenses as we scale up our business. The timing of cash receipts from customers and payments to vendors and providers can significantly impact our cash flows from operating activities. In addition, we expect seasonality to impact quarterly cash flows from operating activities.

Cash provided by/(used in) operating activities is calculated by adjusting our net loss for changes in working capital, as well as by excluding non-cash items such as depreciation, amortization, long-lived assets impairment, goodwill impairment, stock-based compensation and change in fair value of warrants.

For the nine month period ended September 30, 2023, net cash provided by operating activities was $7.4 million, attributable to net loss of $(30.3), adjusted for non-cash charges of $35.1 and $2.6 cash provided by changes in working capital. Our non-cash charges primarily consisted of goodwill impairment and stock based compensation.

For the nine month period ended September 30, 2022, net cash used in operating activities was $(10.1) million, attributable to net loss of $(15.0), adjusted for non-cash charges of $2.1 and $2.8 use of cash from changes in working capital. Our non-cash charges primarily consisted of change in fair value warrants.

The changes in our working capital compared to the prior period in the amount of $(0.2) million were a result of an increase in prepaid expenses due to the timing of payments for some of our subscriptions, offset by reduction of trades receivable. The changes in working capital were also related to an decrease in accrued expense and other current liabilities due to accrual and the timing of payments for personnel costs, prepaid software subscription fees and changes due to the acquisition of TVS.

***Investing Activities***

For the nine month period ended September 30, 2023, $1.9 million of net cash was provided by investing activities compared to net cash used in investing activities of $106.8 million for the nine month period ended September 30, 2022. This was primarily driven by net cash consideration paid of $99.6 million to acquire TVS in 2022. Further, the decrease of $10.0 million in short-term deposit, which was terminated in March, 2023, increased cash provided by investing activity. This impact was offset by an increase of $0.8 million of investment in internal software development work.

***Financing Activities***

For the nine month period ended September 30, 2023, $0.8 million of net cash was provided by financing activities compared to $6.6 million for the nine month period ended September 30, 2022. This decrease in cash provided was primarily due to a drawdown of our credit facility of $9.0 million in the prior period, offset the amount of transaction costs of $3.2 million.

***Free Cash Flow (non-GAAP measure)***

The following table reconciles Free cash flow, which is a non-GAAP measures, to net cash provided by operating activities:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net cash provided by operating activities | $ 6,489 | $ 5,812 | $ 7,437 | $ (10,089) |
| Capital expenditures | (2,410) | (3,520) | (8,190) | (7,257) |
| **Free cash flow** | $ 4,079 | $ 2,292 | $ (753) | $ (17,346) |

## Contractual Obligations and Known Future Cash Requirements

***Lease Commitments***

We rent our facilities under operating lease agreements that expire on various dates, the latest of which is in 2025 excluding any options for renewal. The minimum rental payments under operating leases for rental of premises as of September 30, 2023 for the next five years totaled to $2.1 million, which is comprised of $1.3 million and $0.8 million in the next 12 months and more than 12 months, respectively.

***Pledges and Bank Guarantees***

In connection with the 2022 A&R Agreement, we pledged 65,000 shares of common stock of our Israeli subsidiary, NIS 0.01 par value each.

We have a total of $0.7 million of pledged bank deposits as of September 30, 2023, related to office leases and credit cards. We obtained bank guarantees in an aggregate amount of $0.2 million in connection with our office lease agreements.

On March 4, 2022, a lawsuit was filed in the United States District Court for the Western District of Texas by the Nielsen, Company (US) LLC against TVS alleging infringement of US Patent No.10,063,378. On June 1, 2022, TVS moved to transfer the case to the Southern District of New York. On February 24, 2023, the case was transferred to the Southern District of New York. On March 23, 2023, the parties jointly filed their proposed case management plan and scheduling order, which the Court entered and thereafter opened discovery. That order set the close of fact discovery for October 23, 2023, and the close of expert discovery for January 23, 2024. On September 25, 2023 the Court issued an Amended Case Management Plan and Scheduling Order, postponing the date for close of fact discovery to February 23, 2024 and the date for close of expert discovery to May 23, 2024. Also on March 23, 2023 , TV Squared filed a motion for judgment on the pleadings under Federal Rule 12(c) arguing invalidity of all asserted patent claims. Briefing concluded on April 24, 2023, and the motion remains pending. The claims construction hearing is scheduled for January10, 2024. No trial date has been set yet and the plaintiff has not specified the amount sought in the litigation. Given the uncertainty of litigation and the preliminary stage of the lawsuit, the Company is unable at this time to give an estimate of the amount or range of potential loss, if any, which might result to the Company if the outcome in such litigation was unfavorable. As of September 30, 2023, the Company did not record a loss contingency.

## Key Metrics and Non-GAAP Financial Measures

In addition to our results determined in accordance with US GAAP, we believe that certain non-GAAP financial measures, including Adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), Adjusted EBITDA Margin and Free Cash Flow are useful in evaluating our business. The following table presents a reconciliation of Adjusted EBITDA, a non-GAAP financial measure, to the most directly comparable financial measure prepared in accordance with GAAP.

**Adjusted EBITDA**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2023 | 2022 | 2023 | 2022 |
| Net loss | $ (2,731) | $ (11,832) | $ (30,253) | $ (14,981) |
| Net loss margin | (8) % | (34) % | (30) % | (16) % |
| Depreciation, amortization and long-lived assets impairment | 4,714 | 1,882 | 8,808 | 3,481 |
| Goodwill impairment | — | — | 14,503 | — |
| Stock-based compensation | 5,605 | 4,322 | 15,563 | 10,052 |
| Finance (income) expenses, net (a) | (290) | 4,962 | (3,013) | (10,655) |
| Transaction related expenses (b) | — | — | — | 392 |
| Acquisition related expenses (c) | — | — | — | 4,971 |
| Retention bonus expenses (d) | 119 | 1,290 | 564 | 2,290 |
| Legal claims | 420 | 664 | 1,076 | 1,099 |
| Severance cost (e) | — | — | 845 | — |
| Other | (80) | 739 | 192 | 915 |
| Taxes on income | (1,301) | 839 | 2,858 | 634 |
| **Adjusted EBITDA** | **$ 6,456** | **$ 2,866** | **$ 11,143** | **$ (1,802)** |
| **Adjusted EBITDA margin** | **17.8 %** | **8.3 %** | **11.0 %** | **(1.9)%** |

(a) Finance (income) expenses, net consists mostly of remeasurement related to revaluation of our warrants, remeasurement of our foreign subsidiary's monetary assets, liabilities and operating results, and our interest expense.
(b) Transaction related expenses consist of cost related to the SPAC merger transaction.
(c) Acquisition related expenses consists of professional fees associated with the acquisition of TVS.
(d) Retention bonus expenses consists of retention bonuses for TVS employees.
(e) Severance cost is related to the personnel reductions that occurred during the first quarter of 2023.

We use Adjusted EBITDA, Adjusted EBITDA margin and Free Cash Flow as measures of operational efficiency to understand and evaluate our core business operations and are utilized in our own operational and financial decision-making. We believe that these non-GAAP financial measures are also useful to investors for period-to-period comparisons of our core business as well as comparisons to peers as similar measures are frequently used by securities analysts, investors, ratings agencies and other interested parties to evaluate businesses in our industry. Additionally, these figures provide an understanding and evaluation of our trends when comparing our operating results, on a consistent basis, by excluding items that we do not believe are indicative of our core operating performance. However, these non-GAAP financial measures should not take the place of GAAP financial measures in evaluating our business.

These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as substitutes for an analysis of our results as reported under GAAP. Some of the limitations of these measures are:

- they do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our capital expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect costs of acquiring and integrating businesses, which will continue to be a part of our growth strategy;
- they do not reflect one-time, non-recurring, bonus costs and third party costs associated with the SPAC merger transaction and regulatory filings;
- they do not reflect goodwill impairment;
- they do not reflect severance costs;
- they do not reflect income tax expense or the cash requirements to pay income taxes;
- they do not reflect our interest expense or the cash requirements necessary to service interest or principal payments on our debt; and
- although depreciation and amortization are non-cash charges related mainly to intangible assets, certain assets being depreciated and amortized will have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by total revenue.

**Free Cash Flow**

We define Free Cash Flow as net cash provided by operating activities less capital expenditures. For further discussion on free cash flow, including a reconciliation to cash flows provided by operating activities, refer to Liquidity and Capital Resources section of this document.

Other companies in our industry may calculate the above described non-GAAP financial measures differently than we do, limiting their usefulness as a comparative measure. You should compensate for these limitations by relying primarily on our US GAAP results and using the non-GAAP financial measures only supplementally.

***Operational Metrics***

In addition, Innovid’s management considers the number of core clients, annual core clients retention and annual core clients net revenue retention in evaluating the performance of the business. These metrics are reported annually. Prior to our acquisition of TVS in 2022, our definition of a core client included only advertisers that generated at least $100,000 revenue in a twelfth-months period. Following our acquisition of TVS, we have included publishers as core clients.

## Off-Balance Sheet Arrangements

As of September 30, 2023, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

## Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our unaudited interim condensed consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the amounts reported in our condensed consolidated financial statements and the accompanying notes to condensed consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

While our significant accounting policies are described in more detail in Note 2,*Summary of Significant Accounting Policies* of our unaudited interim condensed consolidated financial statements included in *Item 1. "Financial Statements and Supplementary Data"*, we believe the following accounting policies to be the most critical to the judgments and estimates used in the preparation of our interim condensed consolidated financial statements.

***Revenue Recognition***

Most of the Company's revenues are derived from digital ad solutions, where the Company provides an ad serving platform for use by advertisers, media agencies and publishers. Standard, interactive and data driven digital video ads are delivered through this ad serving platform. Advertising impressions are served via the Company's ad serving platform to various digital publishers across CTV, mobile TV, desktop TV, display and other channels.

InnovidXP, the Company's cross-platform for TV ad measurement solution, measures the efficiency of CTV advertising and in-flight optimizations for TV marketers. The customers get insights into the effectiveness of their TV and digital advertising.

The Company also provides creative services for the design and development of interactive data-driven and dynamic ad formats by adding data, interactivity and dynamic features to standard ad units.

The Company recognizes revenue when its customer obtains control of promised services in an amount that reflects the consideration that the Company expects to receive in exchange for those services. The Company recognizes revenue in accordance with ASC Topic 606, Revenue from contracts with customers ("ASC 606") and determines revenue recognition through the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when a performance obligation is satisfied.

For arrangements with multiple performance obligations, which represent promises within an arrangement that are capable of being distinct and are separately identifiable, the Company allocates the contract consideration to all distinct performance obligations based on their relative standalone selling price ("SSP"). SSP is typically estimated based on observable transactions when these services are sold on a standalone basis.

Revenues related to ad serving are recognized when impressions are delivered via the Company's ad serving platform. The Company recognizes revenue from the display of impression-based ads in the contracted period in which the impressions are delivered. Impressions are considered delivered when an ad is displayed to users.

Revenues related to Innovid XP solution are recognized over time, since the customer simultaneously receives and consumes the benefits provided by the Company's performance. Revenues for this measurement subscription is recognized over the service period.

Revenues related to creative projects are recognized when the Company delivers an ad unit. Creative services projects are usually delivered within a week.

The Company's accounts receivable consist primarily of receivables related to products and services described above, for which the Company's contracted performance obligations have been satisfied, the amount has been billed and the Company has an unconditional right to payment. The Company typically bills customers monthly based on actual delivery. The payment terms vary, mainly with terms of 60 days or less.

The typical contract term is 12 months or less for ASC 606 purposes. Most of the Company's contracts can be canceled without cause. The Company has the unconditional right to payment for the services provided as of the date of the termination of the contracts.

The Company applies the practical expedient in ASC 606 and does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Deferred revenues represent mostly unrecognized fees billed or collected for measurement platform services. Deferred revenues are recognized as (or when) we perform under the contract.

***Fair value of financial instruments***

The Company applies a fair value framework to measure and disclose its financial assets and liabilities. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The Company’s financial instruments consist of cash and cash equivalents, restricted deposits, trade receivables, net, trade payables, employees, payroll accruals, accrued expenses and other current liabilities and current portion of long-term debts. Their historical carrying amounts represent the approximate fair value due to the short-term maturities of these instruments.

The Company’s investments in money market funds are classified as cash equivalents and measured at fair value. The Company measures its warrant liability at fair value.

The goodwill impairment recorded in the second quarter of 2023 was estimated using the Company's stock price, a Level 1 input, adjusted for an estimated control premium.

As of September 30, 2023, the Company’s warrant liability includes the Warrants, that were originally issued in connection with ION’s initial public offering, the “ION IPO,” which were transferred to the Company as part of the ION’s Transaction. The Company’s Warrants are recorded on the balance sheet at fair value with changes in fair value recognized through earnings. This valuation is subject to re-measurement at each balance sheet date. With each re-measurement the valuation will be adjusted to fair value, with the change in fair value recognized in the Company’s statement of operations.

The Company has determined that the fair value of the Public Warrants and Transferred Private Warrants, at the balance sheet date is determined by the closing price of the Company’s warrants, and are within Level 1 of the fair value hierarchy.

The Transferred Private Warrants are no longer classified as Level 3 as of September 30, 2023.

Gains and losses from the remeasurement of the Public and Private Warrants’ liability is recognized in finance (income) loss, net in the condensed consolidated statements of operations.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

***Impairment of long-lived assets***

Long-lived assets, including property and equipment and finite-lived intangible assets, are reviewed for impairment whenever facts or circumstances either internally or externally may indicate that the carrying value of an asset may not be recoverable. If there are indications of an impairment, the Company tests for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of the asset to the carrying amount of the asset or asset group. If the asset or asset group is determined to be impaired, any excess of the carrying value of the asset or asset group over its estimated fair value is recognized as an impairment loss. During the three and six months ended June 30, 2023 (unaudited), the Company tested its long-lived assets for recoverability and concluded that no impairment should be recognized. In September 2023, the Company identified an impairment indicator for its legacy measurement product. As a result of the impairment assessment the Company recorded an impairment in the amount of approximately $2.0 million for the three months ended September 30, 2023.

***Goodwill and intangible assets***

Goodwill and acquired intangible assets have been recorded in the Company's financial statements resulting from various business combinations. Goodwill represents the excess of the purchase price in a business combination over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Goodwill is subject to an annual impairment test.

Reporting units are evaluated when changes in the Company’s operating structure occur, and if necessary, goodwill would be reassigned using a relative fair value allocation approach. The Company currently has one reporting unit.

ASC 350, Intangibles—Goodwill and other (“ASC 350”) requires goodwill to be tested for impairment at least annually and, in certain circumstances, between annual tests. The accounting guidance gives the option to perform a qualitative assessment to determine whether further impairment testing is necessary. The qualitative assessment considers events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. If it is determined, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative test is performed. The Company elects to perform an annual impairment test of goodwill as of October 1 of each year, or more frequently if impairment indicators are present. During the three months ended June 30, 2023, the Company recorded goodwill impairment in the amount of $14.5 million. There were no goodwill impairment during the three months ended March 31, 2023 and September 30, 2023.

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Customer relationships, acquired technology and trade name are being amortized over the estimated useful life of approximately 11 years, 6 years, and 4 years, respectively, using straight-line amortization method.

The amortization of customer relationships, acquired technology and trade name is presented within depreciation and amortization in the condensed consolidated statements of operations.

***Capitalized software development costs***

Software development costs, which are included in property and equipment, net, consists of capitalized costs related to the purchase and development of internal-use software. The Company uses such software to provide services to its customers. The costs to purchase and develop internal-use software are capitalized from the time that the preliminary project stage is completed, and it is considered probable that the software will be used to perform the function intended. These costs include personnel and personnel-related employee benefits for employees directly associated with the software development and external costs of the materials or services consumed in developing or obtaining the software.

Any costs incurred for upgrades and functionality enhancements of the software are also capitalized. Once this software is ready for use in providing the Company's services, these costs are amortized on a straight-line basis over the estimated useful life of the software, which is three years. The amortization is presented within depreciation and amortization in the condensed consolidated statements of operations.

***Income taxes and tax contingencies***

Income taxes are computed using a balance sheet approach reflecting both current and deferred taxes. Current and deferred taxes reflect the tax impact of all of the events included in the financial statements. The basic principles employed in the balance sheet approach are to reflect a current tax liability or asset that is recognized for the estimated taxes payable or refundable on tax returns for the current and prior years, a deferred tax liability or asset that is recognized for the estimated future tax effects attributable to temporary differences and carryforwards, the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law of which the effects of future changes in tax laws or rates are not anticipated, and the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. There are certain situations in which deferred taxes are not provided. Some basis differences are not temporary differences because their reversals are not expected to result in taxable or deductible amounts.

The Company regularly evaluates deferred tax assets for future realization and establishes a valuation allowance to the extent that a portion is not more likely than not to be realized. The Company considers whether it is more likely than not that the deferred tax assets will be realized, including existing cumulative losses in recent years, expectations of future taxable income, carryforward periods and other relevant quantitative and qualitative factors. The recoverability of the deferred tax assets is evaluated by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely on estimates.

ASC 740, Income Taxes (“ASC 740”) contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. The Company classifies interest related to unrecognized tax benefits in taxes on income.

On December 20, 2017, Congress passed the “US Tax Act.” The US Tax Act requires complex computations to be performed that were not previously required by US tax law, significant judgments to be made in interpretation of the provisions of the US Tax Act, significant estimates in calculations and the preparation and analysis of information not previously relevant or regularly produced. The US Tax Act provides that a person who is a US shareholder of any CFC is required to include its GILTI in gross income for the tax year in a manner generally similar to that for Subpart F inclusions. The term “global intangible low taxed income” is defined as the excess (if any) of the US shareholder’s net CFC tested income for that tax year, over the US shareholder’s net deemed tangible income return for that tax year. The Company’s policy is to treat GILTI as a period expense in the provision for income taxes.

## Recent Accounting Pronouncements

For information on recent accounting standards, see “*Part I - Item 1. Financial Statements and Supplementary Data* -Note 2. *Summary of Significant Accounting Policies*”.

### *Item 3. Quantitative and Qualitative Disclosures About Market Risk*

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, we are not required to provide this information.

### *Item 4. Controls and Procedures*

**Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

**Management's Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our CEO and CFO, we 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 amended as of September 30, 2023. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II**

***Item 1. Legal Proceedings***

We are not presently party to any legal proceedings or aware of any claims which we believe would have, individually or in the aggregate, a material adverse effect on our consolidated business prospects, financial condition, liquidity, results of operation, cash flows, or capital levels. We may from time to time be party to litigation and subject to claims incident to the ordinary course of business.

On March 4, 2022, a lawsuit was filed in the United States District Court for the Western District of Texas by The Nielsen, Company (US) LLC against TVS alleging infringement of US Patent No.10,063,378. On June 1, 2022, TVS moved to transfer the case to the Southern District of New York. On February 24, 2023, the case was transferred to the Southern District of New York. On March 23, 2023, the parties jointly filed their proposed case management plan and scheduling order, which the Court entered and thereafter opened discovery. That order set the close of fact discovery for October 23, 2023, and the close of expert discovery for January 23, 2024. On September 25, 2023 the Court issued an Amended Case Management Plan and Scheduling Order, postponing the date for close of fact discovery to February 23, 2024 and the date for close of expert discovery to May 23, 2024. Also on March 23, 2023, TV Squared filed a motion for judgment on the pleadings under Federal Rule 12(c) arguing invalidity of all asserted patent claims. Briefing concluded on April 24, 2023, and the motion remains pending. The claims construction hearing is scheduled for January10, 2024. No trial date has been set yet and the plaintiff has not specified the amount sought in the litigation. Given the uncertainty of litigation and the preliminary stage of the lawsuit, the Company is unable at this time to give an estimate of the amount or range of potential loss, if any, which might result to the Company if the outcome in such litigation was unfavorable. As of September 30, 2023, the Company did not record a loss contingency.

***Item 1A. Risk Factors***

Except as described in Item 1A of Part II of our Form 10-Q filed for the quarterly period ended March 31 2023, there have been no material changes to our risk factors as previously disclosed in Item 1A of Part I of our 2022 Annual Report on Form 10-K except as follows:

Armed conflicts around the world, such as those in Ukraine and Israel, as well as the global response to such conflicts, including the imposition of sanctions by the United States and other countries, could create or exacerbate risks facing our business. We have evaluated our operations, vendor contracts and customer arrangements, and at present we do not expect the hostilities to directly have a material and adverse effect on our financial condition or results of operations. However, if the hostilities persist, escalate or expand, risks we have identified in this report may be exacerbated. A number of our officers, directors and employees are residents of Israel, and because of this our business and operations may be directly affected by economic, political, geopolitical and military conditions in Israel where we have certain research and development operations primarily related to our ad serving product. Depending on the length and extent of the conflict in Israel, there could be impacts to certain research and development timelines.

***Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities***

**Unregistered Sales of Equity Securities**

None.

***Item 3. Defaults Upon Senior Securities***

None.

***Item 4. Mine Safety Disclosures***

N/A.

***Item 5. Other Information***

N/A.

***Item 6. Exhibits***

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| **Exhibit Number** | **Description** | **Form** | **File No.** | **Exhibit** | **Filing date** | **Filed furnished herewith** |
| 2.1 | Agreement and Plan of Merger, dated June 24, 2021, by and among ION, Merger Sub 1, Merger Sub 2, and Innovid. | 8-K | 001-40048 | 2.1 | 06/29/21 | |
| 3.1 | Certificate of Incorporation of Innovid. | 10-K | 001-40048 | 3.1 | 03/18/22 | |
| 3.2 | Bylaws of Innovid Corp. | 8-K | 001-40048 | 3.2 | 12/06/21 | |
| 4.1 | Specimen Common Stock Certificate of Innovid Corp. | 8-K | 001-40048 | 4.1 | 12/06/21 | |
| 4.2 | Specimen Warrant Certificate of Innovid Corp. | 8-K | 001-40048 | 4.2 | 12/06/21 | |
| 4.3 | Warrant Agreement, dated February 10, 2021, by and between ION and Continental Stock Transfer & Trust Company, as warrant agent. | 8-K | 001-40048 | 4.1 | 02/18/21 | |
| 10.1 | Employment Agreement between the Company and Zvika Netter, dated July 2, 2023. | 8-K | 001-40048 | 10.1 | 07/06/23 | |
| 10.2 | Amended and Restated Loan and Security Agreement, by and among Silicon Valley Bank, and each of the Borrowers set forth therein, dated August 4, 2022 | 10-Q | 001-40048 | 10.2 | 08/10/22 | |
| 10.3 | First Loan Modification Agreement, by and among Silicon Valley Bank, A Division of First-Citizens Bank & Trust Company, and each of the Borrowers set forth therein, dated August 2, 2023 | 10-Q | 001-40048 | 10.3 | 08/08/23 | |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). | | | | | * |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). | | | | | * |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. | | | | | ** |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. | | | | | ** |
| * | Filed herewith. | | | | | |
| ** | Furnished herewith. | | | | | |

## 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.

**INNOVID CORP.**

| | | |
|---|---|---|
| Date: November 8, 2023 | By: | /s/ Zvika Netter |
| | | Zvika Netter |
| | | Chief Executive Officer |
| Date: November 8, 2023 | By: | /s/ Anthony Callini |
| | | Anthony Callini |
| | | Chief Financial Officer |

**Exhibit 31.1**

**CERTIFICATION**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Zvika Netter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Innovid Corp.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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: November 8, 2023

/s/ Zvika Netter

Zvika Netter
Chief Executive Officer

**CERTIFICATION**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Anthony Callini, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Innovid Corp.;

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

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

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

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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: November 8, 2023

/s/ Anthony Callini

Anthony Callini
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Innovid Corp. (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I 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:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2023 /s/ Zvika Netter
Zvika Netter
Chief Executive Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Innovid Corp. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I 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:

(i) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2023 /s/ Anthony Callini
Anthony Callini
Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.