
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 001-39441

Kubient

KUBIENT, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

82-1808844

(I.R.S. Employer
Identification No.)

500 7th Avenue, 8th Floor
New York, New York 10018

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (800) 409-9456

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|----------------|---|
| Common Stock, par value \$0.00001 per share | KBNT | The Nasdaq Stock Market LLC |
| Common Stock Purchase Warrants | KBNTW | The Nasdaq Stock Market LLC |

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input checked="" type="checkbox"/> |

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

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

As of November 10, 2022, the registrant had 14,402,500 shares of common stock outstanding.

KUBIENT, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2022

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Item 1. Financial Statements
Kubient, Inc.
Condensed Consolidated Balance Sheets

| | September 30, 2022 (unaudited) | December 31, 2021 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 16,897,563 | \$ 24,907,963 |
| Accounts receivable, net | 448,815 | 2,291,533 |
| Other receivables | — | 526,070 |
| Prepaid expenses and other current assets | 502,912 | 495,178 |
| Total Current Assets | 17,849,290 | 28,220,744 |
| Intangible assets, net | — | 2,946,610 |
| Goodwill | — | 463,000 |
| Property and equipment, net | — | 44,756 |
| Deferred offering costs | 10,000 | 10,000 |
| Total Assets | <u>\$ 17,859,290</u> | <u>\$ 31,685,110</u> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable - suppliers | \$ 727,432 | \$ 1,844,544 |
| Accounts payable - trade | 369,040 | 659,362 |
| Accrued expenses and other current liabilities | 716,484 | 2,493,287 |
| Deferred revenue | 767,833 | 395,914 |
| Notes payable | 1,539 | 151,336 |
| Total Current Liabilities | 2,582,328 | 5,544,443 |
| Contingent consideration | — | 613,000 |
| Notes payable, non-current portion | 77,361 | 77,407 |
| Total Liabilities | <u>2,659,689</u> | <u>6,234,850</u> |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Preferred stock, \$0.00001 par value; 5,000,000 shares authorized; No shares issued and outstanding as of September 30, 2022 and December 31, 2021 | — | — |
| Common stock, \$0.00001 par value; 95,000,000 shares authorized; 14,402,500 and 14,253,948 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively | 144 | 143 |
| Additional paid-in capital | 52,891,794 | 52,030,907 |
| Accumulated deficit | (37,692,337) | (26,580,790) |
| Total Stockholders' Equity | 15,199,601 | 25,450,260 |
| Total Liabilities and Stockholders' Equity | <u>\$ 17,859,290</u> | <u>\$ 31,685,110</u> |

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

Kubient, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------------------|--|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net Revenues | \$ 481,812 | \$ 676,986 | \$ 2,127,467 | \$ 1,882,311 |
| Costs and Expenses: | | | | |
| Sales and marketing | 735,296 | 715,820 | 3,118,729 | 1,977,150 |
| Technology | 525,383 | 776,573 | 2,640,239 | 1,916,020 |
| General and administrative | 1,132,649 | 1,514,913 | 4,824,406 | 3,878,765 |
| Impairment loss on intangible assets | — | — | 2,626,974 | — |
| Impairment loss on property and equipment | — | — | 49,948 | — |
| Impairment loss on goodwill | — | — | 463,000 | — |
| Loss accrual on customer contract | (232,964) | — | 142,723 | — |
| Total Costs and Expenses | 2,160,364 | 3,007,306 | 13,866,019 | 7,771,935 |
| Loss From Operations | (1,678,552) | (2,330,320) | (11,738,552) | (5,889,624) |
| Other (Expense) Income: | | | | |
| Interest expense | (2,508) | (2,098) | (8,916) | (5,308) |
| Interest income | 6,896 | 21,805 | 11,921 | 84,469 |
| Change in fair value of contingent consideration | — | — | 613,000 | — |
| Other income | — | — | 11,000 | 233 |
| Total Other Income | 4,388 | 19,707 | 627,005 | 79,394 |
| Net Loss | \$ (1,674,164) | \$ (2,310,613) | \$ (11,111,547) | \$ (5,810,230) |
| Net Loss Per Share - Basic and Diluted | \$ (0.12) | \$ (0.16) | \$ (0.78) | \$ (0.43) |
| Weighted Average Common Shares Outstanding - Basic and Diluted | 14,337,412 | 14,252,886 | 14,300,022 | 13,627,435 |

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

Kubient, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(unaudited)

| | For the Nine Months Ended September 30, 2022 | | | | |
|--|--|---------------|----------------------------------|------------------------|----------------------|
| | Common Stock Shares | Amount | Additional Paid-In Capital | Accumulated Deficit | Total |
| Balance - January 1, 2022 | 14,253,948 | \$ 143 | \$ 52,030,907 | \$ (26,580,790) | \$ 25,450,260 |
| Surrender and cancellation of common stock | (3,397) | — | (18,683) | — | (18,683) |
| Stock-based compensation: | | | | | |
| Common stock | 53,192 | — | 430,361 | — | 430,361 |
| Options | — | — | 2,295 | — | 2,295 |
| Net loss | — | — | — | (3,627,492) | (3,627,492) |
| Balance - March 31, 2022 | 14,303,743 | 143 | 52,444,880 | (30,208,282) | 22,236,741 |
| Surrender and cancellation of common stock | (8,323) | — | (36,188) | — | (36,188) |
| Stock-based compensation: | | | | | |
| Common stock | 105,832 | 1 | 308,950 | — | 308,951 |
| Options | — | — | 2,067 | — | 2,067 |
| Net loss | — | — | — | (5,809,891) | (5,809,891) |
| Balance - June 30, 2022 | 14,401,252 | 144 | 52,719,709 | (36,018,173) | 16,701,680 |
| Stock-based compensation: | | | | | |
| Common stock | 1,248 | — | 169,849 | — | 169,849 |
| Options | — | — | 2,236 | — | 2,236 |
| Net loss | — | — | — | (1,674,164) | (1,674,164) |
| Balance - September 30, 2022 | <u>14,402,500</u> | <u>\$ 144</u> | <u>\$ 52,891,794</u> | <u>\$ (37,692,337)</u> | <u>\$ 15,199,601</u> |

| | For the Nine Months Ended September 30, 2021 | | | | |
|--|--|--------|----------------------------------|------------------------|---------------|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total |
| | Shares | Amount | | | |
| Balance - January 1, 2021 | 11,756,109 | \$ 118 | \$ 40,770,504 | \$ (16,289,077) | \$ 24,481,545 |
| Shares issued upon exercise of warrants, net of issuance costs [1] | 2,047,361 | 20 | 9,274,891 | — | 9,274,911 |
| Stock-based compensation: | | | | | |
| Common stock | 70,040 | 1 | 513,102 | — | 513,103 |
| Options | — | — | 2,576 | — | 2,576 |
| Net loss | — | — | — | (1,796,612) | (1,796,612) |
| Balance - March 31, 2021 | 13,873,510 | 139 | 50,561,073 | (18,085,689) | 32,475,523 |
| Shares issued upon exercise of warrants, net of issuance costs [2] | 108,961 | 1 | 428,718 | — | 428,719 |
| Common stock issued upon exercise of options | 2,815 | — | 8,361 | — | 8,361 |
| Shares issued as partial consideration for intangible asset | 100,000 | 1 | 531,999 | — | 532,000 |
| Stock-based compensation: | | | | | |
| Common stock | 167,600 | 2 | 27,568 | — | 27,570 |
| Options | — | — | 2,509 | — | 2,509 |
| Net loss | — | — | — | (1,703,005) | (1,703,005) |
| Balance - June 30, 2021 | 14,252,886 | 143 | 51,560,228 | (19,788,694) | 31,771,677 |
| Stock-based compensation: | | | | | |
| Common stock | — | — | 264,502 | — | 264,502 |
| Options | — | — | 2,533 | — | 2,533 |
| Net loss | — | — | — | (2,310,613) | (2,310,613) |
| Balance - September 30, 2021 | 14,252,886 | \$ 143 | \$ 51,827,263 | \$ (22,099,307) | \$ 29,728,099 |

[1] Includes gross proceeds of \$9,708,038, less issuance costs of \$433,127.

[2] Includes gross proceeds of \$460,989, less issuance costs of \$32,270.

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

Kubient, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

| | For the Nine Months Ended September 30, | |
|---|--|----------------------|
| | 2022 | 2021 |
| Cash Flows From Operating Activities: | | |
| Net loss | \$ (11,111,547) | \$ (5,810,230) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Bad debt expense | 7,000 | — |
| Impairment loss on intangible assets | 2,626,974 | — |
| Impairment loss on property and equipment | 49,948 | — |
| Impairment loss on goodwill | 463,000 | — |
| Depreciation and amortization | 330,993 | 304,068 |
| Change in fair value of contingent consideration | (613,000) | — |
| Stock-based compensation: | | |
| Common stock | 872,123 | 516,381 |
| Options | 6,598 | 7,618 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,835,718 | 1,000,783 |
| Other receivable | 507,387 | — |
| Prepaid expenses and other current assets | 350,132 | (155,367) |
| Accounts payable - suppliers | (1,117,112) | 115,681 |
| Accounts payable - trade | (290,321) | (289,215) |
| Accrued expenses and other current liabilities | (1,817,278) | (274,667) |
| Accrued interest | — | 7,025 |
| Deferred revenue | 371,919 | — |
| Net Cash Used In Operating Activities | (7,527,466) | (4,577,923) |
| Cash Flows From Investing Activities: | | |
| Purchase of intangible assets | — | (1,133,072) |
| Purchase of property and equipment | (16,549) | (24,331) |
| Net Cash Used In Investing Activities | (16,549) | (1,157,403) |
| Cash Flows From Financing Activities: | | |
| Proceeds from exercise of warrants [1] | — | 9,787,149 |
| Proceeds from exercise of options | — | 8,361 |
| Repayment of PPP loan | (149,843) | (68,346) |
| Repayment of financed director and officer insurance premiums | (316,542) | — |
| Payment of deferred offering costs | — | (27,510) |
| Net Cash (Used In) Provided By Financing Activities | (466,385) | 9,699,654 |
| Net (Decrease) Increase In Cash and Cash Equivalents | (8,010,400) | 3,964,328 |
| Cash and Cash Equivalents - Beginning of the Period | 24,907,963 | 24,782,128 |
| Cash and Cash Equivalents - End of the Period | \$ 16,897,563 | \$ 28,746,456 |

[1] Includes gross proceeds of \$10,169,027, less issuance costs of \$381,878.

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

Kubient, Inc.**Condensed Consolidated Statements of Cash Flows (Continued)**

| | For the Nine Months Ended | |
|--|---------------------------|------------|
| | September 30, | |
| | 2022 | 2021 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 4,847 | \$ 4,588 |
| Income taxes | \$ — | \$ — |
| Non-cash investing and financing activities: | | |
| Surrender and cancellation of common stock | \$ (18,683) | \$ — |
| Shares of common stock issued in satisfaction of accrued issuable equity | \$ — | \$ 507,044 |
| Accrual of warrant exercise issuance costs | \$ — | \$ 83,519 |
| Shares issued as partial consideration for intangible asset | \$ — | \$ 532,000 |
| Financing of insurance premiums | \$ 357,866 | \$ 362,625 |

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

Kubient, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 – BUSINESS ORGANIZATION, NATURE OF OPERATIONS, RISKS AND UNCERTAINTIES AND BASIS OF PRESENTATION

Organization and Operations

Kubient, Inc. (“Kubient”, “we”, “our” or the “Company”), a Delaware corporation, was incorporated in May 2017 to solve some of the most significant problems facing the global digital advertising industry.

The Company’s experienced team of marketing and technology veterans has developed the Audience Marketplace, a modular, highly scalable, transparent, cloud-based software platform for real-time trading of digital, Programmatic Advertising. The Company’s platform’s open marketplace gives both advertisers (ad space buyers) and Publishers (ad space sellers) the ability to use machine learning in the most critical parts of any Programmatic Advertising inventory auction, while simultaneously and significantly reducing those advertisers and Publishers’ exposure to fraud, specifically in the Pre-bid environment.

The Company also provides unique capabilities with its proprietary pre-bid ad fraud detection and prevention, Kubient Artificial Intelligence (“KAI”), which has the ability to stop fraud in the critical 300 millisecond window before an advertiser spends their budget on fraudulent ad space. The technology is powered by deep learning algorithms, the latest advancement in machine learning, which allows the Company to ingest vast amounts of data, find complex patterns in the data and make accurate predictions. This provides advertisers a powerful tool capable of preventing the purchase of ad fraud.

The Company believes that its Audience Marketplace technology allows advertisers to reach entire audiences rather than buying single impressions from disparate sources. By becoming a one stop shop for advertisers and publishers, providing them with the technology to deliver meaningful messages to their target audience, all in one place, on a single platform that is computationally efficient, transparent, and as safely fraud-free as possible, the Company believes that its Audience Marketplace platform (and the application of the platform’s machine learning algorithms) leads to increased publisher revenue, lower advertiser cost, reduced latency and increased economic transparency during the advertising auction process.

Risks and Uncertainties

The novel coronavirus (“COVID-19”) pandemic continues to impact global economic conditions, as well as the Company’s operations. COVID-19 had a meaningful negative impact on our financial condition, cash flows and results of operations during 2020, as revenues declined and we reduced spending in light of COVID-19 uncertainty. Although we continued to experience disruption and volatility during 2021, which could continue to have an adverse effect on our revenues and earnings in 2022, the ultimate economic impact of the pandemic remains fluid, as there continue to be periods of COVID-19 resurgence in various parts of the world. The extent of the impact of the COVID-19 pandemic in 2022 on our operational and financial performance will depend on a variety of factors, some of which are outside our control, including the duration and spread of COVID-19 and its variants, and its impact on our clients, partners, industry, and employees, all of which are uncertain at this time and cannot be accurately predicted.

Similarly, the economic uncertainty caused by the COVID-19 pandemic has made and may continue to make it difficult for us to forecast revenue and operating results and to make decisions regarding operational cost structures and investments. We have committed, and we plan to continue to commit, resources to grow our business, employee base, and technology development, and such investments may not yield anticipated returns, particularly if worldwide business activity continues to be impacted by the COVID-19 pandemic. The duration and extent of the impact from the COVID-19 pandemic depend on future developments that cannot be accurately predicted at this time, and if we are not able to respond to and manage the impact of such events effectively, our business may be harmed.

There can be no assurance that precautionary measures, whether adopted by us or imposed by others, will be effective, and such measures could negatively affect our sales, marketing, and client service efforts, delay and lengthen our sales cycles, decrease our employees’, clients’, or partners’ productivity, or create operational or other challenges, any of which could harm our business and results of operations.

Kubient, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair statement of the unaudited condensed consolidated financial statements of the Company as of September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the operating results for the full year ending December 31, 2022 or any other period. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures as of December 31, 2021 and 2020 and for the years then ended which are included in the Annual Report filed on Form 10-K on March 31, 2022.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the significant accounting policies included in the audited consolidated financial statements as of December 31, 2021 and 2020 and for the years then ended, which were included in the Annual Report filed on Form 10-K on March 31, 2022, except as disclosed in this note.

Revenue Recognition

The Company maintains a contract with each customer and supplier, which specifies the terms of the relationship. The Company provides a service to its customers (the buy-side ad networks who work for advertisers) by connecting advertisers and publishers. For this service, the Company earns a percentage of the amount that is paid by the advertiser, who wants to run a digital advertising campaign, which, in some cases, is reduced by the amount paid to the publisher, who wants to sell its ad space to the advertiser.

The transaction price is determined based on the consideration to which the Company expects to be entitled, including the impact of any implicit price concessions over the course of the contract. The Company’s performance obligation is to facilitate the publication of advertisements. The performance obligation is satisfied at the point in time that the ad is placed. Subsequent to a bid being won, the associated fees are generally not subject to refund or adjustment. Historically, any refunds and adjustments have not been material. The revenue recognized is the amount the Company is responsible to collect from the customer related to the placement of an ad (the “Gross Billing”), less the amount the Company remits to the supplier for the ad space (the “Supplier Cost”), if any. The determination of whether the Company is the principal or agent, and hence whether to report revenue on a gross basis equal to the Gross Billing or on a net basis for the difference between the Gross Billing and Supplier Cost, requires judgment. The Company acts as an agent in arranging via its platform for the specified good (the ad space) to be purchased by the advertiser, as it does not control the goods or services being transferred to the end customer, it does not take responsibility for the quality or acceptability of the ad space, it does not bear inventory risk, nor does it have discretion in establishing price of the ad space. As a result, the Company recognizes revenue on a net basis for the difference between the Gross Billing and the Supplier Cost.

The Company invoices customers on a monthly basis for the amount of Gross Billings in the relevant period. Invoice payment terms, negotiated on a customer-by-customer basis, are typically between 45 to 90 days. However, for certain agency customers with sequential liability terms as specified by the Interactive Advertising Bureau, (i) payments are not due to the Company until such agency customers have received payment from its customers (ii) the Company is not required to make a payment to its supplier until payment is received from the Company’s customer and (iii) the supplier is responsible to pursue collection directly with the advertiser. As a result, once the Company has met the requirements of each of the five steps under ASC 606, the Company’s accounts receivable are recorded at the amount of Gross Billings which represent amounts it is responsible to collect and accounts payable, if applicable, are recorded at the amount payable to suppliers. In the event step 1 under ASC 606 is not met, the Company does not record either the accounts receivable or accounts payable. Accordingly, both accounts receivable and accounts payable appear large in relation to revenue reported on a net basis.

Kubient, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements**

From time to time, the Company records loss accruals for estimated costs that exceed estimated revenue related to its contracts with customers. During the three and nine months ended September 30, 2022, the Company recognized an estimated loss accrual (reversal) on a customer contract of \$(232,964) and \$142,723, respectively, related to media costs incurred associated with a contract with a customer, which was included in costs and expenses on the condensed consolidated statement of operations.

As of September 30, 2022 and December 31, 2021, the Company did not have any contract assets from contracts with customers. During the three and nine months ended September 30, 2022, the Company recognized \$0 and \$395,914 of revenue that was deferred as of December 31, 2021. As of September 30, 2022 and December 31, 2021, the Company had \$767,833 and \$395,914, respectively, of contract liabilities where performance obligations have not yet been satisfied. During the three and nine months ended September 30, 2022, there was \$107,538 and \$282,244 of net revenue, respectively, recognized from performance obligations satisfied during the three months ended March 31, 2022. During the three and nine months ended September 30, 2021, there was no revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of vested common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of vested common and dilutive common-equivalent shares outstanding during each period. Dilutive common-equivalent shares consist of shares of options, warrants and convertible notes, if not anti-dilutive. The following shares were excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

| | For the Three and Nine Months Ended | |
|-------------------------|--|------------------|
| | September 30, | |
| | 2022 | 2021 |
| Warrants [1] | 5,122,074 | 5,122,074 |
| Restricted stock units | 538,104 | — |
| Restricted stock awards | 64,585 | — |
| Stock options | 36,667 | 94,447 |
| | <u>5,761,430</u> | <u>5,216,521</u> |

[1] Includes shares underlying warrants that are exercisable into an aggregate of (i) 368,711 shares of common stock and (ii) five-year warrants to purchase 368,711 shares of common stock at an exercise price of \$5.50 per share.

NOTE 3 – LONG-LIVED ASSETS AND GOODWILL

During the three months ended June 30, 2022, the Company identified triggering events that indicated its long-lived assets including its definite-lived intangible assets were at risk of impairment and, as such, performed a quantitative impairment assessment to evaluate recoverability and, ultimately, whether carrying value exceeded fair value. The primary triggers for the impairment review were a loss of customers as well as a reduction in the value of Kubient's market capitalization. As a result of the quantitative assessments, the Company determined the fair value of the asset group was less than the carrying value and, accordingly, determined the Company's long-lived assets were fully impaired. As a result, during the nine months ended September 30, 2022, the Company recognized an impairment loss on intangible assets and property and equipment of \$2,626,974 and \$49,948, respectively, on its condensed consolidated statements of operations.

Kubient, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements**

During the three months ended June 30, 2022, the Company identified triggering events that indicated its goodwill associated with its acquisition of MediaCrossing was at risk of impairment and, as such, performed a quantitative impairment assessment to determine whether the fair value of the reporting unit (determined to be the Company) exceeded its fair value. The primary triggers for the impairment review were a loss of customers as well as a reduction in the value of Kubient's market capitalization. As a result of the quantitative assessments, the Company determined the fair value of the reporting unit was less than the carrying value and, accordingly, determined the Company's goodwill was fully impaired. As a result, during the nine months ended September 30, 2022, the Company recognized an impairment loss on goodwill of \$463,000 on its condensed consolidated statements of operations.

NOTE 4 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

| | September 30, 2022 | December 31, 2021 |
|--|-----------------------|----------------------|
| Accrued bonuses | \$ 79,842 | \$ 554,997 |
| Accrued payroll | — | 13,750 |
| Financed director and officer insurance premiums | 252,720 | 217,575 |
| Accrued supplier expenses | 57,902 | 67,971 |
| Accrued legal settlement | — | 975,000 |
| Accrued legal and professional fees | 12,000 | 20,323 |
| Accrued commissions | 2,272 | 36,109 |
| Accrued media commissions | — | 138,028 |
| Credit card payable | 198,212 | 328,075 |
| Accrued programming expenses | — | 1,750 |
| Accrued issuable equity | 409 | 1,258 |
| Accrued interest | 13,388 | 9,017 |
| Accrued warrant exercise costs | 83,519 | 83,519 |
| Other | 16,220 | 45,915 |
| Total accrued expenses and other current liabilities | <u>\$ 716,484</u> | <u>\$ 2,493,287</u> |

NOTE 5 – STOCKHOLDERS' EQUITYStock-Based Compensation

For the three and nine months ended September 30, 2022 and 2021, the Company recognized stock-based compensation expense related to stock options, restricted stock awards and restricted stock units as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|----------------------------|---|-------------------|--|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Sales and marketing | \$ 67,864 | \$ 35,309 | \$ 95,288 | \$ 274,274 |
| Technology | 36,129 | 34,703 | 171,720 | 36,063 |
| General and administrative | 53,101 | 193,235 | 611,713 | 213,662 |
| Total | <u>\$ 157,094</u> | <u>\$ 263,247</u> | <u>\$ 878,721</u> | <u>\$ 523,999</u> |

Kubient, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

As of September 30, 2022, there was approximately \$1,392,000 of unrecognized stock-based compensation expense related to awards that were determined to be probable to vest, which will be recognized over approximately 3.4 years.

During the three months ended March 31, 2022, the Company granted 53,192 shares of immediately vested restricted stock awards (“RSAs”) to non-employee directors under the Kubient, Inc. 2021 Equity Incentive Plan (the “2021 Plan”) with an aggregate grant date fair value of \$100,000 that was recognized immediately.

During the three months ended March 31, 2022, the Company granted 100,000 RSAs, 489,990 restricted stock units (“RSUs”) and a target number of 234,376 performance stock units (“PSUs”), all issued under the 2021 Plan. The RSAs and RSUs generally vest over four years and the PSUs are earned based upon actual net revenue generated by the Company during 2022 as compared to the targeted revenue specified in each award. Depending on actual net revenues generated as compared to the targeted amounts, the grantees may earn between 0% and 150% of their target award. The awards had an aggregate issuance date fair value of approximately \$1,900,000. During the three months ended September 30, 2022, the Company issued 1,248 shares of common stock related to the aforementioned RSUs.

During the three months ended September 30, 2022, the Company granted 22,917 shares of immediately vested RSAs to a former employee under the 2021 Plan with an aggregate grant date fair value of approximately \$28,000 that was recognized immediately.

During the three months ended September 30, 2022, the Company granted 25,000 shares of RSAs to an employee under the 2021 Plan with an aggregate grant date fair value of approximately \$29,000 which is being recognized over the 4 year vesting term of the award.

Common Stock

During the three months ended March 31, 2022, the Company’s chief financial officer surrendered to the Company 3,397 shares of common stock, which were subsequently cancelled by the Company, in order to satisfy a tax withholding obligation of approximately \$18,000 in connection with a previous grant.

During the three months ended June 30, 2022, the Company cancelled 8,323 shares of common stock related to the forfeiture of RSAs from a terminated employee.

NOTE 6 – FAIR VALUE MEASUREMENT

On November 30, 2021, Kubient entered into and consummated an Asset Purchase Agreement (the “Purchase Agreement”) between the Company and MediaCrossing Inc., a Delaware corporation (“MediaCrossing”), pursuant to which the Company acquired certain assets and liabilities that were critical to continue to operate the business of MediaCrossing for (i) \$500,000 in cash and (ii) if the acquired business achieves certain milestones in 2022, up to 822,369 shares of the Company’s common stock, par value \$0.00001 per share (the “Earnout Shares”) (the “Transaction”). The Earnout Shares had a fair value of \$2.55 as of the acquisition date. The Earnout Shares were measured using a Monte Carlo simulation. Key assumptions used in the fair value assessment consisted of revenue projections (which were used to estimate the number of Earnout Shares issuable), discount rate and standard deviation. The fair value measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect Kubient’s own assumptions in measuring fair value.

On September 30, 2022, the Company recomputed the fair value of its Earnout Shares as \$0 using the Monte Carlo simulation. The Company recorded a gain on the change in fair value of the contingent consideration of \$0 and \$613,000 during the three and nine months ended September 30, 2022, respectively. The loss is primarily due to the decline in the Company’s stock price as well as changes in the likelihood that forecasted milestones would be met for the remainder of 2022.

Kubient, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

The following table sets forth a summary of the changes in the fair value of Level 3 liabilities that are measured at fair value on a recurring basis:

| | |
|--|-------------|
| <u>Contingent Consideration</u> | |
| Beginning balance as of January 1, 2022 | \$ 613,000 |
| Change in fair value of contingent consideration | (613,000) |
| Ending balance as of September 30, 2022 | <u>\$ —</u> |

NOTE 7 – CONCENTRATIONS

Customer Concentrations

The following table sets forth information as to each customer that accounted for 10% or more of the Company's net revenues for the following periods:

| Customer | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|------------|---|-----------------|--|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Customer A | N/A | 81.82 % | 24.59 % | 94.20 % |
| Customer B | 10.67 % | N/A | 29.08 % | N/A |
| Customer C | N/A | 32.82 % | N/A | 12.66 % |
| Customer D | 53.58 % | N/A | 15.76 % | N/A |
| Customer E | 22.32 % | N/A | 15.55 % | N/A |
| Total | <u>86.58 %</u> | <u>114.64 %</u> | <u>84.98 %</u> | <u>106.86 %</u> |

From time to time, certain customers generate negative net revenues that resulted from Supplier Costs that exceeded the Gross Billing. As a result, the Company's concentrations on net revenues may result in total percentages that exceed 100%.

The following table sets forth information as to each customer that accounted for 10% or more of the Company's gross accounts receivable as of:

| Customer | September 30, 2022 | December 31, 2021 |
|------------|-----------------------|----------------------|
| Customer A | N/A | 22.08 % |
| Customer B | 41.35 % | * |
| Customer C | * | 52.18 % |
| Customer D | 30.58 % | N/A |
| Total | <u>71.93 %</u> | <u>74.26 %</u> |

* Less than 10%.

A reduction in sales from or loss of these customers would have a material adverse effect on the Company's results of operations and financial condition.

Kubient, Inc.**Notes to Unaudited Condensed Consolidated Financial Statements****Supplier Concentrations**

The following table sets forth information as to each supplier that accounted for 10% or more of the Company's Supplier Costs for the following periods:

| Supplier | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|------------|---|---------|--|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Supplier A | N/A | N/A | 13.34 % | N/A |
| Supplier B | 24.31 % | N/A | 26.79 % | N/A |
| Supplier C | N/A | N/A | 11.74 % | N/A |
| Supplier D | * | 13.85 % | * | * |
| Supplier E | N/A | 24.18 % | * | 16.60 % |
| Supplier F | N/A | 10.97 % | * | * |
| Supplier G | N/A | 10.43 % | N/A | * |
| Total | 24.31 % | 59.43 % | 51.87 % | 16.60 % |

* Less than 10%.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally relate to future events or our future financial or operating performance and may include statements concerning, among other things, our business strategy (including anticipated trends and developments in, and management plans for, our business and the markets in which we operate), financial results, the impact of COVID-19 on our business, operations, and the markets and communities in which we, our clients, and partners operate, results of operations, revenues, operating expenses, and capital expenditures, sales and marketing initiatives and competition. In some cases, you can identify forward-looking statements because they contain words such as "may," "might," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "suggests," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

We discuss many of these risks in other filings we make from time to time with the Securities and Exchange Commission (the "SEC"). Also, these forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q, which are inherently subject to change and involve risks and uncertainties. Unless required by federal securities laws, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made. Given these uncertainties, investors should not place undue reliance on these forward-looking statements.

Investors should read this Quarterly Report on Form 10-Q and the documents that we reference in this report and have filed with the SEC, including our Annual Report on Form 10-K, filed with the SEC on March 31, 2022, with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Unless the context requires otherwise, references to the "Company," "Kubient," "we," "us" and "our" refer to Kubient, Inc., a Delaware corporation and its wholly-owned subsidiary, Fidelity Media, LLC, a Delaware limited liability company. For explanations of certain terms used in this Quarterly Report on Form 10-Q, please read "Glossary" beginning on page A-1.

Overview

Kubient, Inc. ("Kubient," "we," "our," or the "Company"), a Delaware corporation, was incorporated in May 2017 to solve some of the most significant problems facing the global digital advertising industry.

The Company's experienced team of marketing and technology veterans has developed the Audience Marketplace, a modular, highly scalable, transparent, cloud-based software platform for real-time trading of digital, Programmatic Advertising. The Company's platform's open marketplace gives both advertisers (ad space buyers) and Publishers (ad space sellers) the ability to use machine learning in the most critical parts of any Programmatic Advertising inventory auction, while simultaneously and significantly reducing those advertisers and Publishers' exposure to fraud, specifically in the Pre-bid environment.

The Company also provides unique capabilities with its proprietary pre-bid ad fraud detection & prevention, Kubient Artificial Intelligence ("KAI"), which has the ability to stop fraud in the critical 300 millisecond window before an advertiser spends their budget on fraudulent ad space. The technology is powered by deep learning algorithms, the latest advancement in machine learning, which allows the Company to ingest vast amounts of data, find complex patterns in the data and make accurate predictions. Most importantly, it's self-learning, getting smarter and more accurate over time. This provides advertisers a powerful tool capable of preventing the purchase of ad fraud.

The Company believes that its Audience Marketplace technology allows advertisers to reach entire audiences rather than buying single impressions from disparate sources. By becoming a one stop shop for advertisers and publishers, providing them with the technology to deliver meaningful messages to their target audience, all in one place, on a single platform that is computationally efficient, transparent, and as safely fraud-free as possible, the Company believes that its Audience Marketplace platform (and the application of the platform's machine learning algorithms) leads to increased publisher revenue, lower advertiser cost, reduced latency and increased economic transparency during the advertising auction process.

Russian Sanctions

The current invasion of Ukraine by Russia has escalated tensions among the United States, the North Atlantic Treaty Organization ("NATO") and Russia. The United States and other NATO member states, as well as non-member states, have announced new sanctions against Russia and certain Russian banks, enterprises and individuals. Violation of such sanctions could result in civil and criminal, monetary and non-monetary penalties, disruptions to our business, limitations on our ability to import and export products and services, and damage to our reputation. As a result, the Company had terminated 10 contractors performing software engineering services as of March 25, 2022. As a result, the Company does not currently employ or contract with any engineers located in Russia. The current political climate has reduced the available number of engineers for hire in such regions. Furthermore, on-going conflict in Ukraine and the spread of political tensions in surrounding areas could increase the threat of cyberwarfare as well as wide-spread internet service interruptions, which would likely disrupt or delay the operations of many digitally-focused companies such as our own.

COVID-19

The novel coronavirus ("COVID-19") pandemic continues to impact global economic conditions, as well as the Company's operations. COVID-19 had a meaningful negative impact on our financial condition, cash flows and results of operations during 2020, as revenues declined and we reduced spending in light of COVID-19 uncertainty. Although we continued to experience disruption and volatility during 2021, which could continue to have an adverse effect on our revenues and earnings in 2022, the ultimate economic impact of the pandemic remains fluid, as there continue to be periods of COVID-19 resurgence in various parts of the world. The extent of the impact of the COVID-19 pandemic in 2022 on our operational and financial performance will depend on a variety of factors, some of which are outside our control, including the duration and spread of COVID-19 and its variants, and its impact on our clients, partners, industry, and employees, all of which are uncertain at this time and cannot be accurately predicted.

Similarly, the economic uncertainty caused by the COVID-19 pandemic has made and may continue to make it difficult for us to forecast revenue and operating results and to make decisions regarding operational cost structures and investments. We have committed, and we plan to continue to commit, resources to grow our business, employee base, and technology development, and such investments may not yield anticipated returns, particularly if worldwide business activity continues to be impacted by the COVID-19 pandemic. The duration and extent of the impact from the COVID-19 pandemic depend on future developments that cannot be accurately predicted at this time, and if we are not able to respond to and manage the impact of such events effectively, our business may be harmed.

There can be no assurance that precautionary measures, whether adopted by us or imposed by others, will be effective, and such measures could negatively affect our sales, marketing, and client service efforts, delay and lengthen our sales cycles, decrease our employees', clients', or partners' productivity, or create operational or other challenges, any of which could harm our business and results of operations.

Results of Operations**Three Months Ended September 30, 2022 Compared With Three Months Ended September 30, 2021**

The following table presents the results of operations for the three months ended September 30, 2022 and 2021:

| | For the Three Months Ended September 30, | |
|-----------------------------------|---|-----------------------|
| | 2022 | 2021 |
| Net Revenues | \$ 481,812 | \$ 676,986 |
| Costs and Expenses: | | |
| Sales and marketing | 735,296 | 715,820 |
| Technology | 525,383 | 776,573 |
| General and administrative | 1,132,649 | 1,514,913 |
| Loss accrual on customer contract | (232,964) | — |
| Total Costs and Expenses | 2,160,364 | 3,007,306 |
| Loss From Operations | (1,678,552) | 2,330,320 |
| Other (Expense) Income: | | |
| Interest expense | (2,508) | (2,098) |
| Interest income | 6,896 | 21,805 |
| Total Other Income | 4,388 | 19,707 |
| Net Loss | \$ (1,674,164) | \$ (2,310,613) |

Net Revenues

For the three months ended September 30, 2022, net revenues decreased by \$195,174, or 29%, to \$481,812 from \$676,986 for the three months ended September 30, 2021. The decrease was primarily attributable to a decrease of \$495,000 of net revenues associated with a major customer as compared to the 2021 period, partially offset by revenues generated in the 2022 period related to customer contracts acquired in connection with our acquisition of MediaCrossing in November 2021.

See Loss Accrual on Customer Contract for a discussion of a reversal of an estimated loss accrual recorded during the three months ended September 30, 2022 associated with a contract with a customer.

Sales and Marketing

For the three months ended September 30, 2022, sales and marketing expenses increased by \$19,476, or 3%, to \$735,296 from \$715,820 for the three months ended September 30, 2021. The increase is primarily due to an increase in headcount costs of approximately \$119,000, partially offset by a decrease in selling expenses of approximately \$110,000.

Technology

For the three months ended September 30, 2022, technology expenses decreased by \$251,190, or 32%, to \$525,383 from \$776,573 for the three months ended September 30, 2021. The decrease is primarily due to a decrease in headcount costs of approximately \$74,000, hosting fees of approximately \$13,000, software-technology subscription expense of approximately \$10,000, amortization of approximately \$141,000 and consulting expenses of approximately \$14,000.

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General and Administrative

For the three months ended September 30, 2022, general and administrative expenses decreased by \$382,264, or 25%, to \$1,132,649 from \$1,514,913 for the three months ended September 30, 2021. The decrease is primarily due to decreases in non-cash stock-based compensation of approximately \$141,000, professional services expense of approximately \$118,000 and consulting expense of approximately \$108,000.

Loss Accrual on Customer Contract

During the three months ended September 30, 2022, we reversed \$232,964 of the loss accrual on customer contract related to media costs incurred associated with a contract with a customer. The reversal was a result of our recognition of revenue during the three months ended September 30, 2022 for cash payments received related to the loss accrual we recognized the quarter ended March 31, 2022. We will continue to monitor this loss accrual going forward.

Other Income

For the three months ended September 30, 2022, other income decreased by \$15,319, or 78%, to \$4,388 from other income of \$19,707 for the three months ended September 30, 2021, primarily as a result of decreased interest income.

Nine Months Ended September 30, 2022 Compared With Nine Months Ended September 30, 2021

The following table presents the results of operations for the nine months ended September 30, 2022 and 2021:

| | For the Nine Months Ended September 30, | |
|--|--|-----------------------|
| | 2022 | 2021 |
| Net Revenues | \$ 2,127,467 | \$ 1,882,311 |
| Costs and Expenses: | | |
| Sales and marketing | 3,118,729 | 1,977,150 |
| Technology | 2,640,239 | 1,916,020 |
| General and administrative | 4,824,406 | 3,878,765 |
| Impairment loss on intangible assets | 2,626,974 | — |
| Impairment loss on property and equipment | 49,948 | — |
| Impairment loss on goodwill | 463,000 | — |
| Loss accrual on customer contract | 142,723 | — |
| Total Costs and Expenses | 13,866,019 | 7,771,935 |
| Loss From Operations | (11,738,552) | (5,889,624) |
| Other (Expense) Income: | | |
| Interest expense | (8,916) | (5,308) |
| Interest income | 11,921 | 84,469 |
| Change in fair value of contingent consideration | 613,000 | — |
| Other income | 11,000 | 233 |
| Total Other Income | 627,005 | 79,394 |
| Net Loss | \$ (11,111,547) | \$ (5,810,230) |

Net Revenues

For the nine months ended September 30, 2022, net revenues increased by \$245,156, or 13%, to \$2,127,467 from \$1,882,311 for the nine months ended September 30, 2021. The increase in net revenues is primarily attributable to net revenues generated related to customer contracts acquired in connection with our acquisition of MediaCrossing in November 2021, partially offset by a decrease of \$696,000 of net revenues associated with a major customer as compared to the 2021 period.

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See Loss Accrual on Customer Contract for a discussion of an estimated loss accrual recorded during the nine months ended September 30, 2022 associated with a contract with a customer.

Sales and Marketing

For the nine months ended September 30, 2022, sales and marketing expenses increased by \$1,141,579, or 58%, to \$3,118,729 from \$1,977,150 for the nine months ended September 30, 2021. The increase is primarily due to an increase in headcount costs of approximately \$1,610,000 and software tools of approximately \$87,000, partially offset by a decrease in non-cash stock-based compensation of approximately \$179,000, selling expense of approximately \$250,000, sales commissions expense of approximately \$56,000 and consulting expense of approximately \$78,000.

Technology

For the nine months ended September 30, 2022, technology expenses increased by \$724,219, or 38%, to \$2,640,239 from \$1,916,020 for the nine months ended September 30, 2021. The increase is primarily due to an increase in headcount costs of approximately \$310,000, hosting fees of approximately \$286,000, non-cash stock-based compensation of approximately \$137,000, amortization of approximately \$27,000, software tools expense of approximately \$23,000, partially offset by a decrease in consulting expense of approximately \$39,000.

General and Administrative

For the nine months ended September 30, 2022, general and administrative expenses increased by \$945,641, or 24%, to \$4,824,406 from \$3,878,765 for the nine months ended September 30, 2021. The increase is primarily due to increases in professional fees of approximately \$542,000, non-cash stock-based compensation of approximately \$397,000, office expenses of approximately \$130,000, director fees of approximately \$89,000, headcount costs of approximately \$49,000, state taxes of approximately \$22,000, dues and software subscriptions of approximately \$53,000, partially offset by a decrease in consulting services expense of approximately \$234,000, recruiting expense of approximately \$98,000, and insurance expense of approximately \$5,000.

Impairment Loss on Intangible Assets, Property and Equipment and Goodwill

During the nine months ended September 30, 2022, we recognized an impairment loss on intangible assets of \$2,626,974, an impairment loss on property and equipment of \$49,948 and an impairment loss on goodwill of \$463,000.

During the nine months ended September 30, 2022, we identified triggering events that indicated its finite-lived intangible assets and goodwill were at risk of impairment and, as such, performed the required quantitative impairment assessment to ultimately evaluate whether carrying value exceeded fair value. The primary triggers for the impairment review were a loss of customers as well as a reduction in the value of Kubient's market capitalization. As a result of the quantitative assessments, we determined the intangible assets and goodwill were fully impaired.

Loss Accrual on Customer Contract

During the nine months ended September 30, 2022, we recognized an estimated loss accrual on a customer contract of \$142,723 related to media costs incurred associated with a contract with a customer. We will continue to monitor this loss accrual going forward.

Other Income

For the nine months ended September 30, 2022, other income increased by \$547,611, or 690%, to \$627,005 from \$79,394 for the nine months ended September 30, 2021. The increase is primarily due to a gain recognized related to a decrease in the fair value of the earnout shares issuable to MediaCrossing.

Non-GAAP Measures

Adjusted EBITDA

The Company defines EBITDA as net income (loss) before interest, taxes and depreciation and amortization. The Company defines Adjusted EBITDA as EBITDA, further adjusted to eliminate the impact of certain non-recurring items and other items that we do not consider in our evaluation of our ongoing operating performance from period to period. These items will include stock-based compensation, restructuring and severance costs, transaction costs, acquisition costs, certain other non-recurring charges and gains that the Company does not believe reflects the underlying business performance.

For the three and nine months ended September 30, 2022 and 2021, EBITDA and Adjusted EBITDA consisted of the following:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-----------------------|--|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net Loss | \$ (1,674,164) | \$ (2,310,613) | \$ (11,111,547) | \$ (5,810,230) |
| Interest expense | 2,508 | 2,098 | 8,916 | 5,308 |
| Interest income | (6,896) | (21,805) | (11,921) | (84,469) |
| Depreciation and amortization | — | 144,775 | 330,993 | 304,068 |
| EBITDA | <u>1,678,552</u> | <u>(2,185,545)</u> | <u>(10,783,559)</u> | <u>(5,585,323)</u> |
| Adjustments: | | | | |
| Stock-based compensation expense | \$ 157,094 | \$ 263,247 | 878,721 | 523,999 |
| Impairment loss on intangible assets | — | — | 2,626,974 | — |
| Impairment loss on property and equipment | — | — | 49,948 | — |
| Impairment loss on goodwill | — | — | 463,000 | — |
| Change in fair value of contingent consideration | — | — | (613,000) | — |
| Adjusted EBITDA | <u>\$ (1,521,458)</u> | <u>\$ (1,922,298)</u> | <u>\$ (7,377,916)</u> | <u>\$ (5,061,324)</u> |
| Adjusted Loss Per Share | <u>\$ (0.11)</u> | <u>\$ (0.13)</u> | <u>\$ (0.51)</u> | <u>\$ (0.37)</u> |
| Weighted Average Common Shares Outstanding - | | | | |
| Basic and Diluted | <u>14,337,412</u> | <u>14,252,886</u> | <u>14,300,022</u> | <u>13,627,435</u> |

EBITDA and Adjusted EBITDA is a financial measure that is not calculated in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Management believes that because Adjusted EBITDA excludes (a) certain non-cash expenses (such as depreciation, amortization and stock-based compensation) and (b) expenses that are not reflective of the Company's core operating results over time (such as stock-based compensation expense), this measure provides investors with additional useful information to measure the Company's financial performance, particularly with respect to changes in performance from period to period. The Company's management uses EBITDA and Adjusted EBITDA (a) as a measure of operating performance, (b) for planning and forecasting in future periods, and (c) in communications with the Company's board of directors concerning the Company's financial performance. The Company's presentation of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation and should not be used by investors as a substitute or alternative to net income or any measure of financial performance calculated and presented in accordance with U.S. GAAP. Instead, management believes EBITDA and Adjusted EBITDA should be used to supplement the Company's financial measures derived in accordance with U.S. GAAP to provide a more complete understanding of the trends affecting the business.

Although Adjusted EBITDA is frequently used by investors and securities analysts in their evaluations of companies, Adjusted EBITDA has limitations as an analytical tool, and investors should not consider it in isolation or as a substitute for, or more meaningful than, amounts determined in accordance with U.S. GAAP. Some of the limitations to using non-GAAP measures as an analytical tool are (a) they do not reflect the Company's interest income and expense, or the requirements necessary to service interest or principal payments on the Company's debt, (b) they do not reflect future requirements for capital expenditures or contractual commitments, and (c) although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and non-GAAP measures do not reflect any cash requirements for such replacements.

Liquidity and Capital Resources

We measure our liquidity in a number of ways, including the following:

| | September 30, 2022 (unaudited) | December 31, 2021 |
|---------------------------|--------------------------------------|----------------------|
| Cash and cash equivalents | \$ 16,897,563 | \$ 24,907,963 |
| Working capital | \$ 15,266,962 | \$ 22,676,301 |

Availability of Additional Funds

As a result of its public offerings and the related note conversions, the Company believes its current cash on hand is sufficient to meet its operating and capital requirements for at least the next twelve months from the date these financial statements are issued. Our operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our products and services, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Cash Flows

Nine Months Ended September 30, 2022 Compared With Nine Months Ended September 30, 2021

Our sources and uses of cash were as follows:

Cash Flows From Operating Activities

We experienced negative cash flows from operating activities for the nine months ended September 30, 2022 and 2021 in the amounts of \$7,527,466 and \$4,577,923, respectively. The net cash used in operating activities for the nine months ended September 30, 2022 was primarily a result of cash used to fund a net loss of \$11,111,547, adjusted for net non-cash expenses of \$3,743,636, partially offset by \$159,555 of net cash used in changes in the levels of operating assets and liabilities. The net cash used in operating activities for the nine months ended September 30, 2021 was primarily a result of cash used to fund a net loss of \$5,810,230, adjusted for net non-cash expenses of \$828,067, partially offset by \$404,240 of net cash provided by changes in the levels of operating assets and liabilities.

Cash Flows From Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2022 was \$16,549, which was attributable to purchases of property and equipment. Net cash used in investing activities for the nine months ended September 30, 2021 was \$1,157,403, which was attributable to purchases of intangible assets and property and equipment.

Cash Flows From Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2022 was \$466,385, which was attributable to repayments of our PPP loan of \$149,843 as well as repayments of financed director and officer insurance premiums of \$316,542. Net cash provided by financing activities for the nine months ended September 30, 2021 was \$9,699,654, which was attributable by the exercises of options and warrants of \$9,795,510, partially offset by \$27,510 of cash used to pay deferred offering costs and \$68,346 of cash was used to partially repay our PPP loan.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, each as of the date of the financial statements, and revenues and expenses during the periods presented. On an ongoing basis, management evaluates their estimates and assumptions, and the effects of any such revisions are reflected in the financial statements in the period in which they are determined to be necessary. Management bases their estimates on historical experience and on various other factors that they believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our consolidated financial statements. While our significant accounting policies are more fully described in the notes to our consolidated financial statements appearing elsewhere in this prospectus, we believe that the following accounting policies and estimates are critical to the process of making significant judgments and estimates in the preparation of our financial statements and understanding and evaluating our reported financial results.

Revenue Recognition

The Company maintains a contract with each customer and supplier, which specifies the terms of the relationship. The Company provides a service to its customers (the buy-side ad networks who work for advertisers) by connecting advertisers and publishers. For this service, the Company earns a percentage of the amount that is paid by the advertiser, who wants to run a digital advertising campaign, which, in some cases, is reduced by the amount paid to the publisher, who wants to sell its ad space to the advertiser.

The transaction price is determined based on the consideration to which the Company expects to be entitled, including the impact of any implicit price concessions over the course of the contract. The Company's performance obligation is to facilitate the publication of advertisements. The performance obligation is satisfied at the point in time that the ad is placed. Subsequent to a bid being won, the associated fees are generally not subject to refund or adjustment. Historically, any refunds and adjustments have not been material. The revenue recognized is the amount the Company is responsible to collect from the customer related to the placement of an ad (the "Gross Billing"), less the amount the Company remits to the supplier for the ad space (the "Supplier Cost"), if any. The determination of whether the Company is the principal or agent, and hence whether to report revenue on a gross basis equal to the Gross Billing or on a net basis for the difference between the Gross Billing and Supplier Cost, requires judgment. The Company acts as an agent in arranging via its platform for the specified good (the ad space) to be purchased by the advertiser, as it does not control the goods or services being transferred to the end customer, it does not take responsibility for the quality or acceptability of the ad space, it does not bear inventory risk, nor does it have discretion in establishing price of the ad space. As a result, the Company recognizes revenue on a net basis for the difference between the Gross Billing and the Supplier Cost.

The Company invoices customers on a monthly basis for the amount of Gross Billings in the relevant period. Invoice payment terms, negotiated on a customer-by-customer basis, are typically between 45 to 90 days. However, for certain agency customers with sequential liability terms as specified by the Interactive Advertising Bureau, (i) payments are not due to the Company until such agency customers has received payment from its customers (ii) the Company is not required to make a payment to its supplier until payment is received from the Company's customer and (iii) the supplier is responsible to pursue collection directly with the advertiser. As a result, once the Company has met the requirements of each of the five steps under ASC 606, the Company's accounts receivable are recorded at the amount of Gross Billings which represent amounts it is responsible to collect and accounts payable, if applicable, are recorded at the amount payable to suppliers. In the event step 1 under ASC 606 is not met, the Company does not record either the accounts receivable or accounts payable. Accordingly, both accounts receivable and accounts payable appear large in relation to revenue reported on a net basis.

From time to time, the Company records loss accruals for estimated costs that exceed estimated revenue related to its contracts with customers. During the three and nine months ended September 30, 2022, the Company recognized an estimated loss accrual (reversal) on a customer contract of \$(232,964) and \$142,723, respectively, related to media costs incurred associated with a contract with a customer, which was included in costs and expenses on the condensed consolidated statement of operations.

Business Combinations

Business combinations are accounted for using the acquisition method and, accordingly, the assets acquired (including identified intangible assets), the liabilities assumed and any contingent consideration are recorded at their acquisition date fair values. The Company's fair value measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

Intangible Assets

Intangible assets are comprised of costs to acquire and develop computer software, including the costs to acquire third-party data which is used to improve the Company's artificial intelligence platform for client use, as well as costs to acquire customer lists, customer contracts and related customer relationship and restrictive covenant agreements. The intangible assets have estimated useful lives of two years for the computer software, five years for the capitalized data, seven years for the customer lists and three years for the restrictive covenant agreements. Once placed into service, the Company amortizes the cost of the intangible assets over their estimated useful lives on a straight-line basis.

Impairment of Long-lived Assets

The Company reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. An impairment would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount.

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. The fair value of the award is measured on the grant date. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Upon the exercise of an award, the Company issues new shares of common stock out of its authorized shares. The Company accrues for any equity awards at fair value that have been contractually earned but not yet issued.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of June 30, 2022. Our disclosure controls and procedures are designed to provide reasonable assurance that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Management recognizes that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be subject to various other legal proceedings and claims that are routine and incidental to our business. Although some of the legal proceedings set forth herein may result in adverse decisions or settlements, Management believes that the final disposition of such matters will not have a material adverse effect on our business, financial position, results of operations or cash flows.

In August, we received subpoenas from both the SEC and the United States Attorney's Office for the Southern District of New York requesting certain information from us relating to revenue in connection with two of our customers. Kubient is fully cooperating with both of these agencies.

Item 1A. Risk Factors.

Not applicable to smaller reporting companies.

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

Unregistered Sales of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filed Herewith |
|-------------------|--|---------------------------|----------------|-------------------|-------------------|
| | | Form | Filing Date | Exhibit Number | |
| 31.1 | Certification of Principal Executive Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 31.2 | Certification of Principal Financial Officer Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 32.1 * | Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1) | | | | X |
| 101.ins | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | X |
| 101.sch | Inline XBRL Taxonomy Schema Document | | | | X |
| 101.cal | Inline XBRL Taxonomy Calculation Linkbase Document | | | | X |
| 101.def | Inline XBRL Taxonomy Definition Linkbase Document | | | | X |
| 101.lab | Inline XBRL Taxonomy Label Linkbase Document | | | | X |
| 101.pre | Inline XBRL Taxonomy Presentation Linkbase Document | | | | X |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) | | | | X |

* This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and it is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 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.

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.

KUBIENT, INC.

Dated: November 14, 2022

/s/ Paul Roberts

Paul Roberts

Chief Executive Officer

(principal executive officer)

Dated: November 14, 2022

/s/ Joshua Weiss

Joshua Weiss

Chief Financial Officer

(principal financial and accounting officer)

GLOSSARY

“Ad network” means an intermediary network or company that acts as a broker between advertisers who want to purchase ad placements and content publishers who want to host the advertiser’s ads. Examples of advertisers are consumer good companies, multimedia companies and automobile manufacturers. Publishers in the context are website operators or app developers.

“Audience Marketplace” means the modular, highly scalable, transparent, cloud-based software platform created by the Company for real-time trading of digital, Programmatic Advertising.

“Bot” or “internet bot” means an autonomous program (or robot) running on a network (usually, the internet) that can interact with computer systems or users. Typically, Bots perform tasks that are both simple and structurally repetitive, at a much higher rate than would be possible for a human alone. According to Imperva, more than half of all web traffic is fraudulent, as it is made up of Bots rather than actual human beings.

“Brand” means a particular name used to identify a type of product or products manufactured by a particular company.

“Latency” means the lag time between a customer click on an internet link and the conversion of that customer to a sale. The term can also refer to the lag time between ad inventory’s purchase and its display on publisher’s media.

“Programmatic advertising” means the purchase of advertising space meant to target audiences using software and tools that help agencies and brands target, deliver, and analyze their digital advertising efforts., rather than the traditional method of purchasing time slots in mass media, such as television programming.

“Pre-bid” means the bid placed by an advertiser for placement of its ad, verified prior to such ad being run or displayed.

“Post-bid” means the verification of the running or display of an ad, after such running or display has occurred.

“Publisher” means a source of ad inventory, such as website owners, website operators or app developers. Publishers are generally either managed or owned and operated. An owned and operated publisher receives 100% of the profit for impressions sold. This is opposed to a managed publisher: a publisher that does not own its inventory but has a financial relationship with those who do.

**Certification of Principal Executive Officer
pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Paul Roberts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kubient, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

/s/ Paul Roberts

Paul Roberts
Chief Executive Officer
(principal executive officer)

**Certification of Principal Financial Officer
pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Joshua Weiss, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kubient, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2022

/s/ Joshua Weiss

Joshua Weiss

Chief Financial Officer

(principal financial and accounting officer)

**Certifications of Principal Executive Officer and Principal Financial Officer
pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Paul Roberts, Chief Executive Officer (principal executive officer) of Kubient, Inc. (the “Company”), and Joshua Weiss, Chief Financial Officer (principal financial and accounting officer) of the Company, each hereby certifies that, to the best of his knowledge:

- 1) The Company’s Annual Report on Form 10-Q for the quarter ended September 30, 2022, to which this certification is attached as Exhibit 32.1 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

/s/ Paul Roberts

Paul Roberts
Chief Executive Officer
(*principal executive officer*)

/s/ Joshua Weiss

Joshua Weiss
Chief Financial Officer
(*principal financial and accounting officer*)

The foregoing certifications are being furnished pursuant to 18 U.S.C. Section 1350. They are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.
