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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of the Securities Exchange Act of 1934

March 15, 2021
Date of Report (Date of earliest event reported)

MAGNITE, INC.
(Exact name of registrant as specified in its charter)

Delaware	001-36384	20-8881738
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

12181 Bluff Creek Drive, 4th Floor
Los Angeles, California 90094
(Address of principal executive offices, including zip code)

(310) 207-0272
(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol(s)	Name on each exchange on which registered
Common stock, par value $0.00001 per share	**MGNI**	**Nasdaq Global Select Market**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

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. ☐

Item 8.01. Other Events.

On March 15, 2021, Magnite, Inc. (the "Company"), issued a press release announcing that it has commenced an offering (the "Offering") of convertible senior notes due 2026 in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Act"), and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Act. The full text of the press release issued in connection with the announcement is filed as Exhibit 99.1 to this Current Report on Form 8-K.

In connection with the Offering, the Company is also filing the audited financial statements of SpotX, Inc. ("SpotX") for the year ended December 31, 2020 and the unaudited pro forma condensed consolidated financial information of the Company for the year ended December 31, 2020 relating to the Company's proposed acquisition of SpotX as Exhibits 99.2 and 99.3, respectively.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Press Release, dated March 15, 2021
99.2	Audited Financial Statements of SpotX, Inc. for the Year Ended December 31, 2020
99.3	Unaudited Pro Forma Condensed Consolidated Financial Information of the Company for the Year Ended December 31, 2020 relating to the Company's Proposed Acquisition of SpotX, Inc.
104	The cover page from this Current Report on Form 8-K, formatted in Inline XBRL.

SIGNATURE

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 hereunto duly authorized.

MAGNITE, INC.

Date: March 15, 2021

By: /s/ David Day
David Day
Chief Financial Officer

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the registration statements (Nos. 333-195972, 333-2011174, 333-204012, 333-219563, and 333-237613) on Form S-8 of Magnite, Inc. of our report dated March 10, 2021, with respect to the consolidated balance sheets of SpotX, Inc. as of December 31, 2020 and 2019, the related consolidated statements of operations and other comprehensive income, stockholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements, which report appears in the Form 8-K of Magnite, Inc. dated March 15, 2021.

/s/ KPMG LLP

Denver, Colorado
March 10, 2021

Exhibit 99.1

Magnite Announces $350 Million
Convertible Notes Offering

LOS ANGELES—(BUSINESS WIRE)—March 15, 2021— Magnite (Nasdaq: MGNI) today announced its intention to offer, subject to market conditions and other factors, $350 million aggregate principal amount of convertible senior notes due 2026 (the “notes”) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Act”), and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Act. Magnite also expects to grant the initial purchasers of the notes a 13-day option to purchase up to an additional $50 million aggregate principal amount of notes.

The notes will be senior, unsecured obligations of Magnite, and interest will be payable semi-annually in arrears. The notes will be convertible into cash, shares of Magnite’s common stock (“common stock”), or a combination thereof, at Magnite’s election. The interest rate, conversion rate, and other terms of the notes are to be determined upon pricing of the offering.

In connection with the pricing of the notes, Magnite expects to enter into privately negotiated capped call transactions with one or more of the initial purchasers and/or their respective affiliates and/or other financial institutions (the “option counterparties”). The capped call transactions are generally expected to reduce potential dilution to Magnite’s common stock upon any conversion of notes and/or offset any cash payments Magnite is required to make in excess of the principal amount of converted notes, as the case may be, with such reduction and/or offset subject to a cap. If the initial purchasers exercise their option to purchase additional notes, Magnite expects to enter into additional capped call transactions with the capped call counterparties.

Magnite has been advised that, in connection with establishing their initial hedges of the capped call transactions, the option counterparties or their respective affiliates expect to purchase shares of Magnite’s common stock and/or enter into various derivative transactions with respect to the common stock concurrently with or shortly after the pricing of the notes. This activity could increase (or reduce the size of any decrease in) the market price of the common stock or the notes at that time. In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to the common stock and/or purchasing or selling the common stock or other securities of Magnite in secondary market transactions following the pricing of the notes and prior to the maturity of the notes (and are likely to do so following any conversion, repurchase or redemption of the notes, to the extent Magnite exercises the relevant election under the capped call transactions). This activity could also cause or avoid an increase or a decrease in the market price of common stock or the notes, which could affect the ability of noteholders to convert the notes and, to the extent the activity occurs following a conversion or during any observation period related to a conversion of notes, it could affect the number of shares and value of the consideration that noteholders will receive upon conversion of the notes.

Magnite expects to use a portion of the net proceeds of the offering of the notes to pay the cost of the capped transactions described above and the remaining proceeds from the offering to pay a portion of the purchase price for its previously announced acquisition of SpotX, if it is completed, upon closing thereof, which remains subject to receipt of regulatory approvals and satisfaction of customary closing conditions, and for general corporate purposes, which may include working capital, capital expenditures, and other potential acquisitions and strategic transactions. The consummation of the offering is not conditioned on the completion of Magnite's acquisition of SpotX.

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities and shall not constitute an offer, solicitation, or sale in any jurisdiction in which such offer, solicitation, or sale is unlawful. The notes and the shares of common stock issuable upon conversion of the notes, if any, have not been, and will not be, registered under the Act or the securities laws of any other jurisdiction, and unless so registered, may not be offered or sold in the United States except pursuant to an applicable exemption from the registration requirements of the Act and applicable state laws.

About Magnite

We're Magnite (NASDAQ: MGNI), the world's largest independent sell-side advertising platform. Publishers use our technology to monetize their content across all screens and formats—including desktop, mobile, audio and CTV. And the world's leading agencies and brands trust our platform to access brand-safe, high-quality ad inventory and execute billions of advertising transactions each month. Anchored in sunny Los Angeles, bustling New York City, historic London, and down under in Sydney, Magnite has offices across North America, EMEA, LATAM and APAC.

On February 4, 2021, Magnite entered into a Stock Purchase Agreement with RTL US Holding, Inc. to acquire 100% of the issued and outstanding shares of capital stock of SpotX, Inc., a Delaware corporation, for a purchase price equal to $560 million in cash plus 14 million shares of Magnite's common stock, subject to adjustment as set forth in the following sentence. RTL has, in accordance with the SpotX purchase agreement and assuming completion of the proposed offering of notes announced hereby, elected to increase the cash consideration by an amount equal to 20% of the gross proceeds of the proposed offering of notes and to reduce the number of shares of common stock it would otherwise receive by a number of shares of common stock equal to 20% of the gross proceeds of the proposed offering of notes divided by the closing price of a share of our common stock on the trading day immediately prior to the date of pricing of the proposed offering of notes. SpotX is one of the leading platforms shaping CTV and video advertising globally. The SpotX acquisition is subject to receipt of regulatory approvals and satisfaction of customary closing conditions and is expected to close in the second quarter of 2021.

Forward Looking Statements

This press release may include, forward-looking statements, including statements based upon or relating to our expectations, assumptions, estimates, and projections. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "design," "anticipate," "estimate," "predict," "potential," "plan" or the negative of these terms, and similar expressions. Forward-looking statements may include, but are not limited to, statements concerning the proposed convertible note offering and related transactions, the proposed acquisition of SpotX and/or the anticipated benefits thereof; completion of the proposed acquisition of SpotX on anticipated terms and timing and other statements that are not historical facts. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and estimates and 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. These risks include, but are not limited to: the possibility that we may not complete the convertible note offering or related transactions; the possibility that the closing conditions to the proposed acquisition of SpotX may not be satisfied or waived, including that a governmental entity may not grant a required regulatory approval; delay in closing the proposed acquisition of SpotX or the possibility of non-consummation of the transaction; risks inherent in the achievement of anticipated synergies and the timing thereof; our ability to successfully integrate the SpotX business, and realize the anticipated benefits of the acquisition; and our ability to raise additional capital if needed.

We discuss many of these risks and additional factors that could cause actual results to differ materially from those anticipated by our forward-looking statements under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in filings we have made and will make from time to time with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2020. These forward-looking statements represent our estimates and assumptions only as of the date of the report in which they are included. 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. Without limiting the foregoing, any guidance we may provide will generally be given only in connection with quarterly and annual earnings announcements, without interim updates, and we may appear at industry conferences or make other public statements without disclosing material nonpublic information in our possession. Given these uncertainties, investors should not place undue reliance on these forward-looking statements. Investors should read this press release and the documents that we reference in this press release and have filed or will file with the SEC completely and 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.

Investor Relations

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Exhibit 99.2

SpotX, Inc. and Subsidiaries
Consolidated Financial Statements
For the Years Ended December 31, 2020 and 2019

SpotX, Inc. and Subsidiaries
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For the Years Ended December 31, 2020 and 2019

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Independent Auditors' Report

The Board of Directors
SpotX, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SpotX, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and other comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SpotX, Inc. and subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

(signed) KPMG LLP

Denver, Colorado
March 10, 2021

SpotX, Inc. and Subsidiaries
Consolidated Balance Sheet
As of December 31, 2020 and 2019

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 79,077,119	$ 34,693,737
Restricted cash	199,364	280,049
Accounts receivable, net	259,581,942	161,514,490
Related party receivable	4,811,482	6,843,742
Lease related party receivable	—	1,050,629
Prepaid expenses and other current assets	2,094,649	4,034,080
Total current assets	345,764,556	208,416,727
Noncurrent assets		
Property, plant, and equipment, net	5,907,975	8,985,704
Software and intangible assets, net	21,234,542	16,564,821
Right-of-use assets from operating leases	2,108,914	3,357,056
Right-of-use assets from capital leases	1,799,540	—
Contract assets	767,035	975,380
Investments	2,075,000	—
Deferred tax assets	36,139	25,854
Total assets	379,693,701	238,325,542
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	264,277,218	138,916,007
Related party payable	2,635,697	4,816,970
Accrued payroll and other current liabilities	8,988,966	3,891,359
Right-of-use liabilities from operating leases	1,543,731	1,793,858
Right-of-use liabilities from capital leases	802,784	—
Accrued incentive plan	1,570,993	3,000,000
Related party line-of-credit	—	7,633,996
Income tax payable	6,129,097	1,771,832
Total current liabilities	285,948,486	161,824,022
Noncurrent liabilities		
Right-of-use liabilities from operating leases	2,438,590	4,030,054
Right-of-use liabilities from capital leases	1,056,643	—
Deferred tax liabilities	1,652,967	1,036,512
Total liabilities	291,096,686	166,890,588
Stockholders' equity		
Common stock	1,273	1,273
(Par value $0.001, 2,000,000 shares authorized, 1,272,926 shares issued and outstanding)		
Additional paid-in capital	26,866,119	26,863,457
Retained earnings	60,628,720	43,387,926
Accumulated other comprehensive income	1,100,903	1,182,298
Total stockholders' equity	88,597,015	71,434,954
Total liabilities and stockholders' equity	$379,693,701	$238,325,542

SpotX, Inc. and Subsidiaries
Consolidated Statement of Operations and Other Comprehensive Income
For the years ended December 31, 2020 and 2019

	December 31, 2020	December 31, 2019
Revenues, net	$ 171,290,305	$ 140,545,774
Costs and expenses:		
Operating expenses	(124,485,760)	(107,432,523)
Selling, general & administrative expenses	(10,715,566)	(17,514,779)
Depreciation & amortization	(12,575,468)	(10,565,187)
Gain (loss) on sale of assets	(357,184)	2,618,886
Total costs and expenses	(148,133,978)	(132,893,603)
Income from operations	23,156,327	7,652,171
Other expenses:		
Interest income (expense)	49,001	(202,273)
Foreign exchange (loss)	(299,529)	(146,988)
Loss on impairment	—	(2,500,000)
Total other expenses	(250,528)	(2,849,261)
Income before income tax expense	22,905,799	4,802,910
Income tax benefit (expense)	(5,665,004)	(1,235,902)
Net income	**17,240,795**	**3,567,008**
Foreign currency translation, net of tax	(81,395)	1,476,200
Other comprehensive income	**$ 17,159,400**	**$ 5,043,208**

SpotX, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholder's Equity
For the years ended December 31, 2020 and 2019

	Common stock	Additional paid- in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
Balances at January 1, 2019	$ 1,273	$24,695,235	$ (293,902)	$39,820,918	$64,223,524
Shareholder loan forgiveness	—	2,168,222	—	—	2,168,222
Net income	—	—	—	3,567,008	3,567,008
Foreign currency translation, net of tax	—	—	1,476,200	—	1,476,200
Balances at December 31, 2019	1,273	26,863,457	1,182,298	43,387,926	71,434,954
Shareholder loan forgiveness	—	2,662	—	—	2,662
Net income	—	—	—	17,240,795	17,240,795
Foreign currency translation, net of tax	—	—	(81,395)	—	(81,395)
Balances at December 31, 2020	$ 1,273	$26,866,119	$ 1,100,903	$60,628,720	$88,597,015

SpotX, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2020 and 2019

	December 31, 2020	December 31, 2019
Cash flows from operating activities:		
Net income	$ 17,240,795	$ 3,567,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,575,468	10,565,187
Bad debt expense (recovery)	(85,827)	226,319
(Gain) loss on disposal of assets	357,184	(2,618,886)
Deferred income tax expense (benefit)	606,170	(412,390)
Impairment of investment in associates	—	2,500,000
Change in operating assets and liabilities:		
Change in operating right-of-use assets and liabilities	(593,449)	(615,252)
Accounts receivable, gross	(97,981,625)	(24,446,288)
Related party receivables	2,032,260	(418,550)
Prepaid expenses	1,939,431	(1,904,842)
Other non-current assets	208,345	(117,934)
Accounts payable	125,361,211	26,246,561
Related party payable	(2,181,273)	(2,060,463)
Accrued payroll and other	9,454,871	1,001,176
Accrued incentive plan	(1,429,007)	(20,456)
Other	(81,395)	1,476,200
Net cash provided by (used in) operating activities	**67,423,159**	**12,967,390**
Cash flow from investing activities:		
Purchases of property and equipment	(1,092,431)	(3,599,879)
Capitalized internal use software development costs	(12,946,629)	(12,439,133)
Change in capital right-of-use assets and liabilities	(425,697)	—
Proceeds from sale of asset	—	3,750,000
Investment in Springserve	(2,075,000)	—
Investment in financing leases	1,050,629	1,415,986
Net cash provided by (used in) investing activities:	**(15,489,128)**	**(10,873,026)**
Cash flow from financing activities:		
Borrowings on line-of-credit	(7,633,996)	7,633,996
Shareholder loan restructuring	2,662	2,168,222
Net cash provided by (used in) financing activities	**(7,631,334)**	**9,802,218**
Net increase in cash and cash equivalents	**44,302,697**	**11,896,582**
Cash, cash equivalents and restricted cash at beginning of year	34,973,786	23,077,204
Cash, cash equivalents and restricted cash at end of year	$ 79,276,483	$ 34,973,786
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 95,755	$ 481,884
Cash paid for income taxes	$ 402,774	$ 1,214,786
Supplemental disclosure of noncash activity		
Tenant improvement allowance	$ 306,435	$ 306,435
Initial recognition of capital lease assets	$ 2,285,124	$ —

1. Description of Business

SpotX, Inc. (“SpotX” or the “Company”) was formed as a limited liability company (“LLC”) in February 2007. On November 30, 2010 (“Conversion Date”), SpotX converted from an LLC to a Delaware corporation.

SpotX is a proprietary, internally developed video inventory management platform providing premium publishers and broadcasters with monetization tools for desktop, mobile, and connected devices. The platform features modern ad serving and programmatic enablement technology and other monetization tools, including outstream video ad units and solutions for connected TV. SpotX gives publishers the control, transparency, and actionable insights needed to understand buyer behavior, manage access and pricing, and maximize revenue. SpotX Limited (“SpotX UK”) was formed as a private limited company in the United Kingdom in March 2011. SpotX Australia Pty Ltd. was formed as a proprietary company in June 2011. SpotX Singapore Pte. Ltd. was formed as a private company in Singapore in August 2015. SpotX Japan G.K. was formed as a private company in Japan in February 2019. SpotX UK, Singapore, Australia and Japan are wholly owned subsidiaries of SpotX that were formed to market SpotX’s services within Europe, Australia and Asia.

Since 2014, the Company is part of the RTL Group, S.A. (“RTL”), a company domiciled in Luxembourg that is majority-owned by German media conglomerate Bertelsmann SE & Co.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of Presentation

The consolidated financial statements of the Company as of December 31, 2020 and 2019 have been prepared in accordance with US Generally Accepted Accounting Principles (“GAAP”).

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowances for doubtful accounts, valuation of deferred tax assets, impairment of fixed assets and investments, capitalization of software and right-of-use assets, reserves for employee benefit obligations, accruals, income tax uncertainties, and other contingencies.

Principles of Consolidation

The consolidated financial statements presented herein include SpotX Inc. and its subsidiaries, SpotX UK, SpotX Australia, SpotX Singapore, and SpotX Japan (collectively, the “Company” or the “group”). Subsidiaries are all entities over which SpotX has control. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Associates are all entities over which the Company has significant influence but not control or joint control. This is generally the case where the Company holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. SpotX holds a 7.8% stake in Vemba, and, because it exercises significant influence over Vemba through Board representation, SpotX accounts for the investment using the equity method.

Items included in the consolidated financial statements of each of the Company’s subsidiaries are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in United States dollars, which is the Company’s presentation currency.

Equity Method

Under the equity method of accounting, investments are initially recognized at cost and adjusted thereafter to recognize the Company’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Company’s share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Company’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company’s interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the institutions with which it does business. As of the balance sheet date, and periodically throughout the year, the Company maintained balances in various operating accounts in excess of federally insured limits.

Restricted Cash

The Company classifies restricted cash as balances pledged as collateral for letters of credit issued by its bank to lessors.

Accounts Receivable

Trade receivables are amounts due from customers for services performed in the ordinary course of business and are recorded at the invoiced amount and do not bear interest. Collection of all trade receivables are expected in one year or less, and as such they are classified as current assets. Losses on trade receivables are recognized when there is current or expected evidence that the Company will not be able to collect all amounts. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the amount that is ultimately expected to be collected. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade accounts.

Although the Company acts as an agent for programmatic and SXB, because SpotX handles the billings and collections, the gross billings are recorded as accounts receivable. The account receivable related to ad serving activity for which SpotX bills and remits on behalf of publishers (SXB) for the years ended December 31, 2020 and 2019 was $130,080,113 and $82,709,854, respectively.

Accounts Payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Although the Company acts as an agent for programmatic and SXB, the gross amounts due to publishers that provide the digital ad inventory are recorded as accounts payable. The account payable related to ad serving activity for which SpotX bills and remits on behalf of publishers (SXB) for the years ended December 31, 2020 and 2019 was $135,740,779 and $80,818,127, respectively.

Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers throughout the world. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk.

As of and during the year ended December 31, 2020, three customers accounted for 54% of total outstanding receivables and 23% of total revenues for the year then ended. As of and during the year ended December 31, 2019, three customers accounted for 49% of total outstanding receivables and 22% of total 2019 revenues.

Accounts receivable are summarized as follows:

	December 31, 2020	December 31, 2019
Accounts receivable	$260,022,434	$162,040,809
Allowance for doubtful accounts	(440,492)	(526,319)
	$259,581,942	$161,514,490

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar, Canadian dollar, Euros, Pound Sterling, Japanese Yen, Singaporean dollar and Indian Rupees. Foreign exchange risk arises from commercial transactions, recognized assets and liabilities, and net investments in foreign operations that are denominated in a currency that is not the Company’s functional currency.

The Company hedges foreign currency risk for their trade receivables in Euros. The Company has chosen not to enter into forward contracts to hedge the other foreign currency risk, as it does not believe its risk is significant given the relatively short collection cycles.

Property and Equipment

Property and equipment consist of computer equipment and office furniture and equipment and is stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation is calculated utilizing the straight-line method over the estimated useful lives for owned assets, ranging from three to seven years.

Software Development Costs

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products of the Company are recognized as intangible assets. The accounting policy for Internal-Use-Software includes the following:

(1) preliminary project costs are expensed as incurred; (2) costs associated with the development of the application are to be capitalized; and (3) costs associated with the post implementation operation of the software shall be expensed as incurred. In addition, the costs for all upgrades and enhancements to the originally developed software may be capitalized if additional functionality is added.

Accordingly, SpotX capitalizes certain software development costs, including the costs to develop new solutions or significant enhancements to existing solutions, which are developed or obtained for internal use. SpotX capitalizes software development costs when application development begins, it is probable that the project will be completed, and the software will be used as intended. Such capitalized costs are amortized on a straight line basis over the estimated useful life of the related asset, which is generally three years. Capitalized costs are written off for solutions that are no longer used. Costs associated with preliminary project stage activities, training, maintenance, and all post implementation stage activities are expensed as incurred.

The Company ceases capitalization of development costs once the software has been substantially completed and is ready for its intended use. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. The capitalized software development cost as of December 31, 2020 and 2019 was $21,234,542 and $16,564,821, respectively.

Impairment of Long-lived assets

Long-lived assets, such as property, plant, and equipment, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value less costs to sell. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Leases

The Company accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842, Leases. The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

Key estimates and judgments include how the Company determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- ASC Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Company cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Company generally uses its incremental borrowing rate as the discount rate for the lease. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the Company does not generally borrow on a collateralized basis, it uses the interest rate it pays on its noncollateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.
- The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any additional periods covered by either a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise of the following:
- Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties the Company would owe if the lease term assumes Company exercise of a termination option);
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date;
- Amounts expected to be payable under a Company-provided residual value guarantee; and
- The exercise price of a Company option to purchase the underlying asset if the Company is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Variable lease payments associated with the Company's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in the Company's combined statements of income in the same line item as expense arising from fixed lease payments (operating leases) or amortization of the ROU asset (finance leases).

ROU assets for operating are periodically reduced by impairment losses. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, Property, Plant, and Equipment – Overall, to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

The Company monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

The Company's leases generally include non-lease maintenance services (i.e. equipment maintenance or common area maintenance). The Company allocates the consideration in the contract to the lease and non-lease maintenance component based on each component's relative standalone price. The Company determines stand-alone prices for the lease components based on the prices for which other lessors lease similar assets on a stand-alone basis. The Company determines stand-alone prices for the non-lease components (i.e. maintenance services) based on the prices that several suppliers charge for maintenance services for similar assets on a stand-alone basis. If observable standalone prices are not readily available, the Company estimates the stand-alone prices maximizing the use of observable information. For leases of office equipment, the Company has elected the practical expedient to account for the lease and non-lease maintenance components as a single lease component. Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, receivables, prepaids, accounts payable, and accrued expenses, approximated fair value as of December 31, 2020 and 2019.

Fair Value Accounting

The Company accounts for certain assets and liabilities that are required to be recorded at fair value on a recurring basis under a framework for measuring fair value that requires enhanced disclosures about fair value measurements. This framework requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped based on significant levels of inputs as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Assets measured at fair value based on a recurring basis consist of a foreign currency hedge at December 31, 2020 and 2019 of $2,093 and $1,537, respectively which is included in other current assets.

Revenue Recognition

The Company generates revenue from the purchase and sale of digital advertising inventory through its marketplace. Digital advertising inventory is created when consumers access sellers' (publishers') content. Sellers provide digital advertising inventory to the Company's platform in the form of advertising requests, or ad requests. When the Company receives ad requests from sellers, it sends bid requests to buyers, which enable buyers to bid on sellers' digital advertising inventory. Winning bids create advertising, or paid impressions, for the seller to present to the consumer.

The total volume of spending between buyers and sellers on the Company's platform is referred to as advertising spend. The Company keeps a percentage of that advertising spend as a revenue share, and remits the remainder to the seller. The revenue share that the Company retains from the gross advertising spend on its platform is generally recognized as revenue with the exception of spend generated through the managed services channel which is recognized on a gross basis. The revenue share earned on each transaction is based on the pre-existing agreement with the seller and the clearing price of the winning bid. The Company recognizes revenue upon fulfillment of its performance obligation to a client, which occurs at the point in time an ad renders and is counted as a paid impression, subject to a contract existing with the client and a fixed or determinable transaction price. Performance obligations for all transactions are satisfied, and the corresponding revenue is recognized, at a distinct point in time; the Company has no arrangements with multiple performance obligations. The Company considers the following when determining if a contract exists (i) contract approval by all parties, (ii) identification of each party's rights regarding the goods or services to be transferred, (iii) specified payment terms, (iv) commercial substance of the contract, and (v) collectability of substantially all of the consideration is probable.

The Company evaluates whether it acts as the principal in the purchase and sale of digital advertising inventory to determine whether revenue should be reported on a gross or net basis.

The primary revenue sources of the Company are:

SpotX Programmatic Revenue

The Company contracts with a buyer of digital video advertising to purchase digital video advertising through the Company's software platform that allows the buyer to directly evaluate and directly purchase or bid on ad opportunities and purchase digital advertising inventory available through the Company's software platform.

SpotX Managed Services

The Company contracts with a buyer of digital video advertising that wants its or its clients' video ad campaigns to run on video ad inventory available through the Company's software platform. The Company then manages the delivery and fulfillment of the campaigns through the Company's software platform.

SpotX Ad Serving / SXB

Ad Serving revenue is recognized when a Publisher contracts directly with a buyer of digital video advertising to transact digital video advertising through the Company's software platform that allows the buyer to directly evaluate and directly purchase or bid on ad opportunities and purchase digital advertising inventory available through the Company's software platform. SXB revenue is recognized when a Publisher contracts directly with a buyer and SpotX also bills, collects, and remit proceeds to the publishers after deducting SpotX's revenue related to the services.

SpotX Infrastructure and Analytic Fees

For many publishers, SpotX charges a fee for ad calls that are left un-monetized to cover the associated infrastructure costs of such call volume.

SpotX Seat Fees

Certain publishers are charged a monthly fee for access to the data and reporting tools and other support services provided by SpotX

The Company has determined that it acts as the principal for managed services since it has control in establishing prices and control in choosing suppliers to fulfill its buyers' advertising campaigns. The cost to fill managed service campaigns is not dependent or related to the revenues earned, which results in the Company bearing some economic risks as it relates to fulfilling managed service advertising campaigns. Managed service revenue is therefore reported on a gross basis.

The Company has determined that it does not act as the principal for programmatic since it does not have control of the digital advertising inventory and does not set prices agreed upon within the auction marketplace, and therefore reports revenue on a net basis.

Ad serving, infrastructure and analytic, and seat fees are recorded when the service is provided. In cases of ad serving activity for which SpotX bills, collects, and remits on behalf of publishers (SXB), revenue is recorded net of the amounts remitted to publishers.

Revenue by source for the years ended December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Programmatic	$ 44,486,074	$ 33,219,491
Managed Service	86,286,131	78,356,045
Ad Serving/SXB	33,758,100	20,664,740
Saas	4,347,000	3,083,940
Other	2,413,000	5,221,558
	$171,290,305	$140,545,774

Income Taxes

Income taxes are calculated on the basis of the tax laws enacted or substantively enacted at December 31, 2020 and 2019 in the countries where SpotX and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is more-likely-than-not that future taxable profit will be available, against which the temporary differences can be utilized. The Company writes off all amounts for which future benefits are uncertain.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Company has evaluated its tax positions and determined that none are considered to be uncertain; therefore, no amounts have been recognized for uncertain tax positions as of December 31, 2020 and 2019. Interest and penalties associated with tax positions are recorded in the period assessed as operating expenses.

Foreign Currency Translation

The functional currency of the Company is the U.S. dollar. The functional currency of the Company's foreign operations, generally, is the respective local currency for each foreign subsidiary. Assets and liabilities of foreign operations denominated in local currencies are translated at the spot rate in effect at the applicable reporting date. The Company's combined statement of operations are translated at the weighted average rate of exchange during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of other comprehensive income in stockholders' equity.

Realized and unrealized transaction gains and losses generated by transactions denominated in a currency different from the functional currency of the applicable entity are recorded in the period in which they occur and are presented in foreign exchange (loss) gain in the statement of operations.

3. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are summarized as follows:

	December 31, 2020	December 31, 2019
Prepaid expenses	$ 1,550,917	$ 1,756,471
Current income tax receivable	530	$ 647,499
Other current assets	543,202	$ 1,630,110
	$ 2,094,649	$ 4,034,080

4. Property, plant, and equipment

Property, plant, and equipment, net, consist of the following:

Property, plant, and equipment	Useful life	Balance at 12/31/20	Balance at 12/31/19
Leasehold building improvements	7 years	$ 3,027,164	$ 3,154,802
Office equipment & furniture	7 years	656,780	661,508
Server equipment	5 years	1,501,604	864,668
Computer equipment	3 years	8,076,091	19,660,116
		13,261,639	**24,341,094**
Accumulated depreciation		**(7,353,664)**	**(15,355,390)**
Net—Property, plant, and equipment		**$ 5,907,975**	**$ 8,985,704**

Total depreciation expense for property, plant, and equipment for the year ended December 31, 2020 and 2019 was $4,162,684 and $6,291,950, respectively.

5. Software and intangible assets

Software and intangible assets, net, consist of the following:

Software and intangible assets	Useful life	Balance at 12/31/20	Balance at 12/31/19
Software development costs	3 years	$ 26,602,995	$18,102,758
Software assets in progress		7,726,248	3,818,372
		34,329,243	**21,921,130**
Amortization on intangible assets		**(13,094,701)**	**(5,356,309)**
Net—Software and intangible assets		**$ 21,234,542**	**$16,564,821**

Aggregate amortization expense for software and intangible assets in use for the year ended December 31, 2020 and 2019 was $7,927,200 and $4,273,237, respectively. Estimated amortization expense for software and intangible assets in use as of December 31, 2020 for the next three years is: $7,596,644, in 2021, $4,743,643, in 2022, and $1,168,007, in 2023.

6. Right-of-use leases

Information as of and for the year ended December 31, 2020:

The Company entered into two non-cancellable capital leases for data center equipment, that expire over the next three years. The components of capital lease costs for the year ended December 31, 2020 are as follows. Amortization of right of use assets is presented in depreciation.

	December 31, 2020
Capital lease cost	
Amortization of right of use assets	$ 485,584
Interest on lease liablities	37,010
Total Capital lease cost	**$ 522,594**

Amounts reported in the combined balance sheet as of December 31, 2020 was as follows:

	December 31, 2020
Capital leases	
Capital lease ROU assets	$ 2,285,124
Accumulated amortization of ROU assets	(485,584)
Total Capital lease assets	**$ 1,799,540**
Capital lease ROU liabilities, current	$ (802,784)
Capital lease ROU liabilities, non-current	(1,056,643)
Total Capital lease liabilities	**$(1,859,427)**

Maturities of lease liabilities under non-cancellable capital leases as of December 31, 2020 were as follows:

	December 31, 2020
Capital leases	
2021	$ 897,378
2022	897,378
2023	270,536
Total undiscounted lease payments	**2,065,292**
Interest	(205,865)
Total ROU Liability	**$ 1,859,427**

The Company has several non-cancellable operating leases for office space, that expire over the next four years. The lease at the Company's headquarters in Colorado expires in 2024 and contains a renewal option for five years. Because the Company is not reasonably certain to exercise this renewal option, the option is not considered in determining the lease term. The Company's leases generally do not include termination options for either party to the lease. Payments due under the lease contracts include fixed payments. Office space leases that include variable payments include payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance.

The components of lease cost for the years ended December 31, 2020 and 2019 are presented in selling, general, and administrative expenses.

	December 31, 2020	December 31, 2019
Operating lease cost		
Amortization of right of use assets	$ 1,547,803	$ 1,677,475
Interest on lease liablities	199,978	$ 261,229
Total operating lease cost	**$ 1,747,781**	**$ 1,938,704**

Amounts reported in the combined balance sheet as of December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Operating leases		
Operating lease ROU assets	$ 4,870,600	$ 5,455,059
Accumulated amortization of ROU assets	(2,761,686)	(2,098,003)
Total operating lease assets	**$ 2,108,914**	**$ 3,357,056**
Operating lease ROU liabilities, current	$(1,543,731)	$(1,793,858)
Operating lease ROU liabilities, non-current	(2,438,590)	$(4,030,054)
Total operating lease liabilities	**$(3,982,321)**	**$(5,823,912)**

Maturities of lease liabilities under non-cancellable operating leases as of December 31, 2020 were as follows:

	December 31, 2020
Operating leases	
2021	1,686,273
2022	1,411,167
2023	852,060
2024	871,425
Total undiscounted lease payments	**4,820,925**
Interest	(838,604)
Total ROU Liability	**$ 3,982,321**

Other information related to leases as of December 31, 2020 and 2019 was as follows:

Supplemental cash flow information:	December 31, 2020	December 31, 2019
Weighted average remaining lease term:		
Operating leases	3 years	4 years
Capital leases	2 years	
Weighted average discount rate:		
Operating leases	3.9%	3.9%
Capital leases	2.7%	

Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

7. Convertible loan

In July 2020, SpotX entered a commercial agreement with ServeMotion, Inc. (“Springserve”), a New York based advertising technology company and simultaneously purchased two convertible promissory notes for $2,000,000 and $75,000, respectively. The $2,000,000 note bears interest at a rate of 5% and all principal and accrued interest converts into equity at a 10% discount upon a qualified financing by Springserve, capped at a pre-money valuation of $15M or at the discretion of SpotX at a $15 million pre-money valuation. In connection with the commercial agreement and convertible promissory notes, SpotX received an option giving it the right to acquire all of the remaining shares of Springserve shares at an enterprise value of $33,100,000 prior to July 23, 2021. In the event the option is not exercised by SpotX prior to July 23, 2021, but SpotX has converted the $2,000,000 promissory note by July 23, 2021, then SpotX will retain an option giving it the right to acquire all of the remaining Springserve shares at an enterprise value of $40,000,000 prior to July 23, 2022, provided that Springserve has not previously entered into a binding agreement with another party for the sale of Springserve.

8. Restricted Cash

At the year ended December 31, 2020, the Company has pledged $199,364 to Silicon Valley Bank (“SVB”) to support a standby letter of credit issued by SVB to the lessor of the Company’s New York office. At the year ended December 31, 2019, the Company had pledged $280,049 to Silicon Valley Bank (“SVB”) to support a standby letter of credit issued by SVB to the lessor of the Company’s New York and San Francisco offices.

Both amounts are presented as restricted cash on the combined balance sheet.

9. Accrued payroll and other current liabilities

Accrued payroll and other current liabilities are summarized as follows:

	December 31, 2020	December 31, 2019
Accrued wages & bonus	$ 5,574,548	$ 3,290,962
Accrued vacation	334,315	$ 164,574
Payroll taxes payable	2,606,511	$ 49,500
Other current liabilities	473,592	$ 386,323
	$ 8,988,966	$ 3,891,359

10. Related Party

Accounts Receivable

As of December 31, 2020 and 2019, the Company had $4,811,482 and $6,843,742, respectively of trade receivables due from related parties under common ownership. All the aforementioned transactions are included in the current portion of the related party receivable on the accompanying combined balance sheet.

Accounts Payable

As of December 31, 2020 and 2019, the Company had $2,635,697 and $4,816,970, respectively of trade payables due to related parties under common ownership.

Payments to Parent Company

Costs incurred by Bertelsmann and RTL on behalf of the Company are allocated to the Company on a monthly or quarterly basis. The total cost allocated to the Company in the years ended December 31, 2020 and 2019 was $410,579 and $416,188, respectively.

Related Party Line of Credit and Deposit

In October 2019, SpotX Inc. contracted a $15,500,000 line-of-credit at a 1 month USD LIBOR +0.5% interest rate with RTL, $5,049,897 of which was drawn to finance the acquisition of SpotX UK. SpotX Inc. repaid this line-of-credit in December 2020. There is no outstanding loan as of December 31, 2020.

In January 2019 RTL and SpotX UK entered into an intercompany financing agreement; under this financing agreement, RTL provided SpotX UK a loan of $4,239,051 (GBP 3,180,527) at a 1 month GBP LIBOR +1.5% interest rate to help SpotX UK finance the acquisition of SpotX Australia, SpotX Singapore and SpotX Japan. In November 2019, RTL forgave $2,168,222 (GBP 1,626,800). As of December 31, 2019, the total loan was $2,070,829 (GBP 1,553,727). There is no outstanding loan as of December 31, 2020.

In March 2019, SpotX Japan contracted a $513,270 (JPY 56,103,833) line-of-credit at a one month JPY TIBOR +2% interest rate with RTL; the entire amount was drawn as of December 31, 2019. There is no outstanding loan as of December 31, 2020.

Financing Lease Receivable

During 2017, the Company entered into an agreement with VideoAmp, Inc. (“VideoAmp”), a related party. Under the agreement, the Company has purchased specified equipment to be delivered to and used by VideoAmp. The direct financing lease of the equipment commences on the date that the equipment is received by VideoAmp. The term of the arrangement is 36 months after each phase of the agreement, during which time VideoAmp makes monthly payments equal to 1/36 of the price of the purchased equipment plus interest. As of December 31, 2019, the net investment in the financing lease was $1,050,629 was included in the lease related party receivables on the accompanying combined balance sheet; the Company further charged $181,766 interest, which is reflected on the combined statement of operations and other comprehensive income in the interest expense line and other income from related party line, respectively.

In 2020 VideoAmp paid the Company the full amount due for the finance lease. There is no outstanding financing lease as of December 31, 2020.

11. Employee Benefit Plan

The Company has a retirement plan available to employees who meet the eligibility requirements. The total related expense presented in operating expense within the statement of operations for the years ended December 31, 2020 and 2019 was $1,339,991 and $958,319, respectively.

12. Income Taxes

Income tax expense attributable to income from continuing operations consists of:

	December 31, 2020	December 31, 2019
Current taxes	$5,058,166	$1,646,866
Deferred taxes	606,838	(410,964)
Total tax	$5,665,004	$1,235,902

A reconciliation of the actual income tax provision and the tax computed by applying the U.S. federal rate to the earnings before income taxes during the year ended December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Statutory Rate Reconciliation		
Pre-Tax Profit / (Loss)	$22,905,799	$4,802,910
Tax on income before taxes at statutory rate	4,810,218	1,008,611
State taxes, net of federal benefit	315,635	885,379
Meals & Entertainment	22,427	80,450
Vemba Impairment	—	525,000
R&D Credit	—	(977,946)
Deferred Adjustments	—	(292,585)
Other	69,071	—
Foreign tax differential	447,653	6,993
Total	$ 5,665,004	$1,235,902

Deferred income tax assets are recognized to the extent it is more likely than not that the related tax benefit will be realized through future taxable profits. All available R&D credits in 2019 have been utilized; there is no carryover. The utilization of the deferred tax assets is dependent on future taxable profits. The Company has concluded that current year pre-tax profits and recent and expected continued significant growth of the Company's pre-tax profit provide evidence that future taxable profits will be sufficient to utilize the deferred tax assets prior to their expiration.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are presented as follows:

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Vacation pay reserve	$ 32,739	$ 23,567
Bonus accrual	1,134,419	771,685
Incentive plan	—	798,611
Reserve for bad debts	102,448	169,572
Rent expense accrual	386,935	524,454
Right-of-use assets	1,175,327	1,702,819
Foreign tax asset	36,139	25,854
Other	355,358	22,934
Total gross deferred tax assets	$ 3,223,365	$ 4,039,496
Deferred tax liabilities:		
Property, plant, and equipment, net	($ 3,681,084)	($ 3,942,908)
Right-of-use liabilities	(1,159,109)	(1,107,246)
Total gross deferred liabilities	($ 4,840,193)	($ 5,050,154)
Net deferred tax liability	$ (1,616,828)	$ (1,010,658)

13. Investments Accounted for Using the Equity Method

SpotX invested $2,500,000 on May 23, 2017, to purchase 6,306,760 shares of Series A-1 Preferred Stock in Vemba Corporation, which constitutes 7.8% of ownership on a fully diluted basis. Vemba was a startup in the video syndication market with which SpotX had some business dealings. In June 2019, Vemba sold its assets to Frankly, a Canadian company in exchange for shares of common stock of that company. The net book value of those shares is marginal; as a result, SpotX fully impaired its Vemba investment in June 2019. Following Vemba's Board of Directors resolution to dissolve the company on November 24, 2020, Vemba was liquidated and SpotX received $9,886 (CAD 13,142) from this liquidation on December 28, 2020.

14. Other Long-Term Contracts and Contingencies

As of December 31, 2020 and 2019, the Company has other long-term contracts and commitments amounting to $12,112,625 and $7,395,325, respectively. Long-term contracts include mostly internet bandwidth services that are enforceable and legally binding and that specify all significant terms.

Maturities of long-term contracts as of December 31, 2020 are presented below:

	December 31, 2020
Long-term contracts	
2021	$ 5,976,367
2022	3,661,331
2023	1,506,927
2024	726,000
2025	242,000
Total long-term contracts	**$12,112,625**

15. Management Incentive Plan

Effective January 1, 2020, SpotX established a Management Incentive Plan ("MIP"), in which select members of the Company's management are included. Participants must generally be currently employed at the time of the MIP payout to be eligible for payment. The accrued incentive as of December 31, 2020 was $ 1,570,993. The $3,000,000 MIP accrual as of December 31, 2019 was covering the period 2017 to 2019 and fully paid out in March 2020.

16. Subsequent Events

The Company has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available for issuance.

On February 5, 2021, RTL announced it had signed a definitive agreement for the sale of SpotX to Magnite, Inc. a sell-side advertising platform company, based in Los Angeles. The transaction is subject to receipt of regulatory approvals and is expected to close during the second quarter of 2021.

MAGNITE, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On February 4, 2021, Magnite, Inc. (the “Company” or “Magnite”), entered into a Stock Purchase Agreement (the “Purchase Agreement”) with RTL US Holding, Inc., a Delaware corporation, (the “Seller” or “RTL”), and, solely for purposes of Article 6 thereof, RTL Group S.A., a Société Anonyme. Subject to the terms and conditions of the Purchase Agreement, the Company has agreed to purchase all of the issued and outstanding shares of capital stock of SpotX, Inc., a Delaware corporation and wholly owned subsidiary of the Seller (“SpotX”), for a purchase price equal to $560 million in cash (the “Cash Consideration”) plus 14 million shares (the “Stock Consideration”) of the Company’s common stock, par value $0.00001 per share (the “Company Common Stock”), subject to adjustment as described below. The Cash Consideration is subject to customary working capital and other adjustments.

On April 1, 2020 the Company completed a stock-for-stock merger (“Merger”) with Telaria, Inc. (“Telaria”), a leading provider of connected television (“CTV”) technology, creating an independent sell-side advertising platform, offering a single partner for transacting CTV, desktop display, video, audio, and mobile inventory across all geographies and auction types. The following unaudited pro forma condensed combined financial information is based on the historical consolidated financial statements of the Company and Telaria, combined and adjusted to give effect to the Merger.

The above referenced transaction will be further referred to as the “Acquisition” of SpotX. SpotX is one of the leading platforms providing connected television (“CTV”) and video advertising globally. Together, we believe Magnite and SpotX will create the largest independent CTV and video advertising platform in the programmatic marketplace. The combined company will provide better support for sellers, create an alternative to the CTV advertising market’s largest players, and greatly improve scale and efficiency for buyers. The following unaudited pro forma condensed combined financial information is based on the historical consolidated financial statements of Magnite and SpotX, combined and adjusted to give effect to the Acquisition.

The Company intends to finance the Cash Consideration through borrowings under certain proposed new credit facilities. In connection with entering into the Purchase Agreement, the Company entered into a commitment letter (the “Commitment Letter”), dated as of February 4, 2021, with Goldman Sachs Bank USA (the “Commitment Party”), pursuant to which, subject to the terms and conditions set forth therein, the Commitment Party has committed to provide a senior secured term loan facility in an aggregate principal amount of up to $560.0 million (the “Term Loan Facility”) and a senior secured revolving loan facility in an aggregate principal amount of up to $52.5 million (the “Revolving Loan Facility,” and together with the Term Loan Facility, the “New Credit Facilities”). The funding of the New Credit Facilities provided for in the Commitment Letter is contingent on the satisfaction of customary conditions. On March 15, 2021, the Company announced its intention to offer, subject to market conditions and other factors, convertible senior notes due in 2026 (the “Proposed Convertible Note Offering”). RTL has, in accordance with the Purchase Agreement, elected to increase the cash consideration payable under the Purchase Agreement by an amount equal to 20% of the gross proceeds of the Proposed Convertible Note Offering (if it is completed) and to reduce the number of shares of common stock it receives by a number of shares of common stock equal to 20% of the gross proceeds of the Proposed Convertible Note Offering divided by the closing price of a share of our common stock on the trading day immediately prior to the date of pricing of this offering (the “Elected Purchase Price Adjustment”). If the proposed Convertible Note Offering is completed, the Elected Purchase Price Adjustment will be effective. We currently expect that upon closing of the SpotX acquisition, our aggregate outstanding indebtedness under the proposed convertible notes and the New Credit Facilities will be $760 million.

The accompanying unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X. The historical consolidated financial information in the unaudited pro forma condensed combined financial information has been adjusted to give effect to pro forma events that are (1) directly attributable to the Acquisition, (2) factually supportable, and (3) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results of Magnite and SpotX and the Merger with Telaria.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only and is not necessarily indicative of what the combined company’s financial position or results of operations would have been had the transactions been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or results of operations of Magnite after completing the Acquisition, and does not give effect to any cost savings, operating synergies or revenue synergies, or any costs that may be incurred to achieve any such synergies.

The unaudited pro forma condensed combined financial information contains estimated adjustments, based upon available information and certain assumptions Magnite believes are reasonable under the circumstances. The assumptions underlying the pro forma adjustments are described in greater detail in the accompanying notes to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 assumes the Acquisition and the Merger occurred on January 1, 2020. The unaudited pro forma condensed combined balance sheet as of December 31, 2020 assumes the Acquisition occurred on December 31, 2020. The unaudited pro forma condensed combined financial information is presented to illustrate the estimated effects of the Acquisition and the Merger, based on the historical financial position and results of operations of Magnite, Telaria, and SpotX. The unaudited pro forma condensed combined balance sheet as of December 31, 2020 was prepared based on the historical audited consolidated balance sheet of Magnite and SpotX as of December 31, 2020, respectively, and the unaudited pro forma condensed statement of operations for the year ended December 31, 2020 was prepared based on the historical audited consolidated statement of operations of Magnite, Telaria, and SpotX, respectively.

The historical financial information included in the unaudited pro forma condensed combined financial information was derived from and should be read in conjunction with the accompanying notes, as well as the following historical consolidated financial statements and related notes of Magnite contained in its Annual Report on Form 10-K for the year ended December 31, 2020, which were filed with the Securities and Exchange Commission ("SEC") on February 24, 2021. For SpotX's audited consolidated balance sheet as of December 31, 2020 and the related audited consolidated statements of operations and other comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2020, and the notes related thereto, refer to exhibit 99.1 to this Current Report on Form 8-K.

The Acquisition is reflected in the unaudited pro forma condensed combined financial information as being accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations, with Magnite treated as the acquiror. Under the acquisition method, the total purchase price is calculated as described in Note 3. In accordance with ASC 805, the assets to be acquired and the liabilities to be assumed have been measured at fair value based on various estimates.

The allocation of the purchase price of the Acquisition reflected in these unaudited pro forma combined financial statements has been based upon preliminary estimates of the fair value of assets to be acquired and liabilities to be assumed upon consummation of the Acquisition. The pro forma adjustments are therefore preliminary and have been prepared to illustrate the estimated effect of the Acquisition and the related financing transactions undertaken in connection with the acquisition set forth in Note 1. This preliminary information is subject to change and such changes may be material.

Magnite has not completed the detailed valuations necessary to determine the fair value of the assets to be acquired and the liabilities to be assumed from SpotX and the related allocations of purchase price, nor has Magnite identified all adjustments necessary to conform SpotX's accounting policies to Magnite's accounting policies. Additionally, a final determination of the fair value of assets to be acquired and liabilities to be assumed from SpotX will be based on the actual net tangible and intangible assets and liabilities of SpotX as they exist as of the closing date of the Acquisition. Accordingly, the pro forma purchase price adjustments presented herein are preliminary, and may not reflect any final purchase price adjustments made. Magnite estimated the fair value of SpotX's assets and liabilities based on discussions with SpotX's management, due diligence and preliminary work performed by third-party valuation specialists. As the final valuations are being performed, increases or decreases in the fair value of relevant balance sheet amounts will result in adjustments, including those based on changes in the stock price of Magnite through the closing date, which may result in material differences from the information presented herein.

MAGNITE, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2020
(In thousands)

	Historical				
	Magnite, Inc.	SpotX, Inc.	Pro forma Adjustments		Pro forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 117,676	$ 79,077	$ (79,077)	(A)	$ 117,676
Accounts receivable, net	471,666	259,582	—		731,248
Related party receivable	—	4,811	—		4,811
Prepaid expenses and other current assets	17,729	2,294	(199)	(A)	19,824
TOTAL CURRENT ASSETS	607,071	345,764	(79,276)		873,559
Property and equipment, net	23,681	5,908	—		29,589
Right of use asset, operating leases	39,599	2,109	—		41,708
Right of use asset, capital leases	—	1,799	—		1,799
Internal use software development costs, net	16,160	21,235	(21,235)	(B)	16,160
Intangible assets, net	89,884	—	384,900	(C)	474,784
Other assets, non-current	4,440	2,878	(36)	(G)	7,282
Goodwill	158,125	—	935,677	(D)	1,093,802
TOTAL ASSETS	$ 938,960	$ 379,693	$ 1,220,030		$ 2,538,683
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)					
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	$ 509,315	$ 274,837	$ 643	(E)	$ 784,795
Related party payable	—	2,636	—		2,636
Lease liabilities, operating lease	9,813	1,544	—		11,357
Lease liabilities, capital lease	—	803	—		803
Other current liabilities	3,070	6,129	—		9,199
TOTAL CURRENT LIABILITIES	522,198	285,949	643		808,790
Lease liabilities, operating leases non-current	32,278	2,438	—		34,716
Lease liabilities, capital leases non-current	—	1,057	—		1,057
Debt, non-current portion	—	—	560,000	(F)	560,000
Other liabilities, non-current	2,672	—	—		2,672
Deferred tax liabilities	199	1,653	(1,653)	(G)	199
TOTAL LIABILITIES	557,347	291,097	558,990		1,407,434
STOCKHOLDERS' EQUITY (DEFICIT)					
Common stock	2	1	(1)	(H)	2
Additional paid-in capital	777,084	26,866	632,114	(H), (I)	1,436,064
Accumulated other comprehensive income (loss)	(957)	1,100	(1,100)	(H)	(957)
Accumulated equity (deficit)	(394,516)	60,629	30,027	(H), (E)	(303,860)
TOTAL STOCKHOLDERS' EQUITY	381,613	88,596	661,040		1,131,249
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 938,960	$ 379,693	$ 1,220,030		$ 2,538,683

MAGNITE, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In thousands, except per share amounts)

	Historical							
	Magnite, Inc.	Telaria, Inc. Pro Forma Basis	SpotX, Inc.	Reclassifications		Pro forma Adjustments		Pro forma Combined
Revenue	$ 221,628		$171,290	$ (392,918)				
Revenue, Net Basis(1)		$ 13,872		$ 303,563	(AA)	$ (601)	(AB)	$ 316,834
Revenue, Gross Basis(1)		1,166		89,355	(AA)	(43)	(AB)	90,478
Revenue, Total	$ 221,628	$ 15,038	$171,290	$ —		$ (644)		$ 407,312
Expenses:								
Cost of revenue	77,747	6,248		83,419	(RC)	37,007	(BB)	204,421
Sales and marketing	76,030	10,664		36,790	(RC)	51,591	(CC)	175,075
Technology and development	51,546	2,942		14,244	(RC)	1,258	(DD)	69,990
General and administrative	52,987	8,935		13,681	(RC)	(1,112)	(EE)	74,491
Operating expense			124,486	(124,486)	(RC)			—
Selling, general & administrative expenses			10,716	(10,716)	(RC)	—		—
Depreciation and Amortization			12,575	(12,575)	(RC)	—		—
Gain (loss) on sale of assets			357	(357)	(RC)			—
Merger and restructuring costs	17,552		—			(7,451)	(EE)	10,101
Total expenses	275,862	28,789	148,134	—		81,293		534,078
Gains (loss) from operations	(54,234)	(13,751)	23,156	—		(81,937)		(126,766)
Other (income) expense:								
Interest (income) expense, net	(50)	(84)	(49)	—		33,600	(FF)	33,417
Other (income) expense	(3,665)	(878)	—	—		—		(4,543)
Foreign exchange (gain) loss, net	2,220	1,040	299	—		—		3,559
Total other (income), net	(1,495)	78	250	—		33,600		32,433
Income (loss) before income taxes	(52,739)	(13,829)	22,906	—		(115,537)		(159,199)
Provision (benefit) for income taxes	693	(740)	5,665	—		(5,376)	(GG)	242
Net income (loss)	(53,432)	(13,089)	17,241	—		(110,161)		(159,441)
Basic and diluted net loss per share attributable to common stockholders	$ (0.55)							$ (1.29)
Basic and diluted weighted-average shares used to compute net loss per share attributable to common stockholders	96,700	12,954 (JJ)				14,000	(HH)	123,654

(1) Refer to revenue recognition policies included in Note 2.

MAGNITE, INC.
NOTES TO PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
(unaudited)

Note 1—Description of Transactions and Basis of Pro Forma Presentation

On February 4, 2021, Magnite, Inc. (the “Company” or “Magnite”), entered into a Purchase Agreement to purchase all of the issued and outstanding shares of capital stock of SpotX for a purchase price equal to $560 million in Cash Consideration plus 14 million shares of the Company’s common stock, par value $0.00001 per share. The Cash Consideration is subject to customary working capital and other adjustments. The Company intends to finance the Cash Consideration through borrowings under the Term Loan Facility through Goldman Sachs Bank USA and, if completed, an offering of the Company’s Convertible Senior Notes due in 2026.

On April 1, 2020 the Company completed a stock-for-stock merger (“Merger”) with Telaria, Inc. (“Telaria”), a leading provider of connected television (“CTV”) technology, creating an independent sell-side advertising platform, offering a single partner for transacting CTV, desktop display, video, audio, and mobile inventory across all geographies and auction types. The following unaudited pro forma condensed combined financial information is based on the historical consolidated financial statements of the Company and Telaria, combined and adjusted to give effect to the Merger.

The accompanying unaudited pro forma condensed combined financial information with regards to the Acquisition were prepared using the acquisition method of accounting in accordance with Accounting Standards Codification, referred to as ASC, 805, Business Combinations. Magnite management determined that Magnite was the acquiror for financial accounting purposes.

In accordance with ASC 805, the accompanying unaudited pro forma condensed combined financial information was prepared based on the estimated fair value of the consideration transferred and then allocated the purchase price to the identifiable assets to be acquired and liabilities to be assumed based on their estimated respective fair values as the pro forma balance sheet date. The excess of the value of consideration estimated to be transferred over the aggregate fair value of those net assets was recorded as goodwill. Any identified definite lived intangible assets will be amortized over their estimated useful lives and any identified intangible assets with indefinite useful lives and goodwill will not be amortized but will be tested for impairment at least annually. All intangible assets and goodwill will be tested for impairment when certain indicators are present. Determining the fair value of assets to be acquired and liabilities to be assumed requires management to use significant judgment and estimates including the selection of valuation methodologies, estimates of future revenues and cash flows, discount rates, and selection of comparable companies.

Magnite has not completed the detailed valuations necessary to determine the fair value of the assets to be acquired and the liabilities to be assumed from SpotX and the related allocations of purchase price, nor has Magnite identified all adjustments necessary to conform SpotX’s accounting policies to Magnite’s accounting policies. Additionally, a final determination of the fair value of assets to be acquired and liabilities to be assumed from SpotX will be based on the actual net tangible and intangible assets and liabilities of SpotX that will exist as of the closing date. Accordingly, the pro forma purchase price adjustments presented herein are preliminary, and may be revised to reflect any final purchase price adjustments and any additional analyses the Company performs. Magnite’s management estimated the fair value of SpotX’s assets and liabilities based on discussions with SpotX’s management and due diligence. As the final valuations are completed, increases or decreases in the fair value of relevant balance sheet amounts will result in adjustments, including those based on changes in the stock price of Magnite through the closing date which may result in material differences from the information presented herein.

The pro forma adjustments are based on preliminary estimates that management believes are reasonable under the circumstances. Management’s purchase price allocation is preliminary and subject to change pending finalization of the valuation, including finalization of tax attributes and forecast assumptions. The actual purchase price and purchase price allocation will be subject to the completion of the valuation of the assets acquired and liabilities assumed as of the close of the Acquisition and the stock price of the Company’s common stock at such date.

For purposes of measuring the estimated fair value, where applicable, of the assets to be acquired and the liabilities to be assumed as reflected in the unaudited pro forma condensed combined financial information, Magnite has applied the guidance in ASC 820, Fair Value Measurement, which establishes a framework for measuring fair value. In accordance with ASC 820, fair value is an exit price and is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” Under ASC 805, acquisition-related transaction costs and acquisition-related restructuring charges are not included as components of consideration transferred but are accounted for as expenses in the period in which the costs are incurred.

The unaudited pro forma condensed combined financial statements have been prepared to illustrate the financial impact of Magnite’s acquisition of SpotX and the merger with Telaria. The unaudited pro forma condensed combined statements of operations combine the historical results of operations of the Company and the historical results of operations of Telaria and SpotX for the year ended December 31, 2020 as if those transactions had occurred as of January 1, 2020. The unaudited pro forma condensed combined balance sheet combines the balance sheets of the Company and SpotX as of December 31, 2020 as if the acquisition had occurred on that date.

The historical financial information included in the unaudited pro forma condensed combined financial information was derived from and should be read in conjunction with the accompanying notes, as well as the following historical consolidated financial statements and related notes of Magnite contained in its Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the Securities and Exchange Commission (“SEC”) on February 24, 2021. For SpotX’s audited consolidated balance sheet as of December 31, 2020 and the related audited consolidated statements of operations, comprehensive income, changes in stockholders’ equity and cash flows for the year ended December 31, 2020, and the notes related thereto, refer to exhibit 99.1 to this Current Report on Form 8-K.

Magnite expects to incur costs and realize benefits associated with integrating the operations of Magnite and SpotX. The unaudited pro forma combined financial statements do not reflect the costs of any integration activities or any benefits that may result from operating efficiencies or revenue synergies. The unaudited pro forma condensed combined statement of operations does not reflect any non-recurring charges directly related to the Acquisition that the combined company may incur upon completion of the transaction.

Note 2—Accounting Policies and Reclassifications

For substantially all transactions, Magnite reports revenue on a net basis as it does not act as the principal in the purchase and sale of digital advertising inventory because it does not have control of the digital advertising inventory and does not set prices agreed upon within the auction marketplace. However, for certain transactions related to revenue streams acquired in connection with the merger with Telaria during the year ended December 31, 2020, the Company reports revenue on a gross basis, based primarily on its determination that the Company acts as the primary obligor in the delivery of advertising campaigns for buyers with respect to such transactions. Magnite’s revenue recognition policy is described in the consolidated financial statements and related notes thereto of the Company contained in its Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 24, 2021. Revenue reported on a gross basis in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 was less than 2% of total revenue.

A portion of SpotX’s revenue was reported on a gross basis given the nature of the arrangements and its determination that it served as the principal in such arrangements. SpotX’s revenue recognition policy is described in its consolidated financial statements and related notes thereto incorporated by reference in exhibit 99.1 to this Current Report on Form 8-K.

Magnite has conformed its income statement to present revenue based on its existing accounting policy and SpotX’s accounting policy for reporting revenue on a net and gross basis as reflected in the column “Reclassifications” within the unaudited pro forma condensed combined statement of operations.

Certain reclassifications have been made in SpotX’s historical statement of operations in order to conform to the presentation used in the unaudited pro forma condensed combined financial information of Magnite and are reflected in the column “Reclassifications.” The reclassification adjustments on the statement of operations pertain to the reclassification of overhead expenses, such as facilities expenses, and depreciation and amortization in SpotX’s historical statement of operations to cost of revenues, sales and marketing, technology and development, and general and administrative, as applicable, to be consistent with Magnite’s accounting classification related to the presentation of these expenses.

Note 3—Estimated Preliminary Purchase Consideration and Preliminary Purchase Price Allocation

The following table summarizes the total estimated preliminary purchase consideration (in thousands):

Stock Consideration (Fair Value of Shares of Magnite common stock)	$ 658,980
Cash Consideration (Financed through Term Loan Facility)	560,000
Working capital adjustment	—
Total purchase consideration, including estimated contingent consideration	$1,218,980

The estimated preliminary purchase consideration for the Acquisition included 14,000,000 shares of the Company's common stock, with a fair value of approximately $659.0 million, based on the average price of the Company's common stock at closing, as reported on the Nasdaq for the ten days ending March 8, 2021, which was $47.07 per share. If the Company completes the Proposed Convertible Note Offering, 20% of the gross proceeds will be used to increase the Cash Consideration in the Acquisition and to reduce the number of shares of the Company's common stock included in the Stock Consideration pursuant to the Elected Purchase Price Adjustment. We currently expect that upon closing of the SpotX acquisition, our aggregate outstanding indebtedness under the proposed convertible notes and the amounts we borrow under the New Credit Facilities will be $760 million.

The following table summarizes the estimated preliminary purchase price allocation of the Acquisition purchase price and the tangible and intangible assets to be acquired and liabilities to be assumed based on preliminary estimates of their respective fair value as December 31, 2020 (in thousands):

Cash	$ —
Accounts receivable	259,582
Related party receivable	4,811
Prepaid and other assets	4,973
Fixed assets	5,908
Intangible assets	384,900
Right-of-use lease asset	3,908
Goodwill	935,677
Total assets to be acquired	1,599,759
Accounts payable and accrued expenses	274,837
Related party payables	2,636
Other current liabilities	6,129
Lease liabilities	5,842
Deferred tax liability, net	91,335
Total liabilities to be assumed	380,779
Total preliminary purchase price	$1,218,980

The preliminary purchase price allocation presented above is derived from SpotX's balance sheet as of December 31, 2020.

The Company believes the amount of goodwill resulting from the purchase price allocation is primarily attributable to expected synergies from assembled workforce, an increase in development capabilities, increased offerings to customers, and enhanced opportunities for growth and innovation. Goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. In the event that goodwill has become impaired, the Company will record an expense for the amount impaired during the quarter in which the determination is made. The goodwill generated in Acquisition is not tax deductible.

As part of the Acquisition, deferred tax liabilities of $89.7 million were established related to the acquired intangible assets as if the Acquisition had occurred on December 31, 2020, which were fully offset in the pro forma adjustments by the estimated income tax effect of the partial release of Magnite's valuation allowance. The deferred tax liability was calculated based on an estimated combined tax rate of 23.3%.

The following table summarizes the components of the intangible assets and estimated useful lives (dollars in thousands):

		Estimated Useful Life
Technology	$224,670	5 years
In-process research and development	5,000	3 to 5 years*
Customer relationships	149,800	3 years
Non-compete agreements	5,030	2 years
Trademarks	400	<1 year
Total intangible assets to be acquired	$384,900	

* Amortization begins once associated project is completed and it is determined it has alternative future use.

Note 4—Pro Forma Adjustments

The pro forma combined financial statements have been adjusted to give effect to pro forma events that are (i) directly attributable to the Acquisition, (ii) factually supportable, and (iii) with respect to the statements of operations, expected to have a continuing impact on the combined results of operations. The pro forma adjustments included in the unaudited condensed combined financial information are as follows:

A. To exclude cash of $79.1 million and restricted cash of $0.2 million from SpotX's balance sheet as they will not be included as part of the acquired assets as part of the Acquisition.

B. To eliminate SpotX's historical internal use software development costs and accumulated amortization, net of $21.2 million.

C. To reflect the fair value of SpotX's identifiable intangible assets with a fair value of $384.9 million.

D. To reflect estimated goodwill of $935.7 million created as a result of the Acquisition. Goodwill represents the excess of the estimated fair value of the total consideration transferred over the preliminary fair value of the assets to be acquired and liabilities to be assumed as described in Note 3. The goodwill is attributable to the expected synergies of the combined business operations and new growth opportunities.

E. To include estimated Acquisition-related transaction costs of $0.6 million for Magnite that are not recognized in the Company's balance sheets as of December 31, 2020. These adjustments are included in the pro forma balance sheet as they are acquisition-related costs, including advisory, accounting, legal and other professional fees, that have been incurred through the closing of this acquisition.

F. To reflect proceeds from the Term Loan Facility in the amount of $560.0 million to finance the Cash Consideration. If the Company completes the Proposed Convertible Note Offering, pro forma debt will increase to the extent that the Company does not correspondingly reduce proposed borrowings under the Term Loan Facility. To the extent any net proceeds of a completed Proposed Convertible Note Offering exceed $200.0 million, the Term Loan Facility will be reduced.

G. To eliminate SpotX's deferred tax assets and deferred tax liabilities totaling $1.7 million. A deferred tax liability of $89.7 million was established related to the acquired intangible assets as if the Acquisition had occurred on December 31, 2020, which was fully offset by the pro forma estimated income tax effect of the partial release of Magnite's valuation allowance of up to the value of the established deferred tax liability. The deferred tax liability was calculated based on an estimated combined tax rate of 23.3%.

H. To eliminate SpotX's historical equity balances of $88.6 million.

I. To record the portion of the purchase price associated with the issuance of 14,000,000 shares of Magnite's common stock, with a par value of $0.00001 per share, issued as part of the Acquisition with a fair value of $659.0 million based on the 10 day trading average of MGNI common stock, ending on March 8, 2021. The total estimated purchase price of the Acquisition was approximately $1.219 billion which consisted of the issuance of the common stock and $560 million in cash financed through debt (Adjustment F).

RC. Certain reclassifications have been made in the historical consolidated financial statements of SpotX in order to conform to the presentation used in the unaudited pro forma condensed combined financial information of Magnite and are reflected in the column "Reclassifications."

AA. To reclassify revenue to present revenue recognized by Magnite and SpotX on a gross basis and net basis, as summarized below, based on their existing accounting policies for reporting revenue on a net and gross basis. Refer to Note 2 for description of revenue recognition policies.

	Year Ended December 31, 2020		
	Magnite, Inc.	**SpotX, Inc.**	**Pro forma Combined***
Revenue	$ 221,628	$171,290	$392,918
Revenue, net basis	$ 218,222	$ 85,341	$303,563
Revenue, gross basis	3,406	85,949	89,355
Revenue, total	$ 221,628	$171,290	$392,918

* Excluding Telaria, Inc.

AB. To eliminate revenue in SpotX's historical revenue associated with a related party not expected to continue subsequent to the Acquisition.

BB. To eliminate SpotX's historical intangible asset amortization from cost of revenue of $7.9 million for the year ended December 31, 2020 and to adjust cost of revenue to reflect the amortization expense associated with the fair value of the acquired technology of $44.9 million for the year ended December 31, 2020.

CC. To adjust sales and marketing expenses to reflect the amortization expense associated with the fair value of the acquired customer relationships, non-compete agreements, and trademarks of $51.6 million for the year end December 31, 2020.

DD. To adjust technology and development expenses to reflect the amortization expense associated with the fair value of acquired non-compete agreements related to technology and development functions of $1.3 million for the year ended December 31, 2020.

EE. To reverse Magnite's transaction costs of $1.1 million for the year ended December 31, 2020 associated with the Acquisition and $7.5 million for the year ended December 31, 2020 associated with the Merger with Telaria.

FF. To adjust interest expense of $33.6 million to reflect estimated interest expense in respect of $560.0 million in debt drawn from its Term Loan Facility to finance the Cash Consideration portion of the Acquisition purchase price based on an estimated interest rate of 6.0% per year. Interest expense was calculated using estimated interest rates. The actual term loans incurred under the New Credit Facilities may reflect interest rates that are higher or lower than the rates used and the impact on actual interest expense could be material. Additionally, for purposes of the unaudited pro forma statements of operations and pro forma balance sheet, the Company has assumed the term loans and the notes will be issued at par value with no premium or discount. A change in interest rates of 0.125% would increase or decrease total interest expense by approximately $0.7 million per year and $0.2 million per quarter.

GG. The pro forma adjustments to income tax provision (benefit) represent the change in valuation allowance related to the combined current year loss.

HH. To reflect the issuance of 14,000,000 shares of Magnite common stock as part of the Acquisition, as if they had been issued as of January 1, 2020. If the Company completes the Proposed Convertible Note Offering, 20% of the gross proceeds will be used to increase the Cash Consideration in the Acquisition and to reduce the number of shares of the Company's common stock included in the Stock Consideration pursuant to the Elected Purchase Price Adjustment.

JJ. To reflect additional 12,954,000 shares to adjust the weighted-average shares for the year ended December 31, 2020 as if the Merger with Telaria had occurred on January 1, 2020 instead of on April 1, 2020.

Pro forma combined basic and diluted net loss per share combines weighted-average shares used to compute net loss per share for Magnite, shares issued as part of the Merger with Telaria as if the Merger occurred on January 1, 2020, and the issuance of common stock as part of the Acquisition, excluding any potential additional shares issued through Company's offering for Convertible Senior Notes due in 2026.