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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

OR

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

For the transition period from__________ to __________

Commission File Number 001-38093

Veritone, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-1161641** (I.R.S. Employer Identification No.)
1515 Arapahoe St., Tower 3, Suite 400, Denver, Colorado (Address of principal executive offices)	**80202** (Zip Code)

Registrant's telephone number, including area code: **(888) 507-1737**

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.001 per share	VERI	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

As of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $337.9 million, calculated based upon the closing price of the registrant's common stock as reported by the NASDAQ Global Market on such date.

As of February 28, 2021, 32,299,008 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information that is required to be included in Part III of this Annual Report on Form 10-K is incorporated by reference to the definitive proxy statement to be filed by the registrant within 120 days of December 31, 2020. Only those portions of the definitive proxy statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend that such forward-looking statements be subject to the safe harbors created thereby. For this purpose, any statements made in this Annual Report on Form 10-K that are not historical or current facts may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "anticipates," "believes," "seeks," "estimates," "expects," "intends," "continue," "can," "may," "plans," "potential," "projects," "should," "could," "will," "would" or similar expressions and the negatives of those expressions are intended to identify forward-looking statements. Such statements include, but are not limited to, any statements that refer to projections of our future financial condition and results of operations, capital needs and financing plans, competitive position, industry environment, potential growth and market opportunities, acquisition plans and strategies, compensation plans, governance structure and policies and/or the price of our common stock.

The forward-looking statements included herein represent our management's current expectations and assumptions based on information available as of the date of this report. These statements involve numerous known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 1 (Business) and Item 1A (Risk Factors) of Part I and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of Part II of this Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission ("SEC"). In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information, which speak only as of the date of this report.

Moreover, we operate in an evolving environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual future results to be materially different from those expressed or implied by any forward-looking statements.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. We qualify all of our forward-looking statements by these cautionary statements.

SUMMARY OF RISK FACTORS

Below is a summary of certain material factors that could harm our business, operating results and/or financial condition, impair our future prospects, and/or cause the price of our common stock to decline. Please refer to the additional discussion of the risks summarized below in Item 1A (Risk Factors) of Part I of this Annual Report on Form 10-K, which should be carefully considered, together with other information in this Annual Report on Form 10-K and in our other filings with the SEC, before making an investment decision regarding our common stock.

Risks Related to the Early Stage of Development of Our Business and Our Financial Condition

- Our efforts to expand our aiWARE SaaS business may not be successful.
- The market for AI-based software applications is new and unproven and may decline or experience limited growth, and concerns over the use of AI may hinder the adoption of AI technologies.
- We expect to require additional capital to support our business, and this capital might not be available on acceptable terms, if at all.
- Our quarterly results may fluctuate significantly and period-to-period comparisons of our results may not be meaningful.
- We have had a history of losses and we may not be able to achieve or sustain profitability.
- Failure to manage our growth effectively could increase our expenses, decrease our revenue and prevent us from implementing our business strategy.
- We intend to continue to pursue the acquisition of other companies, businesses or technologies, which could be expensive, divert our management's attention, fail to achieve the expected benefits and/or expose us to other risks or difficulties.
- We plan to expand our international operations, which exposes us to significant risks.
- Our business has been affected by the COVID-19 pandemic, and the continuing impacts of COVID-19 in the future are highly unpredictable.

Risks Related to the Development and Operation of Our aiWARE Platform

- We may not be able to enhance our products or introduce new products that achieve market acceptance and keep pace with technological developments.
- Our competitors, partners or others may acquire third party technologies used in our platform, which could result in them blocking us from using the technology in our platform, or these third party technology providers may otherwise terminate their relationships with us.
- We rely on third parties to develop AI models for our platform and in some cases to integrate them with our platform.
- We may not be able to develop a strong brand for our platform or increase market awareness of our company and our platform.
- We may experience interruptions or performance problems associated with our technology and infrastructure, or that of our third party service providers.
- The security of our platform, networks or computer systems may be breached, resulting in unauthorized access to our customer data.

Risks Related to Target Markets, Competition and Customers

- The success of our business depends on our ability to expand into new vertical markets and attract new customers in a cost-effective manner.
- Recent and proposed laws regarding the use of facial recognition technology could adversely impact the demand for certain of our products.
- We may not be able to compete effectively in providing our aiWARE SaaS solutions.

- We currently generate significant revenue from a limited number of key customers, and we may lose one or more of these key customers.
- Our sales efforts related to our aiWARE SaaS solutions involve considerable time and expense, and our sales cycle is often long and unpredictable.
- We may not be able to remain competitive in providing our advertising services, and we may lose key advertising clients.
- Acquiring and retaining advertising clients depends on our ability to avoid and manage conflicts of interest arising from other client relationships and attracting and retaining key personnel.

Risks Related to Intellectual Property

- We face risks arising from our digital content licensing services, including potential liability resulting from claims by third parties for infringement or violation of copyrights, publicity or other rights, as well as indemnification claims by rights holders and customers.
- We may be sued by third parties for alleged infringement of their proprietary rights.
- We could incur substantial costs in protecting or defending our intellectual property rights, and may not be able to protect our intellectual property.
- Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

Risks Related to Human Capital Management

- We depend on our executive officers and other key employees, and we may lose one or more of these employees.
- We may not be able to hire, retain and motivate qualified personnel in the key areas in which we require highly skilled employees, such as engineering, sales and marketing.

Risks Related to Regulatory Compliance

- Data protection and privacy laws and regulations could require us to make changes to our business, impose additional costs on us and reduce the demand for our software solutions.
- We could be subject to liability for historical and future sales, use and similar taxes.

Risks Related to the Ownership of Our Securities and Our Public Company Operations

- Our common stock price has been extremely volatile and could continue to fluctuate widely in price, which could result in substantial losses for investors.
- If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.
- We are an “emerging growth company” and a “smaller reporting company” under the U.S. federal securities laws, and the reduced reporting requirements applicable to emerging growth companies and smaller reporting companies could make our common stock less attractive to investors.
- We expect to incur increased costs as a public company, including costs relating to compliance with the Sarbanes-Oxley Act and other regulations, in the future.
- We do not currently expect to pay any cash dividends.
- Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change in control would be beneficial to our stockholders.
- Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

PART I

Item 1. Business.

Overview

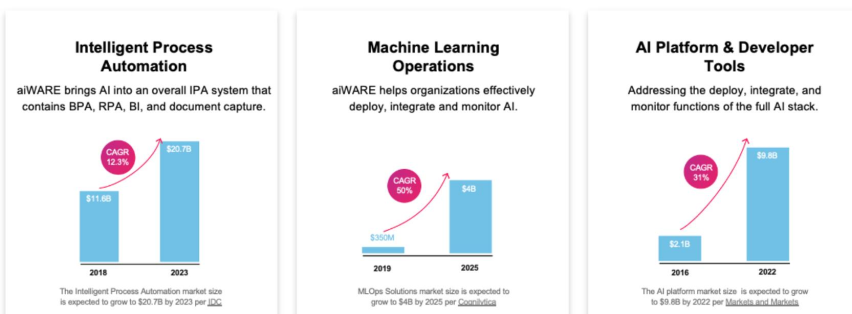
Veritone, Inc. (collectively with our subsidiaries, referred to as “Veritone,” “Company,” “we,” “our,” and “us”) is a provider of artificial intelligence (“AI”) computing solutions. We are driven by the belief that AI is key to building a safer, more vibrant, transparent and empowered society. Our mission is to be an active contributor to making the world better through AI.

Today, over 80% of new data created worldwide is unstructured, which is increasing at an annual growth rate of 30-60% per year, according to Gartner (2020 Strategic Roadmap for Storage, July 1, 2020). This creates significant challenges for companies and governments across the globe – specifically, how to create systematic solutions to address the ever-increasing volume of unstructured data. Whether it is a local police department trying to rapidly solve crimes through analysis of video evidence, a media company searching years of television archives for specific images and video content, or the U.S. military trying to analyze huge volumes of satellite and other aerial images, we believe AI is the only efficient solution to these complex challenges.

To address the ever-growing challenges surrounding unstructured data, we developed aiWARE™, our proprietary AI operating system. aiWARE orchestrates machine learning algorithms, or AI models, together with a suite of powerful applications, to reveal valuable insights from vast amounts of structured and unstructured data. Our multi-faceted aiWARE platform offers capabilities that mimic human cognitive functions such as perception, prediction, problem solving and optimization, enabling users to quickly, efficiently and cost effectively transform unstructured data into structured data, and analyze and optimize data to drive business processes and insights.

aiWARE is based on an open architecture that enables new AI models, applications and workflows to be added quickly and efficiently, resulting in a future proof, scalable and evolving solution that can be easily leveraged by organizations in a broad range of industries that capture or use audio, video and other unstructured data, together with structured data, such as the media and entertainment, government, legal and compliance, energy and other vertical markets, driving down the cost, complexity and time to develop, deploy and distribute AI-enabled applications in their operations. Our aiWARE platform is offered primarily through a software-as-a-service (“SaaS”) delivery model and can be deployed in a number of environments and configurations to meet customers’ needs.

We believe the opportunity to create a sustainable and growing business around AI and AI-enabled solutions is large and growing significantly. According to Omdia (Artificial Intelligence Software Market Forecast, 2020), the AI market today is expected to grow at a compounded annual growth rate (CAGR) of 35%, to reach $100.0 billion in 2025. We believe that our current solutions address opportunities in intelligent process automation, machine learning operations and AI platform and developer tools, which markets are expected to total approximately $34.5 billion by 2025.



Sources:
1. IDC, Worldwide Capture Software Market Shares, 2018: Focus on Intelligent Process Automation (July 2019)
2. Cognilytica, ML Model Management and Operations 2020 (March 3, 2020)
3. Markets and Markets, AI Platform Market Trends, Growth, Size and Share - 2022 (November 2017)

In particular, we believe that there are tremendous near and long term opportunities to grow our business in the government and energy markets. According to Bloomberg Government (BGOV) (Fiscal 2021 Government Contracting Playbook, 2020), the U.S. Government is preparing to invest more than $6 billion in AI-related research and development projects in fiscal 2021. The U.S. General Services Administration's Artificial Intelligence Center of Excellence and the U.S. Department of Defense's Joint Artificial Intelligence Center have been created to speed the adoption of AI technologies by civilian and defense agencies, respectively, and the U.S. Departments of Energy and Veterans Affairs have opened their own AI research offices. Meanwhile, federal contract spending on AI is on pace to grow by almost 50%, according to BGOV projections, reaching $3.0 billion in fiscal 2021. In the energy market, according to Frost and Sullivan (Growth Opportunities from Decarbonization in the Global Power Market, 2019-2030), it is estimated that $3.4 trillion will be invested in renewable energy over the next 10 years. We believe that the applicability of our AI solutions will extend beyond utilities and across the global $1.5 trillion electric energy market (inspirecleanenergy.com, Understanding the Energy Market, March 2017), including improved optimization to reduce energy production lost, which we have estimated to be over $21 billion in the U.S. annually over the last 10 years based on data published by the U.S. Energy Information Administration (Frequently Asked Questions, https://www.eia.gov/tools/faqs/index.php).

We have expanded and enhanced our aiWARE SaaS solutions and services through acquisitions of complementary businesses and technologies. Through our acquisition of Wazee Digital, Inc. ("Wazee Digital") in 2018, we added to our offerings digital asset management solutions and digital content licensing services. We have integrated the cognitive functionality of aiWARE with these Wazee Digital solutions and services, which allows us to provide our customers with unique capabilities to more effectively monetize and enrich their content. In 2017, we acquired the advanced data analytics software and related intellectual property assets of Atigeo Corporation, including its cooperative distributed inferencing ("CDI") technology that is based on Hamiltonian models and other proprietary algorithms, adding proprietary AI-based forecasting, optimization and intelligent control capabilities to our growing body of technology and intellectual property in data science. We have developed solutions utilizing our CDI technology to address a number of use cases, particularly in the energy market, and we have integrated these solutions with aiWARE to deploy, integrate and operate them for customers. We plan to continue to selectively pursue acquisitions and strategic investments in businesses and technologies that strengthen our business, enhance our AI capabilities and/or expand our market presence in our core vertical markets or in new markets.

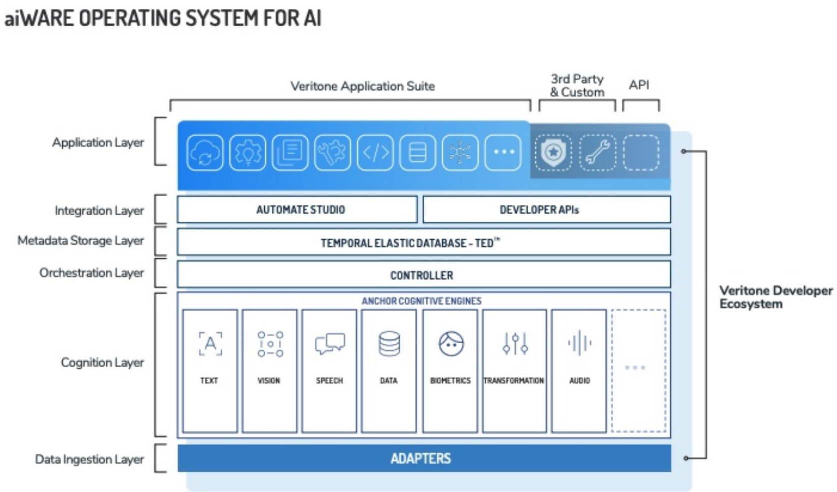
Leveraging our AI media solutions, we also operate a full service advertising agency, which we expanded in 2018 through our acquisition of S Media Limited, doing business as Performance Bridge Media ("Performance Bridge"), a leading podcast advertising agency, becoming one of the world's largest full service performance-based audio advertising agencies. Our services include media planning and strategy, advertisement buying and placement, campaign messaging, clearance verification and attribution, and custom analytics. Our advertising business utilizes our aiWARE platform to help our clients improve their advertising placements and maximize the return on their advertising spending using real-time ad verification and analytics, which we believe gives us a competitive advantage over other traditional advertising agencies.

In late 2019, we launched our VeriAds™ Network, which enables broadcasters, podcasters and social media influencers to generate incremental advertising revenue from premium advertisers looking to expand their audience reach through new unique ad units and influencers. The VeriAds Network leverages our aiWARE platform to programmatically manage clearance and verification of ads and to analyze programming content to identify new contextually relevant advertising opportunities.

aiWARE SaaS Solutions

aiWARE Overview

Our innovative aiWARE operating system intelligently orchestrates an ecosystem of top performing AI models within a single software solution to process volumes of information that far exceed human cognitive capabilities. Our proprietary technology enables users to run comprehensive, multivariate cognitive queries, predictions, correlations and analyses in near real-time using AI models across multiple categories, such as transcription, face recognition and object recognition, creating integrated and refined outputs, which can also be analyzed in conjunction with structured data, allowing for even deeper insights. Our suite of general and industry-specific applications enables users to leverage the power of aiWARE to perform key processes far more efficiently and with greater scalability than their existing manual processes.



Our aiWARE platform encompasses the following:

- *Ingestion.* We have built a scalable, source and type agnostic ingestion process that utilizes adapters, which are lightweight, pluggable software modules based on docker microservices, to capture a wide range of unstructured data, such as audio files, video files, images and documents, as well as structured data, such as public and private databases, from wherever they reside, to ingest them into our platform and normalize them for further processing, correlation and analytics. The open architecture of our solution also enables external developers to write these adapters to extend the platform to be able to ingest data of any type and from any source for their particular use cases.
- *Orchestration and Cognitive Processing*. Source data ingested into our platform can be processed through one or more AI models, which extract from and/or add useful metadata to structured and unstructured data. Our platform includes an innovative, open AI ecosystem that currently incorporates hundreds of AI models across over 20 different cognitive capabilities from multiple third-party vendors, including Amazon, Google, IBM and Microsoft, among others, as well as our own proprietary AI models, which use advanced algorithms to perform a variety of cognitive processes, including transcription, language translation, face detection, face recognition, object detection, object recognition, logo recognition, sentiment analysis, text keyword/topic analysis, audio/video fingerprinting, geolocation, visual moderation and optical character recognition, among others. Our open architecture allows us and third-party developers to easily integrate additional AI models within our platform, which makes our solution readily scalable for a broad range of processes and vertical markets. We have developed our proprietary Conductor™ technology to analyze data and intelligently orchestrate cognitive processing in our platform. This technology allows us to orchestrate the correlation of data from multiple structured and unstructured data sources, together with the cognitive processing outputs from different cognitive classes, to improve the performance of the data analysis process, enabling users to achieve higher accuracy and/or derive more robust intelligence from their data.
- *Proprietary Indexing and Storage.* The results of processed data are indexed and stored in a scalable, time-correlated temporal elastic database within aiWARE. This intelligent data lake gives us the unique ability to synthesize various disparate cognitive results in a cohesive, time-based format, and to dissect and analyze this information, producing a multi-dimensional index for ease of search, discovery and analytics, allowing users to access multivariate intelligence previously unattainable from their data. Our architecture leverages several commercial, open source, distributed and non-relational databases with proven scalability and performance characteristics.
- *Integration.* Through our self-service development environment, developers, including end customers, system integrators and application developers, can access our application programming interfaces ("APIs") and developer tools, including Automate Studio, to rapidly build, integrate, deploy and operate AI models and AI-powered workflows and applications on aiWARE to satisfy specific use cases. Automate Studio is our low-code workflow

designer that provides an intuitive drag-and-drop user interface to allow users to easily create intelligent workflows that leverage aiWARE's scalable, event-driven architecture and ecosystem of AI models, to design and operationalize AI-powered business processes at scale, without the need for in-depth coding skills or AI expertise. In addition, we recently integrated aiWARE with Alteryx, Inc.'s analytic process automation platform. Our AI tools are available for download by Alteryx users, allowing users to access and run our AI models within Alteryx and blend both structured data and unstructured data, including video, images, audio, sensor data, and text, to generate rapid AI-enabled analytics for greater insights and more informed decision making.

- *Applications and Cognitive Analytics.* We have developed a suite of core applications and several industry targeted applications, which are discussed in more detail below, to facilitate the use of our platform and enable users to unlock actionable insights from their diverse datasets. As noted above, the modular structure of our aiWARE platform enables rapid development and deployment of applications that are relevant to the specific needs of different markets. This allows us and third parties to quickly and easily build and deploy new applications on top of our aiWARE architecture or integrate existing applications with aiWARE.

Our aiWARE platform is available through multiple deployment models that can be configured to meet each customer's specific requirements. These deployment models include fully cloud-based options hosted by us in Amazon Web Services ("AWS") and Microsoft Azure ("Azure") commercial and secure government cloud environments; on-premises options, which allow users to utilize aiWARE's cognitive processing and certain other capabilities in their controlled environment; and hybrid cloud/on-premises options, which give users of our on-premises capabilities the option to also connect to our services in the cloud, either to provision additional services to run within their controlled environment, or to use our additional cloud-based services to process data, search and analyze the results. We currently hold an Authority to Operate ("ATO") under the Federal Risk and Authorization Management Program ("FedRAMP") for our AWS secure government cloud platform to support government customers.

We have made significant enhancements to our operating system's architecture, which have resulted in greater portability and operating efficiency of the platform. Our current architecture gives us the flexibility to deploy many of aiWARE's capabilities in virtually any environment, including select arm64 architectures, with improved scalability and reliability. We are continuing to enhance the portability of aiWARE in order to provide substantially all of the features and functionality of the platform within any environment to meet customers' needs.

Core Applications

We have developed a suite of core applications that comprise the base level services of our platform. These core applications can be used independently for numerous use cases and also serve as a foundation for other applications that we and third parties have developed, or may develop in the future, to address specific customer use cases within our key markets.

aiWARE's core applications include:

- *CMS.* Content Management System ("CMS") enables our users to ingest, process and search their data. The CMS application provides a common workflow for adding data sources through ingestion adapters. Cognitive workflows can be assigned to data sources, allowing the automated and customized processing of data from each distinct source. Once data has been ingested into the CMS system, it can be managed, reviewed, edited and further processed by AI models.
- *Discovery and Collections*. Discovery allows users to create and execute direct searches against AI model outputs, through either predefined queries called Watchlists or ad-hoc searches. Users are able to take several actions on search results, such as viewing and downloading the media snippet, editing the AI model metadata, verifying content in the search results and sharing the search results and associated media clips individually or as part of a Collection. A Collection of search results can be titled and described, then shared externally, via email, link or embedded widget.
- *Library.* Library enables users to create libraries of reference training data such as known faces, objects, or audio files. AI models can then be trained against specific private or public libraries to facilitate specialized AI model processing to maximize accuracy.
- *Automate Studio.* As discussed above, Automate Studio is our low-code workflow designer that enables users to easily create and deploy intelligent workflows that leverage aiWARE's capabilities, without the need for in-depth coding skills or AI expertise.

Solutions for Key Target Markets

As the volume of data being created and collected continues to explode, we believe that AI technology will play an increasingly larger role in solving some of the world's most complicated challenges. We have identified numerous ways in which our aiWARE platform and related AI technology may be used to extract valuable insights from large volumes of data to solve real-world problems across a broad range of markets. Today, we are focused on the needs of our customers in the media and entertainment, government, legal and compliance, and energy markets, and we have developed several applications and services addressing specific customer use cases within these target markets. We intend to leverage the capabilities that we have developed for these key markets to expand into other markets in the future.

Media and Entertainment Market

We have developed solutions to address the needs of leading media companies, including national radio and television broadcasters, major studios, networks and sports organizations. These customers are leveraging our AI technologies to unlock value from their content, drive revenue, enhance post-production and media archive retrieval workflows, and gain operational efficiencies in their businesses. Some of the world's largest and most recognizable media and entertainment companies rely on these solutions to store, manage, search, discover, analyze, distribute and monetize petabytes of content.

Applications used by our customers in the media and entertainment market include:

- *aiWARE Essentials.* aiWARE Essentials is a bundled offering of our core applications, CMS, Discovery and Collections. Utilizing aiWARE Essentials, media broadcasters are able to ingest their live and archived media into aiWARE and run an array of AI models on the media to identify keywords, faces, logos and objects, enriching the content with additional metadata to allow it to be quickly and easily searched, analyzed, curated and shared in near real-time. Our Discovery application includes advanced analytics features that allow users to customize their analytics dashboards and reports and generate live interactive charts with robust filtering capabilities. aiWARE Essentials transforms the way these media broadcasters conduct their business by implementing AI-powered applications in their ad tracking and verification workflows, enabling them to provide advertisers with near real-time ad verification and integrated audience analytics.
- *Attribute.* Attribute is an AI-powered media attribution application that tracks the efficacy of advertising in broadcast radio and television. The application delivers customer behavior impact analytics from pre-recorded, native and organic mentions, enabling broadcasters to analyze the effect of an advertiser's advertising placements. The application systematically verifies advertisements and mentions in broadcasts and correlates them with the advertiser's website data, and displays the correlated information in a media attribution dashboard. Attribute empowers broadcasters to demonstrate an advertiser's campaign effectiveness and reveal data-driven insights for optimization of ad placements to drive greater customer return on investment, helping to drive increases in customer advertising spending.
- *Digital Media Hub.* Digital Media Hub is a cloud-native, AI-enabled media management solution through which rights holders can ingest, manage and organize their content and offer global access to their content to key stakeholders, including news media and corporate partners, in a secure, permission-based cloud environment. Digital Media Hub offers intelligent search and discovery capabilities and robust reporting tools, which allow users to access content quickly, and allow rights holders to track downloads and understand what content is most important to users. The solution leverages the power of aiWARE's AI capabilities to automatically enrich the metadata of content through preconfigured workflows that route ingested assets for cognitive processing, such as transcription, facial recognition or logo recognition processing, to make content discoverable and unlock its value. Rights holders can customize the look and feel of Digital Media Hub to represent their own brands and configure their customer-branded portals for media asset purchases.

Customers in the media and entertainment market can also access our aiWARE cognitive capabilities through our open architecture and robust APIs. For example, aiWARE can be easily integrated with content owners' digital asset management systems, enhancing these systems with AI-enabled search capabilities and workflows. In addition, podcast publishers can integrate aiWARE with their distribution platforms to programmatically transcribe and tag audio streams with topical, descriptive and time-correlated keyword metadata prior to publishing, allowing for advanced contextual ad targeting at scale.

Government, Legal and Compliance Markets

We have developed AI-powered solutions to address the needs of customers in the government, legal and compliance markets, including law enforcement and other government agencies, legal and judicial professionals, and companies and regulatory bodies in highly regulated industries. Law enforcement and other government agencies accumulate large amounts of unstructured audio and video data on a daily basis, including from police body cameras, police car recorders, interview room cameras, 911 audio tapesand surveillance cameras. Historically, in most cases, investigators have had to review audio and video data manually in separately siloed systems, a task that consumes huge amounts of time and delays investigations. In addition, public agencies are required to provide certain information, including in many cases audio and video files, in response to requests from the public. Recently, statutes in several states have broadened the scope of information required to be disclosed and have shortened the time periods in which such disclosures must be made, and the volume of public information requests received by agencies has increased significantly. Reviewing video footage to identify and authenticate the appropriate footage to be disclosed, and to redact facial images and other sensitive information from the footage prior to disclosure, have historically been time-consuming and largely manual processes. Today, law enforcement and other government agencies can leverage our aiWARE platform and applications to organize, review, analyze and gain insight from their various data sources to greatly enhance their investigative workflows and to support their public disclosure requirements.

Within the legal market, our AI technologies support eDiscovery, the process of identifying, collecting and producing electronically stored information (“ESI”), where audio and video content analysis is playing an increasingly important role in civil litigation and criminal proceedings. Historically, the eDiscovery process has been focused primarily on text-based documents such as emails, and audio and video files have often been excluded from production requirements due to the high cost and complexity involved in automatically identifying relevant keywords, phrases or other details contained therein. Today, legal and judicial professionals must deal with escalating volumes of audio and video content resulting from recorded telephone calls, voice mails, video recordings and other sources in meeting eDiscovery requirements, including statutory requirements that have expanded the types of evidence that must be produced in a case, including electronically created or stored information, and accelerated production timeframes. Our aiWARE platform’s applications and cognitive capabilities enable users to quickly search and analyze large volumes of audio files, video files, text-based documents and other ESI to identify particular words, phrases, faces, objects and voices, and to redact sensitive information prior to production, greatly increasing the speed, reducing the cost, and improving the results of discovery processes.

Applications used by our customers in the government, legal and compliance markets include:

- *IDentify.* Our IDentify application is a powerful AI-driven tool that enables law enforcement and judicial agencies to increase the speed and efficiency of investigative workflows. IDentify allows users to upload and maintain booking and known offender databases in aiWARE and use facial recognition technology to automatically compare video and photographic evidence, such as footage from body cameras, dash cameras and CCTV surveillance cameras, with these databases to identify potential suspects for further investigation. Users can optionally add detected but unknown faces to a persons of interest database for future digital evidence comparison. IDentify gives agencies a powerful tool to augment their investigative workflows, saving valuable time and resources and helping them solve cases faster.
- *Illuminate.* Our Illuminate application provides users with an effective means of searching voluminous sets of media and electronic documents to support eDiscovery efforts, and particularly their early case assessment efforts. This application allows users to rapidly ingest, process and search large volumes of audio, video, image and text-based documents, to identify and segregate relevant evidence for further review and analysis. Illuminate’s text analytics capabilities allow users to visually explore entities, such as the persons, organizations and locations identified in the data. Once processed and reviewed through the application, users are able to transfer a relevant subset of media and documents to our Redact application if redaction is necessary, or export it for transfer to their eDiscovery or case management platform for further processing and workflows.
- *Redact.* Our Redact application enables law enforcement and judicial agencies to leverage AI to automate the redaction of faces and other sensitive information within audio, video and image-based evidence, significantly streamlining their redaction workflows. Redact employs AI technology to automatically detect when persons appear in evidence for review and selection. Users can also define other sensitive items appearing in video evidence and choose to automatically track the defined items for redaction throughout the video or at a single time stamp. The application then systematically obscures selected portions of the data in the evidence. With Redact, agencies can complete their review and redaction of evidence in a fraction of the amount of time spent on manual processes, freeing up valuable resources while also complying with stringent disclosure requirements.

The open architecture of aiWARE, together with our robust developer tools such as Automate Studio, allows us and third parties to easily integrate aiWARE with third party software and platforms, enabling customers in the government, legal and compliance markets to leverage the AI capabilities of aiWARE within existing systems to enhance their business processes. For example, we have integrated our aiWARE platform with Relativity and other industry leading eDiscovery software platforms, enabling users to leverage our AI capabilities, including speech-to-text transcription, translation and object detection processing, within these review platforms as part of their eDiscovery efforts. We have completed, or are currently in the process of completing, a number of technology integrations with other third party solutions including public records management systems, data analytics and visualization platforms, and geospatial exploitation and analysis software.

We have also identified a need of customers in a broad range of industries, such as the financial services, insurance, healthcare and other highly-regulated industries, to utilize AI technology to increase the effectiveness and efficiency of their compliance efforts. We plan to continue to expand the capabilities of our aiWARE platform to support these compliance workflows.

Energy Market

AI is revolutionizing the way the world produces, transmits, and consumes energy. Leveraging our patented CDI technology, we have developed a suite of solutions that enable customers in the energy market, including utility companies, equipment providers, battery providers and independent energy aggregators, to optimize and synchronize the energy grid, using predictive AI to make clean energy more predictable, efficient, safe, reliable, and cost effective. Our energy solutions power next generation smart grids by continuously collecting and synthesizing large amounts of data, empowering utilities to predict optimal energy supply mix and pricing to meet grid demand and ensure grid reliability and resiliency.

Our patented AI-based energy solutions for predictive real-time control management and adaptation of smart grids consist of three subsystems:

- *Forecaster*. Forecaster is a distributed forecaster that generates predictions of the state of the smart grid devices, as well as of power generation output, demand and pricing.
- *Optimizer*. Optimizer is a real-time CDI agent that learns, optimizes and tunes models of smart grid components, generates desired behavior directions and provides synchronization of smart grid components.
- *Controller*. Controller is a bank of edge controllers that implements the desired behavior as a function of the predictive state of the smart grid.

Our *Arbitrage* solution brings these subsystems together to deliver predictive energy buy, sell and dispatch capabilities.

We also offer *Simulator*, which incorporates advanced modeling techniques with high-performance algorithms to deliver the latest in end-use load modeling technology. Simulator couples power flow calculations with distribution automation models, building energy use and appliance demand models and market models. Energy operators can use Simulator to verify and validate new control strategies, equipment, procedures and sequences, or to investigate optimization and energy savings opportunities.

All of our energy solutions are built on aiWARE, which we utilize to deploy, integrate and operate these solutions for customers.

aiWARE Content Licensing and Media Services

We offer digital content licensing services, through which we manage and license content on behalf of leading rights holders to end users in the film, television, sports, and advertising industries. Content is licensed either through our own Commerce web portal, customer-branded web portals or other licensing arrangements. Our Commerce web portal represents iconic archives from major brands and independent suppliers, and licensees rely on Commerce to acquire broadcast-quality digital assets for their productions, including films, documentaries and major advertising campaigns. We utilize aiWARE's cognitive capabilities to enable richer and more efficient searching of content in our Commerce and customer-branded web portals, allowing users to quickly find and acquire content for their projects.

Advertising

Media Agency Services

We operate a full service media advertising agency through our wholly owned subsidiary, Veritone One, Inc. Veritone One is one of the world's largest full service performance-based audio advertising agencies, specializing in host-endorsed and influencer advertising. Our services include media planning and strategy, media buying and placement, campaign messaging, clearance verification and attribution, and custom analytics.

We leverage our aiWARE platform to help our advertising clients improve their media placements and maximize the return on their advertising spending using real-time ad verification and media analytics, which we believe gives us a competitive advantage over other advertising agencies. Using our platform, we can manage, deliver, optimize, verify and quantify native and spot-based advertising campaigns and content distribution for our clients across multiple channels, including broadcast and satellite radio, streaming audio, podcasting, broadcast and cable television, and digital video services such as YouTube.

In 2020, we placed approximately $257.8 million in media advertising for our advertising clients, which included 1-800 flowers.com, Inc., Audible, Inc., DraftKings, Inc., Express VPN International, Ltd., HelloFresh, LinkedIn Corporation, Raycon Global, Inc., SimpliSafe, Inc., Uber Technologies, Inc., and many others.

VeriAds Network

Our VeriAds™ Network is comprised of three programs that enable radio and television broadcasters, podcasters and social media influencers to generate incremental advertising revenue from premium advertisers, and enable these advertisers to expand their audience reach through unique ad units and new influencer avenues:

- *Spot Network.* Similar to traditional broadcast network programs, the Spot Network manages the liquidation and fulfillment of run-of-schedule and dayparted ad units for radio and television broadcasters.
- *MicroMentions™.* With MicroMentions, we have introduced a unique new ad unit to the market, available exclusively through VeriAds. MicroMentions is an on-demand live read solution that gives broadcasters the opportunity to execute 10, 15 or 30 second ads outside of their scheduled ad inventory on a guaranteed CPM (cost per thousand) basis. MicroMentions leverages aiWARE to programmatically manage clearance and verification of, and provide near real-time analytics for, these live reads.
- *Influencer Bridge™.* Influencer Bridge is a pay-per-performance advertising program that enables audio and video content creators, including podcast, Instagram and YouTube influencers, to monetize their content through CPA (cost per action) advertisements by pairing them with premium brands looking to expand their audience reach through new influencer avenues. Using aiWARE, we can analyze content of podcast episodes and YouTube videos included in the Influencer Bridge program to help identify new contextually relevant advertising opportunities for premier brands based on the subject matter presented, as well as to provide insights for brand safety and content transparency.

Sales and Marketing

aiWARE SaaS Solutions

We conduct sales and marketing activities related to our aiWARE SaaS solutions through a combination of our direct sales force and indirect channel partners such as value-added resellers (“VARs”), distributors, system integrators, managed services providers and referral partners. Our direct sales organization is comprised of teams of business development managers, account executives and sales managers, who are supported by sales development representatives, sales engineers, solutions architects and other inside sales personnel. These sales teams are generally organized based on their specialized knowledge and expertise within each of our target markets. Our sales team collaborates closely with our product marketing, management and development teams to evaluate and develop solutions to address the needs of customers.

We have also established, and we intend to continue to expand, an indirect sales channel comprised of VARs, distributors and referral partners. We have entered into agreements with channel partners located in the United States and internationally. These agreements generally provide the channel partners with discounts below our standard prices, have terms of one year which automatically renew on an annual basis, and are generally terminable by either party for convenience following a specified notice period. Substantially all of our agreements with channel partners are nonexclusive; however, we allow channel partners to register sales opportunities through our deal registration program, in which case we may grant a channel partner priority to pursue an opportunity for a specified period of time, subject to certain conditions.

aiWARE Content Licensing Services

We conduct sales and marketing activities relating to our digital content licensing services business through our direct sales representatives, who identify, develop and manage our relationships with strategic customers in the advertising, entertainment/documentary and network broadcasting industries. We maintain our Commerce web portal, where stock content and select libraries can be licensed and downloaded directly, but the majority of our business is driven through high-value libraries that require an approval process in order to gain access. We also cross-sell additional Veritone products and services, including media management and aiWARE, to our content licensor partners.

Advertising

We market and sell our advertising services through a combination of our direct sales and indirect channel sales. We primarily market and sell directly to advertisers through outbound sales networking and client and partner referrals. Our indirect sales channel consists of referral partners who are mainly advertising agencies or marketing consultants who are unable to provide certain services to their clients, such as radio, podcast and YouTube placements. In addition to our sales efforts for new clients, we further expand sales opportunities and upsell through our campaign strategists who work directly with our advertising clients to optimize and enhance media spending on advertising campaigns.

Customers

We market and sell our aiWARE SaaS solutions to customers primarily in the media and entertainment, government, legal and compliance, and energy markets. No single customer accounted for 10% or more of our consolidated net revenues in 2020.

During 2020, ten customers accounted for approximately 53% of the total revenues from our aiWARE SaaS solutions, of which seven customers in the media and entertainment market accounted for approximately 36%, two customers in the government market accounted for approximately 9%, and one customer in the energy market accounted for approximately 8%, of our total revenues from these solutions. As we continue to grow our revenues from our aiWARE SaaS solutions across our markets, we believe that our dependence on any single customer or group of customers will be minimized.

For our advertising services, we target clients that make significant investments in advertising, particularly in native and spot-based advertising campaigns delivered over broadcast radio, satellite audio, streaming audio, podcasting, digital video services and other social media channels. During 2020, ten advertising clients accounted for approximately 58% of the total revenues from our advertising services, with one customer accounting for approximately 15% of the total revenues from these services. We have continued to grow and diversify our advertising client base over the past few years, which has reduced our dependency on a limited number of large clients.

For our content licensing services, we target customers such as major sports networks, advertising agencies, and film production companies that require high value content for their broadcasts and projects. During 2020, ten customers accounted for approximately 38% of the total revenues from our content licensing services.

We believe that our relationships with our key customers are good. However, if our key customers discontinue or reduce their business with us, or suffer downturns in their businesses, it could have a significant negative impact on our financial results on a short-term basis. If we lose business from key customers and we are unable to sufficiently expand our customer base to replace the lost business, it would have a long-term negative impact on our business, financial condition and results of operations.

Competition

aiWARE SaaS Solutions. The market for AI-enabled solutions is rapidly evolving and highly competitive, with new AI capabilities and solutions introduced by both large established players that target multiple vertical markets or enterprise functions, as well as smaller emerging companies developing point solutions that generally only address a single cognitive category or a specific industry segment. We believe the following competitive attributes are necessary for us to successfully compete in the AI industry for commercial and government customers for our aiWARE SaaS solutions:

- Applications to enable our platform to be effectively leveraged for a wide variety of use cases;
- Ability to seamlessly utilize multiple AI models in the same and different classes;
- Breadth and depth of cognitive processing and other AI capabilities;
- Performance of AI models, particularly accuracy and speed;
- Availability of cloud-based and on-premises deployment models and functionality;
- Ease of deployment and integration;
- Platform scalability, reliability and security; and
- Cost of deploying and using our products.

We believe that we compete favorably on the basis of the factors listed above. We believe that few of our competitors currently compete directly with us across all of our cognitive capabilities and vertical markets, and that none of our competitors currently deploy an AI operating system with an open ecosystem comprised of a comparable number of multiple proprietary and third party AI models that can be accessed by customers from a single integrated platform.

Competitors for our aiWARE SaaS solutions fall into the following primary categories:

- Infrastructure-based cloud computing vendors offering cognitive processing services via APIs, such as IBM Watson via IBM Cloud, Microsoft Cognitive Services via Azure and Amazon Machine Learning via AWS;
- Smaller AI-focused vendors offering solutions within a single cognitive category such as facial recognition, object recognition, or natural language processing;
- Enterprise services and solutions providers that combine their services with technology developed in-house to address specific challenges for organizations, such as Palantir and C3.ai;
- System integrators that aggregate and integrate solutions from multiple underlying providers of cognitive services for clients, such as Accenture and Deloitte Consulting; and
- Providers of hardware and/or software solutions serving a particular market, which are incorporating into their solutions automated processing, search and/or data analytics capabilities that provide functionality similar to our industry targeted applications, including the following:
    - In the media and entertainment market, providers of digital asset management systems;
    - In the public safety market, providers of police body cameras and car recorders and associated content storage and management systems; and
    - In the legal market, providers of eDiscovery solutions and/or associated hosting and managed services.

Advertising. Competitors of our advertising services are mainly traditional advertising agencies that are either large full-service agencies or smaller niche agencies with a particular specialization or focus, such as radio media placement or podcast advertising, as well as large consulting firms in the media industry. We also face competition from clients that have the resources and ability to service their advertising and marketing needs in-house. We believe that we currently are, and will continue to, compete successfully against our competitors on several key factors. We are a leader in endorsed radio and podcast advertising services, and we leverage our platform to provide our clients with innovative technology that we believe provides them with better analytics and insights into their advertising campaigns than our competitors for better advertising performance and optimization.

Content Licensing. We do not currently face significant competition from third parties for our content licensing services, particularly in North America; however, many rights holders manage the licensing of their content in-house, and rights holders that we currently represent may choose to license their own content directly in the future. As we expand our content licensing services internationally, we believe that we will face greater competition from third parties, including large global events and talent management companies. We believe that we may also face more competition in North America in the future, as new representation companies emerge or expand their business in the region. We believe that our ability to use the cognitive capabilities of aiWARE to enrich and enhance the searchability of content, and to leverage relationships with customers and vendors across our aiWARE SaaS and advertising businesses, gives us a competitive advantage over other representation companies and allows us to achieve greater benefits for rights holders than they can achieve through their own in-house efforts.

Some of our competitors have greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets and larger intellectual property portfolios. As a result, certain of our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, some competitors may offer products or services that address one or a limited number of functions at lower prices, with greater depth than our products or geographies where we do not operate. With the introduction of new products and services and new market entrants, we expect competition to intensify in the future.

Research and Development

Our research and development organization is comprised of employees who are responsible for the design, development and testing of our AI and software solutions, including software engineers, quality engineers, data scientists, data engineers, product managers and user experience designers. Our research and development organization is generally organized in teams, with one team focused on our core aiWARE architecture and capabilities and other teams focused on solutions and applications that address specific use cases in our key markets. We focus our efforts on developing new features and expanding the core technologies that further enhance the usability, functionality, reliability, performance and flexibility of our platform, as well as allow us to operate in new vertical markets. In addition, we contract with select third-party engineering services to support development and quality assurance testing. We plan to continue to make significant investments in developing our AI technologies, expanding the functionality and capabilities of our aiWARE platform and related solutions, and building new software capabilities.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual protections, to protect our proprietary technology. We also rely on a number of registered and unregistered trademarks to protect our brand.

As of February 28, 2021, in the United States, we had 27 issued patents, which expire between 2027 and 2039, and had 25 patent applications pending for examination. As of such date, we also had nine issued patents and 23 patent applications pending for examination in foreign jurisdictions (including international PCT applications), all of which are related to our U.S. patents and patent applications. In addition, we have registered, or have applied for registration of, numerous trademarks, including Veritone and aiWARE, in the United States and in several foreign jurisdictions. We seek to protect our intellectual property rights by implementing a policy that requires our employees and independent contractors involved in development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf are our property, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

Regulatory Environment

We are subject to a number of U.S. federal and state and foreign laws and regulations that involve matters central to our business. These laws and regulations involve privacy, data protection, intellectual property, competition, consumer protection and other subjects.

Our customers utilize our aiWARE SaaS solutions and related services to process, analyze and store data, which may contain personal information that is subject to data protection and privacy laws in various jurisdictions. For example, in providing certain solutions and related services to customers located in Europe, we are deemed to be a data processor under the European Union General Data Protection Regulation ("GDPR"). The GDPR applies to all companies processing personal data of EU residents, regardless of the company's location. As a result, we are obligated to comply with the GDPR in processing personal data on behalf of our customers. We must also comply with the GDPR (and similar regulations in other jurisdictions such as the United Kingdom) as a data controller with respect to personal data of certain employees and individuals employed or engaged by our current or prospective customers, vendors and service providers, which we receive and process in the course of our business. We are also required to comply with the California Consumer Privacy Act ("CCPA") and the regulations implemented thereunder with respect to personal information of California consumers that we collect and process, both directly and indirectly as a service provider to our customers.

Under the GDPR and/or the CCPA, as well as similar data protection regulations implemented in other jurisdictions, including the United Kingdom and in other states within the United States, we are required to maintain appropriate technical and organizational measures to ensure the security and protection of personal data and information, and we must comply (either directly or indirectly in support of our customers' compliance efforts, as provided for in our contracts with customers) with a number of requirements with respect to individuals whose personal data or information we collect and process, including, among others, notification requirements and requirements to comply with requests from individuals to (i) opt out of collection, processing and/or sale of their data or information, (ii) delete their data or information, and (iii) receive copies of and other information regarding our collection and processing of their data or information.

The California Privacy Rights Act ("CPRA"), which will take effect on January 1, 2023, amends and expands the CCPA to include additional obligations of businesses with respect to collecting, processing and sharing personal information and responding to requests from consumers related to their personal information. We will be obligated to comply with the CPRA and the regulations to be implemented thereunder commencing in January 2023.

Human Capital Resources

As of February 28, 2021, we had a total of 308 employees, substantially all of which were full-time employees.

We believe that our employees are our greatest assets and our company culture is a critical component of our success. We strive to create a work environment in which all employees feel a strong sense of community and embody our core values. We have implemented a number of initiatives to ensure that our employees are engaged and motivated to work hard, and have fun at the same time. We conduct employee engagement surveys to gauge employee satisfaction, identify areas for improvement and implement positive change in order to evolve and better our company culture.

We strive to hire, develop and retain the top talent in the industry. To attract top talent, we strive to offer competitive salaries, incentives, equity compensation and benefits. We conduct a regular quarterly talent review process, in which we obtain employee feedback, evaluate performance, and establish goals, objectives and development plans for all employees. We continuously monitor and evaluate employee turnover to identify and address areas of concern to improve employee retention.

Company Information

We were incorporated as a Delaware corporation on June 13, 2014. Our corporate headquarters are located at 1515 Arapahoe Street, Tower 3, Suite 400, Denver, Colorado 80202. Our telephone number is (888) 507-1737. Our principal website address is www.veritone.com. The information provided on, or accessible through, our website is not a part of this Annual Report on Form 10-K, nor is such information incorporated by reference herein, and such information should not be relied upon in determining whether to make an investment in our common stock.

Available Information

This Annual Report on Form 10-K and our quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act, are available free of charge on the investor relations section of our website at investors.veritone.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We will also provide electronic or paper copies of such reports free of charge, upon request made to our Corporate Secretary at 1515 Arapahoe Street, Tower 3, Suite 400, Denver, Colorado 80202. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

We use our investor relations website as a channel of distribution for important company information, including news and commentary about our business and financial performance, webcasts of our earnings calls and investor events, SEC filings, and corporate governance information, including information regarding our board of directors, our board committee charters and code of ethics. The information provided on, or accessible through, our investor relations website is not a part of this Annual Report on Form 10-K, nor is such information incorporated by reference herein, and such information should not be relied upon in determining whether to make an investment in our common stock.

Item 1A. Risk Factors.

The following is a summary of certain risks we face in our business. They are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the Securities and Exchange Commission. Certain statements contained in this section constitute forward-looking statements. See the information included in "Cautionary Note Regarding Forward-Looking Statements" on page ii of this Annual Report on Form 10-K.

Risks Related to the Early Stage of Development of Our Business and Our Financial Condition

Our efforts to expand our aiWARE SaaS business may not be successful.

In order for us to grow our business and achieve profitability, we must expand our revenue base by entering into licensing agreements with additional customers and expanding our business with existing customers. We may not be able to succeed with respect to these efforts. Many factors may adversely affect our ability to establish a viable and profitable business for our aiWARE platform, including but not limited to:

- Failure to add market-specific applications to our aiWARE platform with sufficient levels of capability to provide compelling benefits to users in our target vertical markets;
- Failure to add AI models with sufficient levels of capability or trainability into our platform, difficulties integrating AI models, loss of access to, or increases in the cost of, AI models;

- Inability to expand the number of AI models in different classes that can operate in a network-isolated manner, which would limit the capabilities of aiWARE available in our FedRAMP environment or under private cloud, on-premises and hybrid deployment models;
- Difficulties in adding technical capabilities to our platform and ensuring future compatibility of additional third party providers;
- Failure to articulate the perceived benefits of our solution, or to generate broad customer acceptance of or interest in our solutions;
- Introduction of competitive offerings by larger, better financed and more well-known companies;
- Introduction of new products or technologies that have performance and/or cost advantages over our aiWARE platform;
- Inability to integrate our platform with products of other companies to pursue particular vertical markets, or the failure of such relationships to achieve their anticipated benefits;
- Long and complex sales cycles, particularly for customers in the government and energy markets; and
- Challenges in operating our platform on secure government cloud platforms and complying with government security requirements.

If we fail to develop a successful licensing business for our aiWARE platform, or if we are unable to ramp up our operations in a timely manner or at all, our business, results of operations and financial condition will suffer.

The market for AI-based software applications is new and unproven and may decline or experience limited growth, and concerns over the use of AI may hinder the adoption of AI technologies, which would adversely affect our ability to fully realize the potential of our platform.

The market for AI-based software applications is relatively new and evaluating the size and scope of the market is subject to a number of risks and uncertainties. We believe that our future success will depend in large part on the growth of this market. The utilization of our platform by customers is still relatively new, and customers may not recognize the need for, or benefits of, our platform, which may prompt them to cease use of our platform or decide to adopt alternative products and services to satisfy their cognitive computing, search and analytics requirements. Our ability to access and extend our position in the markets that our platform is designed to address depends upon a number of factors, including the cost, performance and perceived value of our platform. Market opportunity estimates are subject to significant uncertainty and are based on assumptions and estimates, including our internal analysis and industry experience. Assessing the market for our solutions is particularly difficult due to a number of factors, including limited available information and rapid evolution of the market.

In addition, as with many developing technologies, AI presents risks and challenges that could hinder its further development, adoption and use in the markets that we serve. AI algorithms may be flawed, datasets may be insufficient or contain biased information, and the results and analyses that our AI solutions assist in producing may be deficient or inaccurate. Further, use of AI technologies in certain scenarios present ethical concerns. Though our technologies and business practices are designed to mitigate many of these risks, if we enable or offer AI solutions that produce deficient or inaccurate results and analyses, or that are controversial due to human rights, privacy or other social issues, we may experience lower-than-expected demand for our products and services, or competitive, brand or reputational harm.

If the market for AI-based solutions does not experience significant growth, or if demand for our platform does not increase in line with our projections, then our business, results of operations and financial condition will be adversely affected.

We expect to require additional capital to support our business, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business, which will require additional funds. In particular, we expect to seek additional funds to continue to develop and enhance our aiWARE SaaS solutions and services, expand our operations, including our sales and marketing organizations and our presence outside of the United States, improve our infrastructure or acquire complementary businesses, technologies, services, products and other assets. Accordingly, we expect to engage in equity and/or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve debt service obligations and restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth, scale our infrastructure, develop product enhancements and to respond to business challenges could be significantly impaired, and our business, results of operations and financial condition may be adversely affected.

Our quarterly results may fluctuate significantly and period-to-period comparisons of our results may not be meaningful.

Our quarterly results, including the levels of our revenue, our operating expenses and other costs, and our operating margins, may fluctuate significantly in the future, and period-to-period comparisons of our results may not be meaningful. Accordingly, the results of any one period should not be relied upon as an indication of our future performance. In addition, our quarterly results may not fully reflect the underlying performance of our business. Factors that may cause fluctuations in our quarterly results include, but are not limited to:

- the timing of advertising campaigns with our advertising clients;
- variations in the timing of revenues from our aiWARE SaaS solutions and related services as a result of factors such as the timing of large projects, the length and complexity of our sales cycles and trends impacting our target vertical markets, and our revenue recognition policies and any changes thereto;
- variations in the timing of revenues from our content licensing services and our live event services as a result of factors such as timing of major sporting events throughout the year, or the postponement or cancellation of such events, and our revenue recognition policies and any changes thereto;
- our ability to retain our existing customers, to expand our business with our existing customers, and to attract new customers providing significant revenue opportunities;
- the timing and level of market acceptance of products introduced by us and our competitors;
- changes in our pricing policies or those of our competitors;
- the amount and timing of operating expenses and other costs related to the maintenance and expansion of our business, infrastructure and operations;
- the amount and timing of operating expenses and other costs associated with marketing and sales efforts to acquire new customers and assessing or entering new vertical markets;
- the amount and timing of operating expenses and other costs related to the development or acquisition of businesses, services, technologies or intellectual property rights;
- the timing and impact of security breaches, service outages or other performance problems with our technology infrastructure and software solutions;
- the timing and costs associated with legal or regulatory actions;
- changes in the competitive dynamics of our industry, including consolidation among competitors, strategic partners or customers;
- loss of our executive officers or other key employees;
- industry conditions and trends that are specific to the vertical markets in which we sell or intend to sell our solutions; and
- general economic and market conditions.

Fluctuations in quarterly results may negatively impact the value of our common stock, regardless of whether they impact or reflect the overall performance of our business. If our quarterly results fall below the expectations of investors or any securities analysts who follow our stock, or below any guidance we may provide, the price of our common stock could decline substantially.

We have had a history of losses and we may be unable to achieve or sustain profitability.

We experienced net losses of $47.9 million, $62.1 million and $61.1 million in fiscal years 2020, 2019 and 2018, respectively. As of December 31, 2020, we had an accumulated deficit of $280.4 million. We may not achieve profitability in the near future or at all. We expect to continue to expend substantial financial and other resources on, among other things:

- investments to expand and enhance our platform and technology infrastructure, make improvements to the scalability, availability and security of our aiWARE platform, and develop new products;
- sales and marketing, including expanding our direct sales organization and marketing programs, and expanding our programs directed at increasing our brand awareness among current and new customers;
- hiring additional employees;
- expansion of our operations and infrastructure, both domestically and internationally; and
- general administration, including legal, accounting and other expenses.

These investments may not result in increased revenue or growth of our business. We may not be able to generate net revenues sufficient to offset our expected cost increases and planned investments in our business and platform. As a result, we may incur significant losses for the foreseeable future, and may not be able to achieve and sustain profitability. If we fail to achieve and sustain profitability, then we may not be able to achieve our business plan, fund our business or continue as a going concern.

Failure to manage our growth effectively could increase our expenses, decrease our revenue and prevent us from implementing our business strategy.

We expect that our ability to achieve profitability will require substantial growth in our business, which will put a strain on our management and financial resources. To manage this and our anticipated future growth effectively, we must continue to maintain and enhance our aiWARE platform and information technology infrastructure, as well as our financial and accounting systems and controls. We also must attract, train and retain a significant number of qualified software developers and engineers, data scientists, technical and management personnel, sales and marketing personnel, customer support personnel and professional services personnel. Failure to effectively manage our rapid growth could lead us to over-invest or under-invest in development and operations, result in weaknesses in our platform, systems or controls, give rise to operational mistakes, losses, loss of productivity or business opportunities and result in loss of employees and reduced productivity of remaining employees. Our growth could require significant capital expenditures and might divert financial resources from other projects such as the development of new products and services. If our management is unable to effectively manage our growth, our expenses might increase more than expected, our revenue could decline or grow more slowly than expected, and we might be unable to implement our business strategy. The quality of our products and services might suffer, which could negatively affect our reputation and harm our ability to retain and attract customers.

We intend to continue to pursue the acquisition of other companies, businesses or technologies, which could be expensive, divert our management's attention, fail to achieve the expected benefits and/or expose us to other risks or difficulties.

As part of our growth strategy, we have acquired, and we intend to continue to acquire, businesses, services, technologies or intellectual property rights that we believe could complement, expand or enhance the features and functionality of our aiWARE platform and our technical capabilities, broaden our service offerings or offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not such acquisitions are consummated. Acquisitions also could result in dilutive issuances of equity securities, the incurrence of debt, contingent liabilities, amortization expenses, impairment of goodwill and/or purchased long-lived assets, and restructuring charges, any of which could adversely affect our operating results and financial condition. In addition, we may face risks or experience difficulties in:

- effectively managing the combined business following the acquisition;
- implementing operations, technologies, controls, procedures, and/or policies at the acquired company;
- integrating the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions;
- transitioning operations, users, and customers onto our existing platforms;
- obtaining any required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval that could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or other strategic transaction;

- cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, privacy issues, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and
- litigation or other claims in connection with the acquisition of the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.

We also may not achieve the anticipated benefits from the acquired business and may incur unanticipated costs and liabilities in connection with any such acquisitions. Additionally, if we are unable to complete an acquisition, we could lose market share to competitors who are able to make such an acquisition. If any of these results occurs, our business and financial results could be adversely affected.

We plan to expand our international operations, which exposes us to significant risks.

As part of our growth strategy, we plan to expand our operations internationally. We have an office in the United Kingdom, and we expect, in the future, to open offices and hire employees in additional locations outside of the United States in order to reach new customers and gain access to additional technical talent. Operating in international markets requires significant resources and management attention and will subject us to additional regulatory, economic and political risks. Because of our limited experience with international operations as well as developing and managing sales in international markets, our international expansion efforts may not be successful. In addition, we will face risks in doing business internationally that could adversely affect our business, including, but not limited to:

- the difficulty of managing and staffing international operations and the increased operating, travel, infrastructure and legal compliance costs associated with numerous international locations;
- the need to establish and manage additional instances of our aiWARE platform in other countries;
- our ability to effectively price our products in competitive international markets;
- the need to adapt and localize our products for specific countries and to offer customer support in various languages;
- difficulties in understanding and complying with U.S. laws, regulations and customs relating to U.S. companies operating in foreign jurisdictions;
- difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions, particularly in the areas of data privacy and personal privacy; and
- more limited protection for intellectual property rights in some countries.

Our failure to manage any of these risks successfully could harm our international operations, and adversely affect our business, results of operations and financial condition.

Our business has been affected by the COVID-19 pandemic, and the continuing impacts of COVID-19 are highly unpredictable and could have a significant adverse effect on our business, results of operations, financial condition and cash flows in the future.

The COVID-19 outbreak emerged in late 2019 and was declared a global pandemic by the World Health Organization in March 2020. Governments around the world have instituted measures in an effort to control the spread of COVID-19, including quarantines, stay at home orders, restrictions on public gatherings and travel, and restrictions and/or closures of schools and non-essential businesses. The extent of these measures has fluctuated over the past year, as certain regions have experienced declines followed by surges in the severity of the outbreak. The COVID-19 pandemic has had, and will likely continue to have, a severe negative impact on the global economy. Although countries have begun to roll out vaccinations, many countries are facing challenges in doing so and new variants of COVID-19 have been identified, and it is uncertain how quickly and effectively such vaccinations will help to control the spread of COVID-19.

The effects of the COVID-19 pandemic on our businessremain uncertain and difficult to predict, but may include, without limitation, the following, each of which could adversely affect our business, results of operations, financial condition and cash flows:

- We have experienced, and may continue to experience, reduced demand for certain of our products and services from customers whose businesses have been impacted by the COVID-19 pandemic. For example, beginning in March 2020, we began to experience fluctuations in demand for our aiWARE content licensing and media services due to the cancellation or postponement of major live sporting events in the United States due to COVID-19. While many major sporting events have resumed, future cancellations of live sporting events could have a material adverse impact on our revenue generated from our aiWARE content licensing and media services in future quarters. In addition, we have experienced, and may continue to experience, delays by certain customers in making purchase decisions for our products and services due to the impact of the COVID-19 pandemic on their businesses, including changes in priorities and/or budget allocations, resulting in longer sales cycles and loss of sales.

- We could experience disruptions in our operations as a result of continued office closures and risks associated with our employees working remotely. In compliance with government mandates, we have temporarily closed our offices and initiated a work from home policy, which may limit the effectiveness and productivity of our employees.

- We may be unable to collect amounts due on billed and unbilled revenue if our customers delay payment or fail to pay us under the terms of our agreements as a result of the impact of the COVID-19 pandemic on their businesses. As a result, our cash flows could be adversely impacted, which could affect our ability to fund our operations.

- Our forecasted revenue, operating results and cash flows could vary materially from those we provide as guidance or from those anticipated by investors and analysts if the assumptions on which we base our financial projections are inaccurate as a result of the unpredictability of the impact that the COVID-19 pandemic will have on our business, our customers' businesses and the global markets and economy.

- An increase in cyber incidents during the COVID-19 pandemic and our increased reliance on a remote workforce could increase our exposure to potential cybersecurity breaches and attacks.

The ultimate impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows is dependent on future developments, including the severity and duration of the pandemic, actions that have been and may be taken by governmental authorities, the impact on the businesses of our customers, and the duration of the resulting macroeconomic conditions, all of which are uncertain and are difficult to predict at this time.

Risks Related to the Development and Operation of Our aiWARE Platform

If we are not able to enhance our products or introduce new products that achieve market acceptance and keep pace with technological developments, our business, results of operations and financial condition could be harmed.

Our ability to attract new customers and increase revenue from existing customers depends in part on our ability to enhance and improve our aiWARE platform and applications and introduce new products and features, including enhancements necessary to provide substantially all of the features and functionality of the platform within a private cloud or on-premises environment, as well as new applications to address additional customer use cases. The success of any enhancements or new products depends on several factors, including timely completion, adequate quality testing, actual performance quality, market-accepted pricing levels and overall market acceptance and demand. Enhancements and new products that we develop may not be introduced in a timely or cost-effective manner, may contain defects, may have interoperability difficulties with our platform, or may not achieve the market acceptance necessary to generate significant revenue. If we are unable to successfully enhance our aiWARE platform and applications to meet evolving customer requirements and develop new products and applications, or if our efforts to increase the usage of our aiWARE platform are more expensive than we expect, then our business, results of operations and financial condition could be harmed.

Our competitors, partners or others may acquire third party technologies used in our platform, which could result in them blocking us from using the technology in our platform, offering it for free to the public or making it cost prohibitive for us to continue to incorporate their technologies in our platform, or these third party technology providers may otherwise terminate their relationships with us, which could adversely affect the functionality of our platform.

Our success depends in part on our ability to attract, incorporate and maintain high performing AI models on our platform. If any third party acquires a AI model that is on our platform, they may preclude us from using it as a component of our platform or make it more expensive for us to utilize. In addition, a third-party AI model provider may terminate its relationship with us, or may otherwise cease to make its AI models available to us. In either case, if that AI model has unique capabilities or a significant performance advantage over other models and we are unable to identify a suitable replacement model, the interruption could cause us to lose customers. It is also possible that a third party acquirer of such technology could offer the AI models and technologies to the public as a free add-on capability, in which case certain of our customers would have less incentive to pay us for the use of our platform. If a key third party technology becomes unavailable to us or is impractical for us to continue to use, the functionality of our platform could be interrupted, and our expenses could increase as we search for an alternative technology. As a result, our business, results of operations and financial condition could be adversely affected through the loss of customers, reputational harm and/or from increased operating costs.

We rely on third parties to develop AI models for our platform and in some cases to integrate them with our platform.

A key element of our platform is the ability to incorporate and integrate AI models developed by multiple third-party vendors, and we plan to continue to increase the number of third-party AI models incorporated into our platform in order to enhance the performance and power of our platform. As we work to add new AI models to our platform, we may encounter difficulties in identifying additional high-quality AI models (particularly high performing, specialized models), entering into agreements for their inclusion in our ecosystem on acceptable terms or at all and/or in coordinating and integrating their technologies into our system. We may incur additional costs to modify and adjust existing functionalities of our platform to accommodate multiple classes of AI models, without the assurance that such costs can be recouped by the additional revenues generated by the new capabilities. As our platform becomes more complex and as we release enhancements to our platform that require changes to AI models, we may not be able to integrate third-party AI models in a seamless or timely manner due to a number of factors, including incompatible software, lack of cooperation from developers, insufficient internal technical resources, platform security constraints, and the inability to secure the necessary licenses or legal authorizations required. In addition, we have established a self-service development environment in which such third party developers integrate their AI models onto our platform, and we will be dependent in part upon their ability to do so effectively and quickly. We may not have full control over the quality and performance of third-party providers, and therefore, any unexpected deficiencies or problems arising from these third-party providers may cause significant interruptions in the operation of our platform. The failure of third party developers to integrate their AI models seamlessly into our platform and/or provide reliable, scalable services may impact the reliability of our platform and harm our reputation and business, results of operations and financial condition.

If we are not able to develop a strong brand for our platform and increase market awareness of our company and our platform, then our business, results of operations and financial condition may be adversely affected.

We believe that the success of our platform will depend in part on our ability to develop a strong brand identity for our “Veritone”, “aiWARE” and other service marks, and to increase the market awareness of our platform and its capabilities. We are still in the early development stage of our business and, as such, our brand is not yet well established. The successful promotion of our brand will depend largely on our continued marketing efforts and our ability to ensure that our technology provides the expected benefits to our customers. We also believe that it is important for us to be thought leaders in the AI-based cognitive computing market. Our brand promotion and thought leadership activities may not be successful or produce increased revenue. In addition, independent industry analysts often provide reviews of our platform and of competing products and services, which may significantly influence the perception of our platform in the marketplace. If these reviews are negative or not as positive as reviews of our competitors’ products and services, then our brand may be harmed.

The promotion of our brand also requires us to make substantial expenditures, and we anticipate that these expenditures will increase as our industry becomes more competitive and as we seek to expand into new markets. These higher expenditures may not result in any increased revenue or in revenue that is sufficient to offset the higher expense levels. If we do not successfully maintain and enhance our brand, then our business may not grow, we may see our pricing power reduced relative to competitors and we may lose customers, all of which would adversely affect our business, results of operations and financial condition.

Interruptions or performance problems associated with our technology and infrastructure, or that of our third party service providers including AWS and Azure, may adversely affect our business and operating results.

Our business success depends in part on the ability of customers to access our aiWARE SaaS solutions at any time and within an acceptable amount of time. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, introductions of new applications and functionality, software errors and defects, capacity constraints due to an increasing number of users accessing our platform or initiating large volumes of processing simultaneously, or security related incidents. In addition, we rely on third parties, including AWS and Azure, for hosting, storage and other critical services required to operate our aiWARE SaaS solutions and, as such, we are vulnerable to service interruptions, delays and outages experienced or caused by these third parties. Because we also incorporate diverse software and hosted services from many third-party vendors, we may encounter difficulties and delays in integrating and synthesizing these applications and programs, which may cause downtimes or other performance problems. It may become increasingly difficult to maintain and improve the performance of our platform, especially during peak usage times and as our platform becomes more complex and usage increases.

Certain of our customer contracts include service level obligations, including system uptime commitments and/or required response times in the case of technical issues. If our aiWARE SaaS solutions are unavailable or if our users are unable to access them within a reasonable amount of time or at all, we may be in breach of our contractual obligations, we may be required to issue credits or refunds to customers, and/or our customers may be entitled to terminate their contracts with us.

AWS and Azure provide us with hosting, computing and storage services pursuant to agreements that may be cancelled under certain circumstances. If any of our agreements with AWS or Azure is terminated, we could experience interruptions on our platform and in our ability to make our platform available to customers, as well as delays and additional expenses in arranging alternative cloud infrastructure services.

Any of the above circumstances or events may harm our reputation, cause customers to stop using our platform, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base, subject us to financial penalties and liabilities under our service level agreements and otherwise harm our business, results of operations and financial condition.

The security of our platform, networks or computer systems may be breached, and any unauthorized access to our customer data will have an adverse effect on our business and reputation.

The use of our aiWARE platform involves the storage, transmission and processing of our customers' private data, and this private media may contain confidential and proprietary information, including personal information, of our customers, their employees or third parties. The data processed and stored in our platform by customers in the government market may contain highly sensitive data that is subject to protection under government regulations, and we are obligated to comply with stringent requirements related to the security of such data, such as FedRAMP and Criminal Justice Information Services ("CJIS") security requirements.

Individuals or entities may attempt to penetrate our network or platform security, or that of our third-party hosting and storage providers, and could gain access to our customers' data. In addition, our platform may be subject to computer malware, viruses and computer hacking, fraudulent use attempts and phishing attacks, all of which have become more prevalent in our industry. These malicious activities could result in the destruction, disclosure or misappropriation of proprietary or confidential information of our customers, their employees or third parties, and/or damage to our platform. If any of our customers' data is accessed, disclosed, modified or destroyed without authorization, it could harm our reputation, those customers or other customers could terminate their agreements with us, or we could be exposed to civil and criminal liability, penalties and fines.

While we have implemented procedures and safeguards that are designed to prevent security breaches and cyber-attacks, they may not be able to protect against all attempts to breach our systems, and we may not become aware in a timely manner of any such security breach. Unauthorized access to or security breaches of our platform, network or computer systems, or those of our technology service providers or third party vendors, could result in the loss of business, reputational damage, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, civil and criminal penalties for violation of applicable laws, regulations or contractual obligations, and significant costs, fees and other monetary payments for remediation. If we fail to maintain reliability, security and availability of our platform, or if customers believe that our platform does not provide adequate security for the storage of sensitive information or its transmission over the Internet, we may lose existing customers and we may not be able to attract new customers. If we experience security breaches or cyber-attacks or fail to comply with security requirements related to our secure government cloud environment, we may lose our ability to obtain or maintain a FedRAMP certification, which could result in the loss of business from customers in the government market. Any of the foregoing could have a material adverse effect on our business, results of operations and financial position.

Risks Related to Target Markets, Competition and Customers

The success of our business depends on our ability to expand into new vertical markets and attract new customers in a cost-effective manner.

In order to grow our business, we plan to drive greater awareness and adoption of our aiWARE platform, applications and services from enterprises across new vertical markets, including the energy, government, and legal and compliance markets. We intend to continue to invest in sales and marketing, as well as in technological development, to meet evolving customer needs in these and other markets. There is no guarantee, however, that we will be successful in gaining new customers in any or all of these markets. We have limited experience in marketing and selling our aiWARE platform, applications and services generally, and in particular in these new markets, which may present unique and unexpected challenges and difficulties. For example, in order for us to offer our aiWARE SaaS solutions to certain government customers, we are required to operate our aiWARE platform in a secure government cloud environment, and in some cases, in a private cloud environment or an on-premises environment, in order to meet these customers' requirements and to enable them to maintain compliance with applicable regulations that govern the use, storage and transfer of certain government data. However, due to the secure nature of these environments, at this time, not all of the functionalities, features and cognitive processing capabilities of our aiWARE platform are available in these environments, which may limit or reduce the performance and quality of our services. Furthermore, we may incur additional costs to modify our current platform to conform to customers' or cloud providers' requirements, and we may not be able to generate sufficient revenue to offset these costs. We are also required to comply with certain regulations required by government customers, such as FedRAMP and CJIS, which require us to incur significant costs, devote management time and modify our current platform and operations. If we are unable to comply with those regulations effectively and in a cost-effective manner, our financial results could be adversely affected.

As part of our strategy to penetrate new vertical markets, we will incur marketing expenses before we are able to recognize any revenue in such markets, and these expenses may not result in increased revenue or brand awareness. We have made in the past, and may make in the future, significant expenditures and investments in new marketing campaigns, and these investments may not lead to the cost-effective acquisition of additional customers. If we are unable to maintain effective marketing programs, then our ability to attract new customers or enter into new vertical markets could be adversely affected.

Recent and proposed laws regarding the use of facial recognition technology could have a material adverse effect on demand for certain of our products.

Certain of our SaaS products and services, particularly our IDentify face matching application for law enforcement agencies, utilize facial recognition technology. Facial recognition technology has recently been the subject of increasing concern and criticism regarding the potential for the technology to misidentify individuals as criminal suspects, and to be used in ways that infringe on individual rights. In June 2020, legislation was introduced in the U.S. Senate that would ban the use of facial recognition technology by Federal agencies, and would make federal funding for state and local law enforcement contingent on their enactment of similar bans. In addition, legislation has been introduced in over 15 state legislatures that would ban or restrict the use of the technology by governmental agencies in those jurisdictions, and several U.S. cities, including San Francisco, California, Oakland, California and Somerville, Massachusetts, have already enacted such bans. In the event that such bans are enacted, potential government customers for our IDentify solution in that jurisdiction would be prohibited from using the technology unless and until the ban is lifted. If such bans are enacted in a significant number of jurisdictions, it would have a material adverse effect on the market for software solutions that utilize facial recognition technology, including our IDentify solution.

Similarly, data privacy laws have been enacted in a number of jurisdictions and have been introduced in several additional states, which regulate the collection of certain personal information regarding individuals, including their facial images, and the use of such data, including in facial recognition systems. Such laws may have the effect of limiting the potential demand for our aiWARE platform for non-governmental use cases that utilize facial recognition technology, which could adversely impact our ability to grow our business in those areas.

If we are not able to compete effectively, our business and operating results will be harmed.

While the market for AI-based systems for search and analysis of audio, video and other unstructured data is still in the early stages of development, we face competition from various sources, including large, well-capitalized technology companies such as Google, Microsoft, Amazon and IBM. These competitors may have better brand name recognition, greater financial and engineering resources and larger sales teams than we have. As a result, these competitors may be able to develop and introduce competing solutions and technologies that may have greater capabilities than ours or that are able to achieve greater customer acceptance, and they may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In addition, we may also compete with smaller competitors, including developers of AI models, who may develop their own solutions that perform similar services as our platform for specific use cases, as well as with systems integrators that aggregate and integrate cognitive solutions from multiple providers for their clients. We expect that competition will increase and intensify as we continue to expand our serviceable markets and the capabilities of our aiWARE platform and services. Increased competition may result in pricing pressures and require us to incur additional sales and marketing expenses, which could negatively impact our sales, profitability and market share.

We currently generate significant revenue from a limited number of key customers and the loss of any of our key customers may harm our business, results of operations and financial results.

Our ten largest customers by revenue accounted for approximately 34%, 24% and 39% of our net revenues in fiscal years 2020, 2019 and 2018, respectively. During 2020, ten customers accounted for approximately 53% of the total revenues from our aiWARE SaaS solutions. In our content licensing business, ten customers accounted for approximately 38% of the total revenues from this business in 2020. In our advertising business, ten customers accounted for approximately 58% of our total revenues from this business in 2020, with one customer accounting for approximately 15% of the total revenues from these services.

If any of our key customers decides to terminate or not to renew its contract with us or renews on less favorable terms, or suffers downturns in its business leading to a reduction in its marketing spending, and we are not able to gain additional customers or increase our revenue from other customers to offset the reduction of revenues, our business, results of operations and financial condition would be harmed.

Our sales efforts related to our aiWARE SaaS solutions involve considerable time and expense and our sales cycle is often long and unpredictable.

Our results of operations may fluctuate, in part, because of the length and unpredictability of our sales cycle, particularly in the energy market and government, legal and compliance markets. As part of our sales efforts, we invest considerable time and expense evaluating the specific organizational needs of our potential customers and educating these potential customers about the technical capabilities and value of our aiWARE SaaS solutions. Potential customers often require evaluation licenses at no charge or for nominal fees in order to evaluate our solutions before making a purchase decision. Sales to government customers are also subject to lengthy and complex procurement processes, including technology and security assessments, budget approvals and competitive bidding requirements. Due to these factors, our sales cycle often lasts several months or more for some customers. Our sales efforts typically require a significant investment of human resources expense and time, including efforts by sales engineers, solution architects, product development and senior management, and we may not be successful in making a sale to a potential customer. If our sales efforts to a potential customer do not result in sufficient revenue to justify our investments, our business, financial condition, and results of operations could be adversely affected.

Advertising clients periodically review and change their advertising requirements and relationships. If we are unable to remain competitive or retain key clients, our business, results of operations and financial position may be adversely affected.

The media placement industry is highly competitive, and certain advertising clients periodically put their advertising and marketing business up for competitive review. Clients also review the cost and benefit of servicing all or a portion of their advertising and marketing needs in-house. We have won and lost accounts in the past as a result of these reviews. Because our advertising contracts generally can be cancelled by our clients upon 30 to 90 days' prior written notice, clients can easily change media providers on short notice without any penalty. In addition, from time to time, clients cancel media campaigns for their internal business reasons. For example, we received total net revenues from one advertising client of $2.1 million in 2018 compared with only $0.8 million in 2019, and no revenues from this client in 2020, due to a significant reduction in the client's overall advertising spend resulting from adverse changes in its business. If we are not able to retain key clients, or if any of our key customers significantly reduce their advertising spend, our revenue may be adversely affected, which could have a material and adverse effect on our business, results of operations and financial position.

Acquiring and retaining advertising clients depends on our ability to avoid and manage conflicts of interest arising from other client relationships and attracting and retaining key personnel.

Our ability to acquire new advertising clients and to retain existing clients may, in some cases, be limited by clients' perceptions of, or policies concerning, conflicts of interest arising from other client relationships. If we are unable to manage these client relationships and avoid potential conflicts of interest, our business, results of operations and financial position may be adversely affected.

Our ability to acquire new advertising clients and to retain existing clients is dependent in large part upon our ability to attract and retain our key personnel in that business, who are an important aspect of our competitiveness. If we are unable to attract and retain key personnel, our ability to provide our services in the manner clients have come to expect may be adversely affected, which could harm our reputation and result in a loss of clients, which could have a material adverse effect on our business, results of operations and financial position.

Risks Related to Intellectual Property

We face risks arising from our digital content licensing services, including potential liability resulting from claims by third parties for infringement or violation of copyrights, publicity or other rights, as well as indemnification claims by rights holders and customers.

We manage and license digital content on behalf of leading rights holders in the film, television, sports and advertising industries. We enter into agreements with rights holders under which they grant us the right to distribute and license their content to third parties, subject to certain restrictions and requirements, such as limitations on the type and/or duration of use and requirements to obtain clearances and consents from third parties related to the content. Under these agreements, the rights holders generally represent and warrant that they have the right to license the content to us and that the authorized use of the content will not infringe any third party copyrights, and agree to indemnify us for claims arising from breach of such representations and warranties. However, we, and/or our customers to which we sublicense the content, are generally responsible for obtaining all required clearances, permissions and consents with respect to any specific person, place, property or subject matter depicted in the content, each of which may be subject to trademarks, rights of publicity, property rights or other rights belonging to third parties, and we generally agree to indemnify the right holders with respect to claims arising from any failure to do so. In many cases, our agreements with rights holders also require that we include specific terms, conditions, covenants and obligations in our agreements with our customers.

In our license agreements with customers, we represent and warrant that we have the right to sublicense the content to them and that their authorized use of the content will not infringe any third party copyrights, and we agree to indemnify our customers for claims arising from breach of such representations and warranties. However, our customers are generally responsible for obtaining all necessary clearances, permissions and consents from third parties, unless we have expressly agreed to provide clearance services with respect to the content, and our customers generally agree to indemnify us for claims arising from their failure to do so. If we or our customers fail to obtain all clearances, permissions and consents from third parties required for the customers' use of licensed content, or if our customers otherwise use content in a manner not authorized by the terms of our agreements with the rights holders, then third parties may bring claims against us and the rights holders, and the rights holders may seek indemnification from us related to such claims. In some cases, we may not be entitled to a supporting indemnification by our customers, or we may not be successful in enforcing our rights to indemnification by our customers. In addition, third parties may bring claims against us and our customers for copyright infringement, and we may be required to indemnify our customers for such claims. Similarly, we may not be entitled to indemnification by the rights holders, or we may not be able to enforce our rights to indemnification by the rights holders.

While we use commercially reasonable efforts to ensure that we comply with all terms and conditions pertaining to the licensing and sublicensing of digital content, and to provide for appropriate protections related to third party claims in our agreements with right holders and customers, we may incur significant liabilities and costs in the event of claims for infringement or violation of copyrights, publicity or other rights, and/or indemnification claims by rights holders and customers. Regardless of their merit and outcome, intellectual property and indemnification claims are time consuming, expensive to litigate or settle and cause significant diversion of management attention and could severely harm our financial condition and reputation, and adversely affect our business.

We maintain insurance policies to cover potential intellectual property disputes. However, if an intellectual property claim or related indemnification claim, or a series of claims, is brought against us in excess of our insurance coverage or for uninsured liabilities, our business could suffer. In addition, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against all losses.

We may be sued by third parties for alleged infringement of their proprietary rights, which could adversely affect our business, results of operations and financial condition.

There has been considerable patent and other intellectual property development activity in the AI industry, which has resulted in litigation based on allegations of infringement or other violations of intellectual property rights. Our future success depends, in part, on not infringing the intellectual property rights of others. In the future, we may receive claims from third parties, including our competitors, alleging that our platform and underlying technology infringe or violate such third party's intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology. In addition, in operating our platform, we rely significantly on software provided by third parties, including AI models and applications, and we may become subject to similar infringement claims related to such third party software. We may not have adequate indemnities from, or we may not be successful in enforcing our rights to indemnification by such third party software providers.

Any such claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering some portion of our platform, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners in connection with any such litigation and to obtain licenses or modify our platform, which could further exhaust our resources. Patent infringement, trademark infringement, trade secret misappropriation and other intellectual property claims and proceedings brought against us, whether successful or not, could harm our brand, business, results of operations and financial condition. Litigation is inherently uncertain, and any judgment or injunctive relief entered against us or any adverse settlement could negatively affect our business, results of operations and financial condition. In addition, litigation can involve significant management time and attention and be expensive, regardless of the outcome. During the course of litigation, there may be announcements of the results of hearings and motions and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the trading price of our common stock may decline.

We could incur substantial costs in protecting or defending our intellectual property rights, and any failure to protect our intellectual property could adversely affect our business, results of operations and financial condition.

Our success depends, in part, on our ability to protect our brand and the proprietary methods and technologies that we develop under patent and other intellectual property laws of the United States and foreign jurisdictions so that we can prevent others from using our inventions and proprietary information. As of February 28, 2021, in the United States, we had 27 issued patents, which expire between 2027 and 2039, and had 25 patent applications pending for examination. As of such date, we also had nine issued patents and 23 patent applications pending for examination in foreign jurisdictions (including international PCT applications), all of which are related to our U.S. patents and patent applications. We may not be issued any additional patents and any patents that have been issued or that may be issued in the future may not provide significant protection for our intellectual property. In addition, we have registered, or have applied for registration of, numerous trademarks, including Veritone and aiWARE, in the United States and in several foreign jurisdictions. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology and our business, results of operations and financial condition may be adversely affected.

The particular forms of intellectual property protection that we seek, or our business decisions about when to file patent applications and trademark applications, may not be adequate to protect our business. We could be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights, determine the validity and scope of our proprietary rights or those of others, or defend against claims of infringement or invalidity. Such litigation could be costly, time-consuming and distracting to management, result in a diversion of significant resources, lead to the narrowing or invalidation of portions of our intellectual property and have an adverse effect on our business, results of operations and financial condition. Our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights or alleging that we infringe the counterclaimant’s own intellectual property. Any of our patents, copyrights, trademarks or other intellectual property rights could be challenged by others or invalidated through administrative process or litigation.

We also rely, in part, on confidentiality agreements with our business partners, employees, consultants, advisors, customers and others in our efforts to protect our proprietary technology, processes and methods. These agreements may not effectively prevent disclosure of our confidential information, and it may be possible for unauthorized parties to copy our software or other proprietary technology or information, or to develop similar software independently without our having an adequate remedy for unauthorized use or disclosure of our confidential information. In addition, others may independently discover our trade secrets and proprietary information, and in these cases we would not be able to assert any trade secret rights against those parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and the failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

In addition, the laws of some countries do not protect intellectual property and other proprietary rights to the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying, transfer and use of our proprietary technology or information may increase.

Our means of protecting our intellectual property and proprietary rights may not be adequate or our competitors could independently develop similar technology. If we fail to meaningfully protect our intellectual property and proprietary rights, our business, results of operations and financial condition could be adversely affected.

Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

Our aiWARE platform incorporates select open source software, and we expect to continue to incorporate open source software in our aiWARE platform in the future. Few of the licenses applicable to open source software have been interpreted by courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products and platform. Moreover, although we have implemented policies to regulate the use and incorporation of open source software into our aiWARE platform, we cannot be certain that we have not incorporated open source software in our aiWARE platform in a manner that is inconsistent with such policies. If we fail to comply with open source licenses, we may be subject to certain requirements, including requirements that we offer our products that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of applicable open source licenses. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from generating revenue from customers using products that contained the open source software and required to comply with onerous conditions or restrictions on these products. In any of these events, we and our customers could be required to seek licenses from third parties in order to continue offering our aiWARE SaaS solutions and to re-engineer or discontinue offering our products to customers in the event re-engineering cannot be accomplished on a timely basis. Any of the foregoing could require us to devote additional research and development resources to re-engineer our aiWARE SaaS solutions, could result in customer dissatisfaction and may adversely affect our business, results of operations and financial condition.

Risks Related to Human Capital Management

We depend on our executive officers and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our Chief Executive Officer, Chad Steelberg, our President, Ryan Steelberg, and our other executive officers and senior management. We rely on our leadership team in the areas of strategy and implementation, research and development, operations, security, marketing, sales, support and general and administrative functions. We do not currently have any employment agreements with our executive officers or senior management team that require them to continue to work for us for any specified period, and, therefore, they could terminate their employment with us at any time. The loss of Chad Steelberg or Ryan Steelberg, or one or more of the members of our management team, could adversely impact our business and operations and disrupt our relationships with our key customers.

If we are unable to hire, retain and motivate qualified personnel, our business will suffer.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. We believe that there is, and will continue to be, intense competition for highly skilled management, engineering, data science, sales, marketing and other personnel with experience in the businesses in which we operate. We must provide competitive compensation packages and a high-quality work environment to hire, retain and motivate employees. If we are unable to retain and motivate our existing employees and attract qualified personnel to fill key positions, we may be unable to manage our business effectively, including the development, marketing, sale and delivery of our products and services, which could adversely affect our business, results of operations and financial condition. To the extent we hire personnel from competitors, we also may be subject to allegations that they have been improperly solicited or that they have divulged proprietary or other confidential information.

Volatility in, or lack of performance of, our stock price may also affect our ability to attract and retain key personnel. Many of our key personnel are, or will be, vested in a substantial number of shares of common stock or stock options. Employees may be more likely to terminate their employment with us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or, conversely, if the exercise prices of the options that they hold are significantly above the trading price of our common stock. If we are unable to retain our employees, our business, results of operations and financial condition could be adversely affected.

Risks Related to Regulatory Compliance

Data protection and privacy laws and regulations could require us to make changes to our business, impose additional costs on us and reduce the demand for our software solutions.

Our customers utilize our aiWARE SaaS solutions and related services to process, analyze and store data, which may contain personal information that is subject to data protection and privacy laws in various jurisdictions. Federal, state and foreign government bodies and agencies have adopted, or may in the future adopt, laws and regulations regarding the collection, use, processing, storage and disclosure of personal information, such as the GDPR, the CCPA and similar regulations adopted in other jurisdictions, including other states within the United States. In addition to government regulation, privacy advocates and industry groups may propose various self-regulatory standards that may legally or contractually apply to our business.

The regulatory framework relating to privacy and data protection issues worldwide is evolving rapidly and is likely to remain uncertain for the foreseeable future. Because the interpretation and application of many privacy and data protection laws, regulations and applicable industry standards are uncertain, it is possible that these laws, regulations and standards may be interpreted and applied in a manner inconsistent with our existing privacy and data management practices. As we expand into new jurisdictions or verticals, we will need to understand and comply with various new requirements applicable in those jurisdictions or verticals. For example, we have entered into agreements and are actively pursuing opportunities to provide our aiWARE SaaS solutions to customers in Europe, which involve processing of personal data. In providing our aiWARE SaaS solutions and related services, we are deemed to be a data processor and are required to comply with the GDPR, which applies to all companies processing personal data of EU residents regardless of the company's location, as well as with additional obligations to our customers to support their compliance with the GDPR. We are also obligated to comply with the GDPR (and similar regulations in other jurisdictions including the United Kingdom) as a data controller with respect to personal data of certain employees and individuals employed or engaged by our current or prospective customers, vendors and service providers, which we receive and process in the course of our business. The GDPR imposes financial penalties for non-compliance, which can be up to four percent of global revenue or 20 million Euros, whichever is greater. We are also required to comply with the CCPA and the regulations implemented thereunder, with respect to personal information of California consumers that we collect and process, both directly and indirectly as a service provider to our customers.

Under the GDPR and/or the CCPA, as well as similar data protection regulations implemented in other jurisdictions, we are required to maintain appropriate technical and organizational measures to ensure the security and protection of personal data and information, and we must comply (either directly or indirectly in support of our customers' compliance efforts, as provided for in our contracts with customers) with a number of requirements with respect to individuals whose personal data or information we collect and process, including, among others, notification requirements and requirements to comply with requests from individuals to (i) opt out of collection, processing and/or sale of their data or information, (ii) delete their data or information, and (iii) receive copies of and other information regarding our collection and processing of their data or information.

To the extent applicable to our business or the businesses of our customers, these laws, regulations and industry standards could have negative effects on our business, including by increasing our costs and operating expenses, and delaying or impeding our deployment of new core functionality and products. Compliance with these laws, regulations and industry standards requires significant management time and attention, and failure to comply could result in negative publicity, subject us to contractual liability, fines or penalties or result in demands that we modify or cease existing business practices. In addition, the costs of compliance with, and other burdens imposed by, such laws, regulations and industry standards may adversely affect our customers' ability or desire to collect, use, process and store personal information using our software solutions, which could reduce overall demand for them. Even the perception of privacy and data security concerns, whether or not valid, may inhibit market acceptance of our software solutions in certain markets. Furthermore, privacy and data security concerns may cause our customers' customers, vendors, employees and other industry participants to resist providing the personal information necessary to allow our customers to use our products and services effectively. Any of these outcomes could adversely affect our business and operating results.

We could be subject to liability for historical and future sales, use and similar taxes, which could adversely affect our results of operations.

We conduct operations in multiple tax jurisdictions throughout the United States. In many of these jurisdictions, non-income-based taxes, such as sales and use taxes, are assessed on our operations. Our customers agree to pay the use taxes in the states and other jurisdictions where our services are subject to sales or use tax. As a result, we have not billed or collected these taxes and, in accordance with generally accepted accounting principles in the United States, we have not recorded a provision for our tax exposure in these jurisdictions. In the event these jurisdictions challenge our approach or our customers do not satisfy the sales or use tax obligation, such jurisdictions may assert tax assessments, penalties and/or interest, which could adversely affect our business, results of operations and financial condition.

Risks Related to the Ownership of Our Securities and Our Public Company Operations

Our common stock price has been extremely volatile and could continue to fluctuate widely in price, which could result in substantial losses for investors.

The market price of our common stock has been, and we expect will continue to be, subject to extreme fluctuations over short periods of time. For example, the closing price of our common stock has ranged from a low of $1.52 to a high of $48.83 during the 12-month period ended February 28, 2021. Prior to that, from the completion of our initial public offering ("IPO") on May 12, 2017 through February 28, 2020, the closing price of our common stock has ranged from a low of $2.16 to a high of $65.91. These fluctuations may be due to various factors, many of which are beyond our control, including:

- the volume and timing of our revenues and quarterly variations in our results of operations or those of others in our industry;
- announcement of new contracts with customers or termination of contracts with customers;
- announcement of acquisitions of other companies or businesses, or other significant strategic transactions;
- the introduction of new services, content or features by us or others in our industry;
- disputes or other developments with respect to our or others' intellectual property rights;
- media exposure of our products or of those of others in our industry;
- changes in governmental regulations;
- additions or departures of key personnel;
- sales of our common stock;
- speculative trading practices of certain market participants;
- actual or purported "short squeeze" trading activity;
- changes in earnings estimates or recommendations by securities analysts; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In recent years, the stock markets generally have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the listed companies. Broad market and industry factors may significantly affect the market price of our common stock, regardless of our actual operating performance. These fluctuations have been, and may continue to be, even more pronounced in the trading market for our common stock.

Further, on some occasions, our stock price may be, or may be purported to be, subject to "short squeeze" activity. A "short squeeze" is a technical market condition that occurs when the price of a stock increases substantially, forcing market participants who had taken a position that its price would fall (i.e., who had sold the stock "short"), to buy it, which in turn may create significant, short-term demand for the stock not for fundamental reasons, but rather due to the need for such market participants to acquire the stock in order to forestall the risk of even greater losses. A "short squeeze" condition in the market for a stock can lead to short-term conditions involving very high volatility and trading that may or may not track fundamental valuation models.

In addition, in the past, class action litigation has often been instituted against companies whose securities have experienced periods of volatility in market price. Securities litigation brought against us following volatility in our stock price, regardless of the merit or ultimate results of such litigation, could result in substantial costs, which would hurt our financial condition and operating results and divert management's attention and resources from our business.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are required to comply with the Sarbanes-Oxley Act and related rules implemented by the SEC. The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. This report must contain, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. In addition, we will be required to have our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting in the first annual report on Form 10-K following the date on which we are no longer an emerging growth company.

We identified control deficiencies in our financial reporting processes, which constituted a material weakness for the year ended December 31, 2019. The material weakness related primarily to the accounting for advertising net revenues. The identified control deficiencies resulted in a number of financial statement adjustments. The net impact of these adjustments on our financial statements was not material. During 2020, we implemented measures to remediate this material weakness, and we concluded that it had been fully remediated as of December 31, 2020. However, our remedial actions may not prevent this or similar weaknesses from re-occurring in the future.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, and could have a material and adverse effect on our business, results of operations and financial condition and could cause a decline in the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on NASDAQ.

We are an "emerging growth company" and a "smaller reporting company" under the U.S. federal securities laws, and the reduced reporting requirements applicable to emerging growth companies and smaller reporting companies could make our common stock less attractive to investors.

We are an "emerging growth company" and a "smaller reporting company" under U.S. federal securities laws. For as long as we continue to be an emerging growth company and/or a smaller reporting company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies or smaller reporting companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and (to the extent we continue to qualify as an emerging growth company) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company until May 2022, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds $700 million as of June 30, 2021, in which case, we would no longer be an emerging growth company as of December 31, 2021. Even if we do not qualify as an emerging growth company, we may still qualify as a smaller reporting company, which would allow us to take advantage of many of the same exemptions from disclosure requirements that are applicable to emerging growth companies. Investors may not find our common stock attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We expect to incur increased costs as a public company, including costs relating to compliance with the Sarbanes-Oxley Act and other regulations, in the future.

When we are no longer an emerging growth company, we will be subject to additional reporting requirements as a public company, including the requirement to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. We expect that we will incur increased legal, accounting and other costs as we continue to improve existing, and implement new, operational and financial systems, procedures and controls to prepare for and comply with these additional requirements. As noted above, we may no longer qualify as an emerging growth company as early as December 31, 2021, in which case we would need to accelerate our compliance efforts and, as a result, we may incur significant additional costs in 2021.

We do not currently expect to pay any cash dividends.

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not currently expect to pay any cash dividends on shares of our common stock. Any determination to pay dividends in the future will be at the discretion of our Board and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our Board deems relevant. Additionally, we expect these restrictions to continue in the future. Accordingly, realization of a gain on an investment in our common stock will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change in control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. These include:

- authorizing the issuance of "blank check" preferred stock that could be issued by our Board to increase the number of outstanding shares and thwart a takeover attempt;
- a provision for a classified board of directors so that not all members of our Board are elected at one time;
- the removal of directors only for cause;
- no provision for the use of cumulative voting for the election of directors;
- limiting the ability of stockholders to call special meetings;
- requiring all stockholder actions to be taken at a meeting of our stockholders (i.e. no provision for stockholder action by written consent); and
- establishing advance notice requirements for nominations for election to the Board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, the Delaware General Corporation Law prohibits us, except under specified circumstances, from engaging in any mergers, significant sales of stock or assets or business combinations with any stockholder or group of stockholders who owns at least 15% of our common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or to our stockholders;
- any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or
- any action asserting a claim against us governed by the internal affairs doctrine.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to this provision of our amended and restated certificate of incorporation. This choice-of-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable or convenient for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

Item 1B. Unresolved Staff Comments.

Not Applicable.

Item 2. Properties.

Our principal executive offices are located in Denver, Colorado and are comprised of approximately 17,000 square feet of office space, which we lease under a lease expiring on August 31, 2021. Our effective base rental payments under this lease are $34,402.00 per month, and we also pay certain operating expense charges relating to the space.

In addition to our principal executive offices, we lease office space in Costa Mesa, Newport Beach and San Diego, California; Binghamton, New York; and London, England.

We lease all of our facilities and do not own any real property. We believe our facilities are adequate and suitable for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate our operations.

Item 3. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations, financial position or cash flows. Regardless of the outcome, any litigation may have an adverse impact on us due to defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Holders

Our common stock is listed on the NASDAQ under the ticker symbol "VERI." As of February 28, 2021, we had 42 holders of record of our common stock based upon the records of our transfer agent, which do not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business. Therefore, we do not currently expect to pay any cash dividends on our common stock for the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our Board and will depend upon our results of operations, financial condition, capital requirements, general business conditions, and other factors that our Board deems relevant. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred equity securities.

Recent Sales of Unregistered Equity Securities

In November 2020, we issued an aggregate of 12,100 shares of our common stock to three consulting firms as compensation for services rendered.

In December 2020, a consulting firm exercised a warrant to purchase 4,000 shares of our common stock at an exercise price of $3.01 per share. Such exercise was done on a net exercise basis pursuant to the terms of the warrant and, as such, we did not receive any cash proceeds and we issued a net number of 3,591 shares of our common stock in connection with such exercise.

In December 2020, an investor exercised a warrant to purchase 809,400 shares of our common stock at an exercise price of $13.6088 per share. Such exercise was done on a net exercise basis pursuant to the terms of the warrant and, as such, we did not receive any cash proceeds and we issued a net number of 438,535 shares of our common stock in connection with such exercise. In June 2020, this investor exercised a warrant to purchase 154,311 shares of our common stock at an exercise price of $13.6088 per share, resulting in cash proceeds of $2.1 million.

No underwriters were involved in such issuance of securities. The securities were issued to accredited investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(a)(2) under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required.

Purchases of Equity Securities

We made no purchases of our equity securities during the fourth quarter of 2020.

Performance Graph

As a smaller reporting company, we are not required to provide the performance graph required by Item 201(e) of Regulation S-K.

Item 6. Selected Financial Data.

As a smaller reporting company, we are not required to provide the selected financial data required by Item 301 of Regulation S-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read together with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties. You should review the "Cautionary Note Regarding Forward-Looking Statements" on page ii and Item 1A (Risk Factors) of Part I of this Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a provider of artificial intelligence ("AI") solutions, including our proprietary AI platform, aiWARE™, digital content management solutions and content licensing services. We also operate a full-service media advertising agency and our VeriAds™ Network. Our business, products and services are discussed in detail in Item 1 (Business) of this Annual Report on Form 10-K.

For the years ended December 31, 2020 and 2019, we reported total revenue of $57.7 million and $49.6 million, respectively. Total revenue from our aiWARE SaaS solutions increased to 24% of our total revenue in 2020 compared with 21% of our total revenue in 2019.

Significant Transactions

In December 2020, we completed an offering of our common stock, pursuant to which we sold an aggregate of 3,450,000 shares of our common stock (which included the full exercise of the underwriters' option to purchase additional shares) at a price of $18.50 per share, for aggregate net proceeds of approximately $59.8 million after deducting underwriting discounts and commissions and offering costs of approximately $4.0 million.

During 2020, we also sold an aggregate of 1,491,317 shares of our common stock and received net proceeds of approximately $6.0 million, after deducting commissions of $0.3 million, pursuant to the Equity Distribution Agreement that we entered into with JMP Securities LLC ("JMP Securities") in June 2018 (the "ATM Facility"). During 2019, we sold an aggregate of 5,205,430 shares of our common stock under the ATM Facility and received net proceeds of approximately $24.4 million, after deducting commissions of $0.8 million paid to JMP Securities. We voluntarily terminated the ATM Facility in January 2021.

Opportunities, Challenges and Risks

In 2020 and 2019, we derived our revenue through our aiWARE SaaS solutions, aiWARE content licensing and media services, and advertising services. Beginning in the second half of 2020, we began to experience significant growth in revenue across our aiWARE SaaS solutions, which increased 43% and 53% during the quarters ended September 30, 2020 and December 31, 2020, respectively, compared with the same periods in 2019. The year-over-year growth in aiWARE SaaS solutions revenue in these periods was driven primarily by increases in revenue in our government, legal and compliance and energy markets. As we are at the early stages of new product introductions in these markets, we expect that our aiWARE SaaS revenue will continue to increase significantly in the near and long term, both in absolute dollars and as a percentage of our total revenue.

We are a leader in AI SaaS, advertising and content licensing solutions across the media and entertainment market. Our media and entertainment customers and trading partners include some of the most recognizable media and entertainment companies in the world, and we estimate that the network of our advertising reach includes approximately 25% of all podcast advertising. Moreover, we have demonstrated our ability to grow our advertising services, including our VeriAds Network launched in late 2019, with our revenue from these services increasing 39% and 50% during the quarters ended September 30, 2020 and December 31, 2020, respectively, compared with the same periods in 2019. This growth in our advertising services in the second half of 2020 is particularly noteworthy given the impact of the COVID-19 pandemic on total advertising spending. One of the driving factors of our advertising success is our unique AI technology, which powers our rich media analytics capabilities, giving us a competitive advantage. We continue to see significant opportunities for growth in the media and entertainment market, as we continue to extend our customer base beyond radio broadcasters to major media companies and rights holders, where our AI solutions could add tremendous value in content creation and distribution, including in news, television, and film.

We believe there will be significant near and long term opportunities for AI SaaS revenue growth from the U.S. Government adopting our AI and aiWARE SaaS technologies and solutions, as discussed under “Business - Overview” above. However, many sales opportunities with government customers can involve long sales cycles, during which we must invest significant time and resources without a guarantee of success. We may seek to acquire businesses with deep relationships and greater scale with the U.S. Government to further accelerate our pursuit of the growth opportunities we see in this market.

During the second half of 2020, we launched our Veritone Energy solutions to help utilities increase profitability and improve grid reliability as they make the transition to renewables. We believe that our patented technology is uniquely suited to solving some of the most difficult challenges facing utilities today, and we see tremendous near and long term opportunity to grow our revenue within this market, as discussed under “Business - Overview” above. Our aiWARE technology is in the early stages of deployment in the energy market, and we expect to continue making significant investments in product, sales and engineering over the next 12 to 24 months to further develop our current and future technologies to address the opportunities in this market.

At the end of the fourth quarter of 2020, we reported 1,896 SaaS accounts, which represented growth of 77% compared with the fourth quarter of 2019. To continue to grow our SaaS account base at similar levels in 2021, and drive increased sales within our existing customer base, we will need to increase our sales and marketing spending in 2021 compared with 2020.

We believe our aiWARE SaaS technology will extend the capabilities of many third-party software platforms and products that are widely used today. For example, over the last six months, we integrated aiWARE with the Alteryx platform, enabling Alteryx users to access aiWARE’s AI models and AI analytics capabilities, and we enhanced aiWARE to run on the NVIDIA® CUDA® GPU-based platform, enabling dramatic increases in aiWARE’s processing speed and opening up a wide range of new use cases for our technology. We are in the process of developing and marketing specific use cases for these integrations, which we believe will open up new markets for our products and accelerate our near and long term revenue growth. We plan to hire additional engineers and business development resources in the near term to further accelerate our pursuit of these potential opportunities, as well as other third-party technology integrations.

For the year ended December 31, 2020, our gross margin (calculated as described in “Non-GAAP Financial Measures” below) improved to 73%, compared with 69% for the year ended December 31, 2019, driven by a higher proportion of SaaS revenue, which generally has higher gross margins, coupled with recent enhancements made to the aiWARE platform that significantly reduced our computing and storage costs. Our gross margin is impacted significantly by the mix of our aiWARE SaaS revenue, aiWARE content licensing and media services revenue and advertising revenue in a given period. Our gross profit (calculated as described in “Non-GAAP Financial Measures” below) is also dependent upon our ability to grow our revenue by expanding our customer base and increasing business with existing customers, and to manage our costs by negotiating favorable economic terms with cloud computing providers such as AWS and Microsoft Azure. While we are focused on continuing to improve our gross profit, our ability to attract new and retain existing customers to grow our revenue will be highly dependent on our ability to implement and continually improve upon our technology and services and improve our technology infrastructure and operations as we experience increased network capacity constraints due to our growth.

We believe our operating results and performance are, and will continue to be, driven by various factors that affect our industry. Our ability to attract, grow and retain customers for our AI platform is highly sensitive to rapidly changing technology and is dependent on our ability to maintain the attractiveness of our platform, content and services to our customers. Moreover, we expect to continue to report operating losses in the near term. The future revenue and operating growth across our platform will rely heavily on our ability to grow our SaaS customer base, continue to develop and deploy quality and innovative AI-driven applications, provide unique and attractive content and advertising services to our customers, continue to grow in newer markets such as government and energy, and manage our corporate overhead costs. While we believe we will be successful in these endeavors, we cannot guarantee that we will succeed in generating substantial long term operating growth and profitability.

Since 2017, we have made acquisitions that extended our business and technology reach in several areas, as discussed in more detail in “Business - Overview” above. We believe there are strategic acquisition targets that can accelerate our entry into key strategic markets, as well as our ability to grow our business. As a result, we are prioritizing corporate development efforts beginning in the first half of 2021. Our acquisition strategy is threefold: (i) to increase the scale of our business in markets we are in today, (ii) to accelerate growth in new markets and product categories, including expanding our existing engineering and sales resources, and (iii) to accelerate the adoption of aiWARE as the universal AI operating system through venture or market-driven opportunities. If we are successful in identifying and entering into agreements to acquire target companies, we may need to raise additional capital to finance such acquisitions and to continue executing on our growth strategy.

In the years ended December 31, 2020 and 2019, substantially all of our revenue was derived from customers located in the United States. We believe that there is a substantial opportunity over time for us to significantly expand our service offerings and customer base in countries outside of the United States. In the long term, we plan to expand our business further internationally in places such as Europe, Asia Pacific and Latin America, and as a result we expect to continue to incur significant incremental upfront expenses associated with these growth opportunities.

Impact of the Coronavirus ("COVID-19") Pandemic

The COVID-19 outbreak emerged in late 2019 and was declared a global pandemic by the World Health Organization in March 2020. The COVID-19 pandemic, and the actions being taken by governments worldwide to mitigate the public health consequences of the pandemic, significantly impacted the global economy. Beginning in March 2020, we began to experience fluctuations in demand for certain services, particularly our aiWARE content licensing and media services, a significant amount of revenue from which is typically driven by major live sporting events that were cancelled or postponed in the United States due to COVID-19. While many major sporting events have resumed, future cancellations of live sporting events could have a material adverse impact on our revenue generated from our aiWARE content licensing and media services in future quarters.

The pandemic has affected and may continue to affect some of our customers, which may further reduce the demand and/or delay purchase decisions for our products and services, and may additionally impact the creditworthiness of customers. We have assessed the potential credit deterioration of our customers due to changes in the macroeconomic environment and have determined that no additional allowance for doubtful accounts was necessary due to credit deterioration as of December 31, 2020.

The extent to which the COVID-19 pandemic and the related macroeconomic conditions may continue to affect our financial condition or results of operations is uncertain. While we did not experience decreases in revenue from our advertising services and aiWARE SaaS solutions in 2020 compared with 2019, the severity and duration of the pandemic and the resulting macroeconomic conditions are difficult to predict, and our revenue and operating results may be adversely impacted in future periods. The extent of the impact on our operational and financial performance will depend on various factors, including the duration and spread of the outbreak; advances in testing, treatment and prevention; the impact of government measures to contain the virus; and related government stimulus actions. Due to the nature of our business, the effect of the COVID-19 pandemic may not be fully reflected in its results of operations until future periods. The most significant risks to our business and results of operations arising from the COVID-19 pandemic are discussed in Part I, Item 1A (Risk Factors).

In response to the COVID-19 pandemic, we have taken actions to control expenses, including temporarily discontinuing non-essential services and instituting controls on travel, entertainment and other expenses. In addition, in compliance with government mandates, we have temporarily closed our offices and initiated a work from home policy.

Non-GAAP Financial Measures

In evaluating our cash flows and financial performance, we use a measure of Non-GAAP net loss, the results for which measure are presented below for the years ended December 31, 2020 and 2019. The items excluded from Non-GAAP net loss, as well as a breakdown of GAAP net loss, non-GAAP net loss and these excluded items between our core operations and corporate, are detailed in the reconciliation below.

Non-GAAP net loss is not a financial measure calculated and presented in accordance with U.S. generally accepted accounting principles ("GAAP") and should not be considered as an alternative to net income (loss), operating income (loss) or any other financial measures so calculated and presented, nor as an alternative to cash flow from operating activities as a measure of liquidity. Other companies (including our competitors) may define Non-GAAP net loss differently.

In addition, we have provided additional supplemental non-GAAP measures of operating expenses, loss from operations, other income (expense), net, and loss before income taxes, excluding the items excluded from non-GAAP net loss as noted above, and reconciling such non-GAAP measures to the applicable GAAP measures.

We present this supplemental non-GAAP financial information because management believes such information to be important supplemental measures of performance that are commonly used by securities analysts, investors and other interested parties in the evaluation of companies in its industry, and believes that such measures, and the breakdown between our core operations and corporate, provide a useful comparison of our current period financial results to our historical and future financial resultsManagement also uses this information internally for forecasting and budgeting. These non-GAAP measures may not be indicative of our historical operating results or predictive of potential future results. Investors should not consider this supplemental non-GAAP financial information in isolation or as a substitute for analysis of our results as reported in accordance with GAAP.

(in thousands)

	Year Ended December 31,					
	2020			2019		
	Core Operations(1)	Corporate(2)	Total	Core Operations(1)	Corporate(2)	Total
Net loss	$ (9,060)	$ (38,816)	$ (47,876)	$ (24,019)	$ (38,059)	$ (62,078)
Provision for (benefit from) income taxes	—	76	76	—	(1,452)	(1,452)
Depreciation and amortization	5,538	869	6,407	4,836	1,111	5,947
Stock-based compensation expense	2,720	16,819	19,539	2,680	16,722	19,402
Change in fair value of warrant liability	—	200	200	—	(16)	(16)
Warrant expense	—	102	102	—	—	—
Gain on sale of asset	—	(56)	(56)	—	—	—
Interest expense	—	9	9	—	—	—
State sales tax reserve	—	818	818	—	—	—
Stock offering costs	—	27	27	—	—	—
Lease termination charges	—	16	16	—	—	—
Machine Box contingent payments	—	—	—	1,600	—	1,600
Performance Bridge earn-out fair value adjustment	—	—	—	139	—	139
Business realignment and officer severance costs	—	145	145	242	37	279
Non-GAAP Net Loss	$ (802)	$ (19,791)	$ (20,593)	$ (14,522)	$ (21,657)	$ (36,179)

(1)Core operations consists of our aiWARE operating platform of software, SaaS and related services; content, licensing and advertising agency services; and their supporting operations, including direct costs of sales as well as operating expenses for sales, marketing and product development and certain general and administrative costs dedicated to these operations.
(2)Corporate consists of general and administrative functions such as executive, finance, legal, people operations, fixed overhead expenses (including facilities and information technology expenses), other income (expenses) and taxes, and other expenses that support the entire company, including public company driven costs.

The following tables set forth the calculation of our gross profit and gross margin, followed by a reconciliation of non-GAAP to GAAP financial information presented in our consolidated financial statements for years ended December 31, 2020 and 2019.

(dollars in thousands)	Year Ended December 31,	
	2020	2019
Revenue	$ 57,708	$ 49,648
Cost of revenue	15,663	15,261
Gross profit	42,045	34,387
Gross margin	72.9 %	69.3 %

	Year Ended December 31,	
	2020	2019
Gross profit	$ 42,045	$ 34,387
GAAP sales and marketing expenses	19,877	23,508
Stock-based compensation expense	(889)	(1,035)
Lease termination charges	(5)	—
Business realignment and officer severance costs	—	(72)
Non-GAAP sales and marketing expenses	18,983	22,401
GAAP research and development expenses	14,379	22,776
Stock-based compensation expense	(1,046)	(1,294)
Machine Box contingent payments	—	(1,600)
Business realignment and officer severance costs	—	(142)
Non-GAAP research and development expenses	13,333	19,740
GAAP general and administrative expenses	50,080	47,314
Depreciation	(1,025)	(1,087)
Stock-based compensation expense	(17,604)	(17,073)
Warrant expense	(102)	—
State sales tax reserve	(818)	—
Stock offering costs	(27)	—
Performance Bridge earn-out fair value adjustment	—	(139)
Business realignment and officer severance costs	(145)	(65)
Non-GAAP general and administrative expenses	30,359	28,950
GAAP amortization	(5,382)	(4,860)
GAAP loss from operations	(47,673)	(64,071)
Total non-GAAP adjustments (1)	27,043	27,367
Non-GAAP loss from operations	(20,630)	(36,704)
GAAP other (expense) income, net	(127)	541
Change in fair value of warrant liability	200	(16)
Interest expense	9	—
Lease termination charges	11	—
Gain on sale of asset	(56)	—
Non-GAAP other income, net	37	525
GAAP loss before income taxes	(47,800)	(63,530)
Total non-GAAP adjustments (1)	27,207	27,351
Non-GAAP loss before income taxes	(20,593)	(36,179)
Income tax provision (benefit)	76	(1,452)
GAAP net loss	(47,876)	(62,078)
Total non-GAAP adjustments (1)	27,283	25,899
Non-GAAP net loss	$ (20,593)	$ (36,179)
Shares used in computing non-GAAP basic and diluted net loss per share	27,595	21,798
Non-GAAP basic and diluted net loss per share	$ (0.75)	$ (1.66)

1) Adjustments are comprised of the adjustments to GAAP sales and marketing expenses, research and development expenses and general and administrative expenses and other (expense) income, net (where applicable) listed above.

Key Performance Indicators

We track key performance indicators ("KPIs") for our advertising services and our aiWARE SaaS solutions. We evaluate the KPIs that are most relevant to our business periodically, and beginning in the first quarter of 2020, we made changes to the KPIs that we track.

The KPIs for our advertising services include: (i) average gross billings per active agency client, and (ii) revenue. The key performance indicators for our aiWARE SaaS solutions include: (i) total accounts on the platform, (ii) new bookings, (iii) total contract value of new bookings, and (iv) revenue.

In the tables below, the 'revenue during quarter' amounts for the periods in 2019 reflect amounts reported using the revenue recognition guidance of Topic 605, *Revenue Recognition*, and the 'revenue during the quarter' amounts for the periods in 2020 reflect amounts reported using the revenue guidance in Topic 606*Revenue from Contracts with Customers*, following our adoption of Topic 606. For additional information about our revenue recognition accounting policies, see the discussion under the headings "Critical Accounting Policies and Estimates – *Revenue Recognition*" and "Recently Adopted Accounting Pronouncements" below.

Advertising KPI Results

The following table sets forth the results for each of the KPIs for our advertising services.

	Quarter Ended							
	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sept 30, 2020	Dec 31, 2020
Average gross billings per active agency client (in 000's)(1)	469	488	490	511	533	614	625	632
Revenue during quarter (in 000's)	$ 5,714	$ 5,842	$ 6,197	$ 6,517	$ 5,881	$ 6,140	$ 7,372	$ 8,138

(1) For each quarter, reflects the average gross quarterly billings per agency client over the twelve month period through the end of such quarter for agency clients that are active during such quarter.

We have experienced and may continue to experience volatility in revenue from our agency services due to a number of factors, including: (i) the timing of new large client wins; (ii) loss of clients who choose to replace our services by bringing their advertising placement in-house; (iii) clients who experience reductions in their advertising budgets due to issues with their own businesses; (iv) losses of clients who change providers from time to time based largely on pricing; and (v) the seasonality of the campaigns for certain large clients. We have historically generated a significant portion of our revenue from a few major clients. As we continue to grow and diversify our client base, we expect that our dependency on a limited number of large clients will be minimized.

aiWARE SaaS Solutions KPI Results

The following table sets forth the results for each of the KPIs for our aiWARE SaaS solutions.

	Quarter Ended							
	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sept 30, 2020	Dec 31, 2020
Total accounts on platform at quarter end	911	941	980	1,069	1,587	1,753	1,791	1,896
New bookings received during quarter (in 000's)(1)	$ 1,316	$ 1,351	$ 1,384	$ 2,522	$ 1,397	$ 2,319	$ 2,083	$ 1,437
Total contract value of new bookings received during quarter (in 000's)(2)	$ 2,092	$ 1,351	$ 1,724	$ 12,872	$ 2,312	$ 2,502	$ 2,469	$ 2,431
Revenue during quarter (in 000's)	$ 2,754	$ 2,677	$ 2,350	$ 2,872	$ 3,108	$ 3,002	$ 3,351	$ 4,402

(1) Represents the contractually committed fees payable during the first 12 months of the contract term, or the non-cancellable portion of the contract term (if shorter), for new contracts received in the quarter, excluding any variable fees under the contract (i.e., fees for cognitive processing, storage, professional services and other variable services).

(2) Represents the total fees payable during the full contract term for new contracts received in the quarter (including fees payable during any cancellable portion and an estimate of license fees that may fluctuate over the term), excluding any variable fees under the contract (i.e., fees for cognitive processing, storage, professional services and other variable services).

As we grow our business for our aiWARE SaaS solutions, we expect that our KPI results will be impacted in different ways based on our customer profiles and the nature of their use of our aiWARE SaaS solutions in certain target markets. For example, in the government, legal and compliance markets, use of our aiWARE SaaS solutions is often project-based and, accordingly, in a given period, we may experience significant fluctuations in revenue without any significant change in total accounts or new bookings. The timing of large contract renewals and the variable versus fixed fee nature of certain contracts will impact the amount of new bookings and the total contract value of new bookings from quarter to quarter. As such, our results for different KPIs may fluctuate significantly within the same period, and the result for a particular KPI in one period may not be indicative of the results that we will achieve for that KPI in future periods.

Common Stock Warrants

In April 2020, we issued warrants to purchase up to 450,000 shares of our common stock at an exercise price of $3.01 per share, of which 50,000 shares were fully vested and exercisable upon issuance, and an additional 133,333 shares vested and became exercisable upon the achievement of a market condition in 2020. The vesting of the remaining 266,667 shares underlying such warrants is conditioned upon the achievement of performance goals and had not vested as of December 31, 2020.

During 2020, we issued 154,311 shares of common stock upon the exercise of warrants for an aggregate exercise price of $2.1 million and issued an aggregate of 442,126 shares of common stock upon exercises of warrants to purchase an aggregate of 813,400 shares of common stock, which were effected on a net exercise basis without cash payment of the exercise price.

As of December 31, 2020 and December 31, 2019, we had outstanding warrants to purchase an aggregate of779,440 and 1,297,151 shares of our common stock, respectively.

Net Loss Carryforwards

As of December 31, 2020, we had federal and state income tax net operating loss carryforwards (“NOLs”) totaling approximately $186.3 million and $87.3 million, respectively. The U.S. federal and state NOLs will begin to expire in 2034 and 2021, respectively, unless previously utilized. NOLs generated after January 1, 2018 may be carried forward indefinitely, subject to the 80% taxable income limitation on the utilization of the carryforwards.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), a corporation that undergoes an “ownership change” (generally defined as a cumulative change (by value) of more than 50% in the equity ownership of certain stockholders over a rolling three-year period) is subject to limitations on its ability to utilize its pre-change NOLs to offset post-change taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes, and our ability to utilize NOLs could be further limited by Section 382 of the Code. In addition, future changes in our stock ownership, some of which may be outside of our control, could result in an ownership change under Section 382 of the Code. The amount of such limitations, if any, has not been determined.

There is also a risk that due to other future regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, even if we attain profitability.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates its accounting policies, estimates and judgments on an on-going basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following involve a higher degree of judgment or complexity and are most significant to reporting our results of operations and financial position and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between expected and actual experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. More information on these critical accounting policies and our significant accounting policies can be found in Note 2 to our audited consolidated financial statements included in Part II, Item 8 (Financial Statements and Supplementary Data) of this Annual Report on Form 10-K.

Accounting for Business Combinations

As part of the purchase accounting for acquisitions, we estimate the fair values of the assets acquired and liabilities assumed. A fair value measurement is determined as the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. In the context of purchase accounting, the determination of fair value often involves significant judgments and estimates by management, including the selection of valuation methodologies, estimates of future revenues, costs and cash flows, discount rates, and selection of comparable companies. The fair values reflected in the purchase accounting rely on management's judgment and the expertise of a third-party valuation firm engaged to assist in concluding on the fair value measurements.

Impairment of Goodwill and Long-Lived Assets

Goodwill is not amortized but instead is tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. Our annual impairment test is performed during the second quarter. In assessing goodwill impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment of the recoverability of goodwill considers various macro-economic, industry-specific and company-specific factors. These factors include: (i) severe adverse industry or economic trends; (ii) significant company-specific actions, including exiting an activity in conjunction with restructuring of operations; (iii) current, historical or projected deterioration of our financial performance; or (iv) a sustained decrease in our market capitalization below its net book value. If, after assessing the totality of events or circumstances, we determine it is unlikely that the fair value of a reporting unit is less than its carrying amount, then a quantitative analysis is unnecessary. However, if we conclude otherwise, or if we elect to bypass the qualitative analysis, then we are required to perform a quantitative analysis that compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; otherwise, a goodwill impairment loss is recognized for the lesser of: (a) the amount that the carrying amount of a reporting unit exceeds its fair value; or (b) the amount of the goodwill allocated to that reporting unit.

We review long-lived assets to be held and used, other than goodwill, for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation of recoverability is required, the estimated undiscounted future cash flows directly associated with the asset are compared with the asset's carrying amount. If the estimated future cash flows from the use of the asset are less than the carrying value, an impairment charge would be recorded to write down the asset to its estimated fair value.

Revenue Recognition

We recognize revenue under our contracts with customers in accordance with ASU 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). We derive our revenues primarily from three sources: (1) subscription revenues, which are comprised primarily of subscription and related fees from customers for access to and use of our platforms and associated services delivered as software-as-a-service ("SaaS"), (2) content licensing revenues, which are comprised primarily of fees from customers for licenses to third-party content owners' digital assets, and (3) advertising revenues.

We recognize revenue to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. We follow a five-step process to determine revenue recognition, as follows:

- Identify the contracts(s) with a customer;
- Identify the performance obligations in the contract;

- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) performance obligations are satisfied.

We enter into contracts with customers that may include promises to transfer multiple services. We evaluate these services to determine whether they represent distinct, separately identifiable performance obligations that should be accounted for separately or as a single performance obligation. For contracts containing multiple performance obligations, to meet the allocation objective of Topic 606, we allocate the transaction price to each performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which we would sell a promised service separately to a customer. For certain arrangements, the determinations regarding whether a contract contains multiple performance obligations and, if so, the SSP of each performance obligation, may require judgment by management.

aiWARE SaaS Revenues

We have agreements with customers under which we provide customers with access to and use of our aiWARE and digital content management platforms. Under most agreements, we provide access to the platform, specified applications and associated data ingestion, hosting and/or processing services, and provide standard user support. Fees for these services typically take the form of a fixed monthly subscription fee, with certain contracts specifying usage-based fees for data processing services in excess of the data processing services included as part of such subscription services. Fees for excess usage-based data processing services are accounted for as variable consideration. In certain cases, the fixed monthly subscription fee may adjust during each monthly period of the contract based on changes in the monthly volume of services, at the rates established in the contract. These contracts typically have terms ranging from one to three years, with renewal options, and do not contain refund-type provisions. All significant services provided as part of these subscription arrangements are highly interdependent and constitute a single performance obligation comprised of a series of distinct services transferred to the customer in a similar manner throughout the contract term (collectively, the "subscription services"), with the exception of the additional usage-based services, which represent a separate performance obligation as discussed below. The fixed subscription fees are recognized as revenue ratably over the contract term, at the applicable monthly rate, as the performance obligation is satisfied, as this best depicts the pattern of control transfer. If a portion of the term of a contract is cancellable, we determine the transaction price for, and recognize revenue ratably over, the non-cancellable portion of the term of the contract. In certain SaaS arrangements with broadcasters, the fees for subscription services are paid by broadcasters with advertising inventory that is provided to and monetized by us. We recognize revenue for these arrangements based on the fair value of the advertising inventory.

We also make data processing, storage and transfer services available to customers through our aiWARE and digital content management platforms under usage-based arrangements with no minimum fees, either separately or in addition to subscription services as described above. Fees are charged for actual usage of such services at the rates specified in the contract for each particular service. Each of these distinct services represents an individual performance obligation. When sold in connection with subscription services, we consider the allocation guidance of Topic 606.

Variable consideration for usage-based data processing, storage and transfer services is recognized in the month in which it is earned, as the payment terms relate to a specific outcome (amount of data processed, stored or transferred) of delivering the distinct time increment (the month) of services, and represents the fees to which we expect to be entitled for providing the services, and allocating the variable fees in this way is consistent with the allocation objective of Topic 606.

We also enter into software license agreements with customers under which we provide software representing an on-premises deployment of our aiWARE platform or components thereof. Under these license agreements, the customer is responsible for the installation and configuration of the software in the customer-controlled environment. We recognize the license fees as revenue under these agreements at the time that we make the software available for download by the customer.

We typically invoice our aiWARE SaaS customers for subscription services monthly, for on-premise software at the time the software is made available for download by the customer, and for professional services either monthly or in accordance with an agreed upon invoicing schedule. Invoices are typically due and payable within 30 days following the date of invoice. Amounts that have been invoiced are recorded in accounts receivable or in deferred revenue, depending on whether transfer of control to customers of the promised services has occurred.

aiWARE Content Licensing Revenues

We have agreements with third-party owners of digital assets pursuant to which we license those assets to customers and remit royalties to the content owners. In licensing such third-party digital assets, we host public and private content libraries on our platform to enable customers to view and search for digital assets to be licensed, establish and negotiate with customers the scope and term of, and the prices for, licenses to those digital assets, and make the licensed digital assets available to the customers. We are considered the principal under most agreements that have this range of services due to obtaining control prior to transfer of the assets, andwe record the revenue from the customer gross of royalties due to the content owner. In limited cases, we do not obtain control prior to transfer of the assets, and accordingly, we record revenues net of royalties due to the content owner.

We license digital assets under (i) individual license agreements, pursuant to which the customer licenses a particular digital asset (or set of digital assets) for a specified license fee, and (ii) bulk license agreements, pursuant to which the customer pays a fixed fee to have access to view and search third-party owners' content and to license a specified number of minutes of that content in each year over the term of the contracts, which typically range from one to three years, with certain contracts specifying usage-based license fees for additional digital assets that may be licensed by the customer.

Under individual license agreements, we have a single performance obligation, which is to make the licensed digital assets available to the customer, generally by download. We recognize the license fees charged for the digital assets as revenue when the licensed digital assets are made available to the customer.

Under bulk license agreements, our obligations include hosting the content libraries for access and searching by the customer, updating the libraries with new content provided by the content owner, and making assets selected by the customer available for download, throughout the term of the contract. All of these services are highly interdependent and constitute a single performance obligation comprised of a series of distinct services transferred to the customer in a similar manner throughout the contract term. The predominant item in the single performance obligation is a license providing a right to access the content library throughout the license period. For these arrangements, we recognize the total fixed fees under the contract as revenue ratably over the term of the contract as the performance obligation is satisfied, as this best depicts the pattern of control transfer. If the customer selects digital assets in excess of the amount included in the fixed fees under the contract, we constrain the variable consideration until the usage occurs and recognize such usage-based license fees as the digital assets are made available to the customer, consistent with the usage-based royalty accounting of Topic 606.

Advertising Revenues

Our advertising services consist primarily of placing advertisements for clients with media vendors, including broadcasters, podcasters and digital media providers. We receive fees, at varying rates of gross advertising media placed, as consideration for services performed by us. Under the most common billing arrangements, we bill and collect the gross cost of the advertisement we place, less any discounts negotiated with the client off of the media vendor's standard agency fee. We then remit to the media vendor the gross amount less the standard agency fee. The amount billed to the client, less the amount payable to the media vendor, represents our fees and is recognized as revenue.

All significant services performed by us under our contracts with advertising clients in conjunction with media placements, including planning and placing media and verifying that advertisements have aired, represent a single performance obligation as such services are highly interrelated. Our fee, which represents the transaction price, is recognized as revenue at a point in time when the advertisement is aired, which is the point at which we have an enforceable right to payment of our fees.

Our clients may be required to make a deposit or prepay the gross costs of advertisements, including our fees. Such amounts are reflected as client advances on our consolidated balance sheets until all revenue recognition criteria have been met.

Gross Versus Net Revenue Recognition

We report revenue on a gross or net basis based on management's assessment of whether we act as a principal or agent in the transaction. To the extent that we act as the principal, revenue is reported on a gross basis net of any sales tax from customers, when applicable. The determination of whether we act as a principal or an agent in a transaction is based on an evaluation of whether we control the good or service prior to transfer to the customer. We have determined that we act as the principal in providing all of our services with the exception of certain advertising services, where we recognize our fees on a net basis.

Remaining Performance Obligations

As of December 31, 2020, the aggregate amount of the transaction prices under our contracts allocated to our remaining performance obligations was $5.0 million, approximately 69% of which we expect to recognize as revenue over the next twelve months, and the remainder thereafter. This aggregate amount excludes amounts allocated to remaining performance obligations under contracts that have an original duration of one year or less and variable consideration that is allocated to remaining performance obligations.

Stock-Based Compensation Expense

We record stock-based compensation expense associated with restricted stock, restricted stock units and stock options granted under our stock incentive plans, and purchase rights granted under our Employee Stock Purchase Plan ("ESPP"). We have granted stock options with time-based vesting conditions, as well as performance-based stock options, the vesting of which is conditioned upon the achievement of specified target stock prices for our common stock ("Performance Options"). All Performance Options become exercisable in three equal tranches based on the achievement of specific market price targets for our common stock. For each tranche to become exercisable, the closing price per share of our common stock must meet or exceed the applicable stock price target for a period of 30 consecutive trading days. All stock options have terms of ten years following the grant date, subject to earlier termination in the case of cessation of the awardee's continued service.

Stock-based compensation expense is estimated at the grant date based on the fair value of the award. Prior to our initial public offering ("IPO") in May 2017, the fair values of restricted stock awards were estimated at the date of grant by using both the option-pricing method and the probability-weighted expected return method. All restricted stock awards granted prior to our IPO have vested in full as of the fourth quarter of 2020. Following our IPO, the fair values of restricted stock and restricted stock unit awards are based on the closing market price of our common stock on the date of grant.

We estimate the fair values of stock options having time-based vesting conditions, as well as purchase rights under our ESPP, using the Black-Scholes-Merton option pricing model. We estimate the fair values of Performance Options utilizing a Monte Carlo simulation model to estimate when the stock price targets will be achieved and the Black-Scholes-Merton option pricing model. A fair value is estimated for each tranche of such Performance Options that is tied to a particular stock price target.

Determining the appropriate fair values of stock options and ESPP purchase rights at the grant date requires significant judgment, including estimating the volatility of our common stock, the expected term of awards, and the derived service periods for each tranche of Performance Options. In determining fair values, we estimate volatility based on the historical volatility of our common stock along with the volatility of the peer group. In calculating estimated volatility, as the number of years of trading history for our common stock has increased, the volatility of our common stock has been given a weighting ranging from 25% to 50%, and the volatility of the peer group companies has been given a weighting ranging from 75% to 50%, with each peer company weighted equally. We will continue utilizing this combination and will periodically adjust the weightings as additional historical volatility data for our own shares of common stock becomes available.

The expected term for stock options other than Performance Options represents the period of time that stock options are expected to be outstanding and is determined using the simplified method. Under the simplified method, the expected term is calculated as the midpoint between the weighted average vesting date and the contractual term of the options. The expected term for Performance Options considers the remaining term of the option after the attainment date and the ratio of the stock price at the attainment date to the option exercise price.

The risk-free rate is based on the implied yield of U.S. Treasury notes as of the grant date with a remaining term approximately equal to the expected term of the award.

The fair value of stock-based awards (other than Performance Options) is amortized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period. For Performance Options, expense is recognized over a graded-vesting attribution basis over the period from the grant date to the estimated attainment date, which is the derived service period of each tranche of the award.

We engaged a third-party valuation specialist to assist us in determining the fair values and derived service periods of Performance Options awarded, and to assist us in determining the fair values and new derived service periods of Performance Options in connection with a modification that occurred in August 2020 as a result of certain amendments to the Performance Options outstanding at that time. The valuation specialist used a Monte Carlo simulation model which incorporated three key assumptions: dividend yield, risk-free interest rate; and estimated volatility. The estimated volatility required the most judgment of those three assumptions, and it was based on the historical volatility of our common stock along with the historical volatility of the peer group. The estimated volatility used in valuing Performance Options granted in 2020 and 2019 was 85% and 65%, respectively, and the estimated volatility used in valuing the modified Performance Options in 2020 was 80%.

We recognize actual forfeitures as they occur and do not estimate forfeitures in determining our stock-based compensation expense.

If Performance Options are modified, the fair values and the new derived service periods of the modified awards as of the date of modification and the fair values of the original awards immediately before the modification are determined. The amount of incremental compensation expense resulting from the modification of each award is equal to the excess of the fair value of the modified award on the date of modification over the fair value of the original award immediately before the modification The incremental compensation expense is recognized over the new derived service period of the modified award.

Accounting for Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are established for temporary differences between the financial statement carrying amounts and the tax bases of our assets and liabilities using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

We assess the likelihood that the deferred tax assets will be recovered from future taxable income and, if recovery is not more likely than not, we establish a valuation allowance to reduce the deferred tax assets to the amounts expected to be realized. Realization of the deferred tax assets is dependent on us generating sufficient taxable income in future years to obtain a benefit from the reversal of temporary differences and from net operating losses. Due to uncertainties related to our ability to utilize our deferred tax assets in future periods, we have recorded a full valuation allowance against our net deferred tax assets, in the amount of $65.1 million, as of December 31, 2020. These assets consist primarily of NOLs.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and our valuation allowance. In assessing the need for a valuation allowance, management has considered both the positive and negative evidence available, including but not limited to, our prior history of net losses, projected future outcomes, industry and market trends and the nature of existing deferred tax assets. In management's judgment, any positive indicators are outweighed by the uncertainties surrounding our estimates and judgments of potential future taxable income, due primarily to uncertainties surrounding the timing of realization of future taxable income. In the event that actual results differ from these estimates or we adjust these estimates should we believe we would be able to realize these deferred tax assets in the future, an adjustment to the valuation allowance would increase income in the period such determination was made.

Recently Adopted Accounting Pronouncements

We are an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). The JOBS Act permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to use the extended transition period for complying with new or revised accounting standards under Section 107 of the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies.

Effective for our fiscal year ended December 31, 2019, we adopted the provisions and expanded disclosure requirements described in Topic 606 for our annual financial statements. We adopted the standard using the modified retrospective method. Accordingly, the results for the prior comparable periods were not adjusted to conform to the current year measurement and recognition of results. As of the beginning of 2019, the impact of the adoption of Topic 606 was not material. However, in adopting Topic 606, we have modified our revenue recognition policy in the following ways:

- Some multi-year contracts include fixed annual price increases. Historically, we recognized revenue based on the price allocated to each year. Now, we recognize the aggregate fixed price as revenue ratably over the full term of the contract.
- Historically, certain variable consideration was recognized one month in arrears when the amount became known. These revenues are now recognized in the month in which the service is provided based on an estimate of the amount that we expect to be entitled to receive for the services.

During the year ended December 31, 2019, our quarterly financial statements were prepared using the prior revenue recognition standard, Topic 605, *Revenue Recognition*. Beginning in the first quarter of 2020, our quarterly financial statements is presented using Topic 606.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, as part of its disclosure framework project intended to improve the effectiveness of disclosures in the notes to the financial statements by updating certain disclosure requirements related to fair value measurements. The standard became effective for us beginning in the first quarter of fiscal year 2020. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments under this pronouncement will change the way all leases with duration of one year or more are treated. Under this guidance, lessees will be required to capitalize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or capital lease liability. The right-of-use asset represents the lessee's right to use, or control the use of, a specified asset for the specified lease term. The lease liability represents the lessee's obligation to make lease payments arising from the lease, measured on a discounted basis. Based on certain characteristics, leases are classified as financing leases or operating leases. Financing lease liabilities, those that contain provisions similar to capitalized leases, are amortized in the same manner as capital leases are amortized under current accounting rules, as amortization expense and interest expense in the statement of operations. Operating lease liabilities are amortized on a straight-line basis over the life of the lease as lease expense in the statement of operations. This standard will be effective for us beginning with the first quarter of fiscal year 2022. We are currently evaluating the impact this standard will have on our policies and procedures pertaining to our existing and future lease arrangements, our disclosure requirements and our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. which requires measurement and recognition of expected credit losses for financial assets held. This standard will be effective for us beginning in the first quarter of fiscal year 2023 and early adoption is permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements and related disclosures as well as the timing of adoption.

In December 2019, the FASB issued ASU No. 2019-12 to simplify the accounting in ASC 740 *Income Taxes*. This standard removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This standard will be effective for us beginning in the first quarter of fiscal year 2022 and early adoption is permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements and related disclosures as well as the timing of adoption.

Results of Operations

The following tables set forth our results of operations for the years ended December 31, 2020 and 2019, in dollars and as a percentage of our revenue for those periods. Throughout this discussion regarding our results of operations, certain amounts for 2019 have been reclassified to conform to the presentation for 2020. In particular, amortization expense, which was presented in prior year periods within cost of revenue, sales and marketing, research and development, and general and administrative operating expenses, has been reclassified and is presented as a single separate line item in operating expenses. In addition, gross profit, which was previously reflected in the statement of operations and comprehensive loss, is no longer presented, and cost of revenue, which was presented in prior periods within gross profit, is presented as an operating expense. We believe that this presentation more accurately reflects our cost of revenue and operating expenses. These reclassifications had no effect on our reported net loss. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future.

(dollars in thousands)	Year Ended December 31,	
	2020	2019
Revenue	$ 57,708	$ 49,648
Operating expenses:		
Cost of revenue	15,663	15,261
Sales and marketing	19,877	23,508
Research and development	14,379	22,776
General and administrative	50,080	47,314
Amortization	5,382	4,860
Total operating expenses	105,381	113,719
Loss from operations	(47,673)	(64,071)
Other (expense) income, net	(127)	541
Loss before provision for (benefit from) income taxes	(47,800)	(63,530)
Provision for (benefit from) income taxes	76	(1,452)
Net loss	$ (47,876)	$ (62,078)

	Year Ended December 31,	
	2020	2019
Revenue	100.0 %	100.0 %
Operating expenses:		
Cost of revenue	27.1	30.7
Sales and marketing	34.4	47.3
Research and development	24.9	45.9
General and administrative	86.8	95.3
Amortization	9.3	9.7
Total operating expenses	182.5	228.9
Loss from operations	(82.5)	(128.9)
Other (expense) income, net	(0.2)	1.1
Loss before provision for (benefit from) income taxes	(82.7)	(127.8)
Provision for (benefit from) income taxes	0.1	(2.9)
Net loss	(82.8)	(124.9)

Year Ended December 31, 2020 Compared With Year Ended December 31, 2019

Revenue

(dollars in thousands)	Year Ended December 31,			
	2020	2019	$ Change	% Change
Advertising	$ 31,550	$ 24,364	$ 7,186	29.5 %
aiWARE SaaS Solutions	13,863	10,653	3,210	30.1 %
aiWARE Content Licensing and Media Services	12,295	14,631	(2,336)	-16.0 %
Revenue	$ 57,708	$ 49,648	$ 8,060	16.2 %

The year-over-year increase in advertising revenue was due primarily to revenue generated from our VeriAds Network, which we launched in late 2019. Revenue from our VeriAds Network totaled $4.0 million in 2020, compared with $0.1 million for 2019. The remaining increase was due to a combination of the addition of new clients and increased business with existing clients.

The year-over-year increase in aiWARE SaaS Solutions revenue was due primarily to initial revenue received from a customer in the energy market, and revenue received under a subcontract for a U.S. Air Force project, as well asexpanded services to some existing customers in the media and entertainment market.

Revenue from our aiWARE content licensing and media services, a significant portion of which is typically driven by major sporting events and production of entertainment content, was negatively impacted in 2020 compared with the prior year period due to the cancellation or postponement of substantially all major sporting events from March 2020 through July 2020 and the curtailment of entertainment content production as a result of the COVID-19 pandemic.

Revenue from our advertising services is impacted by the timing of particular advertising campaigns of our major clients, in many cases due to the seasonal nature of their advertising activities. Our aiWARE SaaS solutions revenue from customers in certain markets, particularly in the government, legal and compliance markets, is often project-based and is impacted by the timing of projects. Revenue from our aiWARE content licensing and media services is impacted by the timing of major sporting events throughout the year. As such, in general, we expect that our revenue from these services and markets may fluctuate significantly from period to period. In addition, we anticipate that our revenues in future periods could be impacted by the macroeconomic conditions resulting from the COVID-19 pandemic, as discussed in more detail above.

Gross Profit

As noted above, our gross profit is calculated as our revenue less our cost of revenue, as follows:

(dollars in thousands)	Year Ended December 31, 2020	Year Ended December 31, 2019	$ Change	% Change
Revenue	$ 57,708	$ 49,648	$ 8,060	16.2 %
Cost of revenue	15,663	15,261	402	2.6 %
Gross profit	42,045	34,387	7,658	22.3 %
Gross margin	72.9 %	69.3 %		

The increase in gross margin in 2020 compared with 2019 was due primarily to a decrease in platform costsfrom computing cost reductions and completed enhancements to our aiWARE operating system that have improved our computing efficiency. In addition, the increase resulted from the lower proportion of revenue from our content licensing and media services and the higher proportion of revenue from our aiWARE SaaS solutions, which have higher gross margins.

Operating Expenses

(dollars in thousands)	Year Ended December 31, 2020	Year Ended December 31, 2019	$ Change	% Change
Cost of revenue	$ 15,663	$ 15,261	$ 402	2.6 %
Sales and marketing	19,877	23,508	(3,631)	-15.4 %
Research and development	14,379	22,776	(8,397)	-36.9 %
General and administrative	50,080	47,314	2,766	5.8 %
Amortization	5,382	4,860	522	10.7 %
Total operating expenses	$ 105,381	$ 113,719	$ (8,338)	-7.3 %

Cost of Revenue. The increase in cost of revenue in 2020 compared with 2019 was due primarily to our higher revenue level, offset in part by the decrease in platform costs, as discussed above.

Sales and Marketing. The decrease in sales and marketing expenses in 2020 compared with 2019 was due primarilyto a decrease of $1.8 million in personnel-related costs resulting from our focused spending reductions and decreases in spending on travel, entertainment and trade shows. As a percentage of revenue, sales and marketing expenses declined to 34% in 2020 from 47% in 2019, due to the increased operating leverage provided by our higher revenue level.

Research and Development. The decrease in research and development expense in 2020 compared with 2019 was attributable primarily to a decrease of $5.2 milliorin personnel-related costs resulting from our focused spending reductions. The decrease was also due to the expense for contingent payments totaling $1.6 million that were made to the former stockholders of Machine Box in 2019, which did not recur in 2020, and to a decrease in platform and cognitive processing related costs. As a percentage of revenue, research and development expense declined to 25% in 2020 from 46% in 2019, due to the increased operating leverage provided by our higher revenue level.

General and Administrative. The increase in general and administrative expenses in 2020 compared with 2019 was due primarily to an increase irpersonnel-related costs of $3.0 million, including $1.3 million in incentive bonuses tied to the achievement of quarterly and annual performance goals, offset in part by a decrease of $1.0 million in travel and entertainment expenses. As a percentage of revenue, general and administrative expenses declined to 87% in 2020 from 95% in 2019, due to the increased operating leverage provided by our higher revenue level.

Amortization. Amortization expense increased in 2020 compared with 2019 due to a full year of amortization in 2020 of customer relationships associated with 2018 acquisitions, compared with only eleven months of amortization recorded in 2019 after finalizing the determination of useful lives.

As discussed above, we intend to continue to make significant investments in the development of our AI capabilities and enhancement of our aiWARE SaaS solutions and services, and in our sales and marketing efforts in order to drive greater awareness of our offerings, gain new customers and grow our business. In particular, we expect to hire additional product, engineering and sales resources over the next 12 to 24 months to further develop our products and technologies to address significant opportunities in the energy market and to pursue opportunities across the wide range of new use cases for our technology arising from our recent technology integrations. As a result, we anticipate that our sales and marketing and research and development expenses will increase in the near term in absolute dollars, but will continue to decline as a percentage of revenue in the long term as we grow our business.

Over the past year, we have gained operational efficiencies, implemented computing cost reductions, and completed enhancements to our aiWARE operating system that have improved our computing efficiency. We believe that these initiatives and our ongoing cost management efforts in the area will continue to support the further development of our AI capabilities while reducing our computing expenses and improving our financial performance.

Other (Expense) Income, Net

Other expense, net for 2020 was comprised primarily of warrant expense of $0.2 million, offset in part by interest income. In 2019, other income, net was comprised primarily of interest income on investments in money market funds, which totaled $0.5 million.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, which totaled $114.8 million as of December 31, 2020, compared with total cash and cash equivalents of $44.1 million as of December 31, 2019. The increase in our cash and cash equivalents in 2020 was due primarily to $66.3 million in proceeds from common stock offerings and $2.1 million in proceeds from the exercise of stock warrants.

Cash Flows

A summary of our operating, investing and financing activities is shown in the following table:

(in thousands)	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash provided by (used in) operating activities	$ 1,433	$ (30,432)
Cash (used in) provided by investing activities	(119)	11,961
Cash provided by financing activities	69,438	24,615
Net increase in cash, cash equivalents and restricted cash	$ 70,752	$ 6,144

Cash Provided By (Used In) Operating Activities

Our operating activities provided cash of $1.4 million in 2020, due primarily to a net increase of $25.0 million incash received from advertising clients for future payments to vendors, offset in part by the effect of our net loss of $47.9 million, adjusted by $26.3 million in non-cash expenses, including $19.5 million in stock-based compensation expense. Our business strategy includes decreasing operational costs while investing in the development of our AI capabilities and enhancement of our aiWARE SaaS solutions and services to grow our business and future revenue. We gauge the amount of cash utilized in these efforts using the Non-GAAP net loss measure, as presented under the heading “Non-GAAP Financial Measure” above. Our use of cash as measured by Non-GAAP net loss decreased to $20.6 million in 2020 from $36.2 million in 2019, due primarily to the initiatives that we commenced in the fourth quarter of 2019 to decrease our operating costs, including headcount reductions and enhancements to our software architecture, which have resulted in lower cloud computing costs, and to increases in our revenues.

Our operating activities used cash of $30.4 million in 2019, due primarily to our net loss of $62.1 million, adjusted by $25.2 million in non-cash expenses, including $20.7 million in stock-based compensation expense, offset by an increase in prepayments by our advertising clients.

Cash (Used In) Provided by Investing Activities

In 2020, we used $0.2 million in cash for capital expenditures, which was offset in part by minimal amounts received from the sale of equipment.

Our investing activities provided cash of $12.0 million in 2019. Net cash provided by investing activities consisted primarily of proceeds from maturing marketable securities, which were used to fund a portion of the cash used in our operating activities, offset in part by $0.9 million of cash paid to the former stockholder of Performance Bridge as additional earnout consideration and $0.5 million of cash to acquire software.

Cash Provided by Financing Activities

Our financing activities provided cash of $69.4 million in 2020. Net cash provided by financing activities consisted of $66.3 million in net proceeds received from our sales of common stock, $2.1 million in proceeds received from the exercise of stock warrants and $1.1 million received from the exercise of stock options and purchases of shares under our ESPP. Proceeds received from loans that we received under the Paycheck Protection Program in April 2020 were repaid in full in May 2020.

Our financing activities provided cash of $24.6 million in 2019. Net cash provided by financing activities consisted of $23.9 million in net proceeds received from our sales of common stock and $0.8 million received from the exercise of stock options and purchases of shares under our ESPP.

Capital Resources

We have generated significant losses since inception and expect to continue to generate losses for the foreseeable future. We believe that our current cash and cash equivalents balances will be sufficient to fund our operations in the ordinary course of business for at least the next twelve months from the date of this filing. However, our current cash and cash equivalents may not be sufficient to support the development of our business to the point at which we have positive cash flows from operations. In addition, we intend to continue to evaluate potential acquisitions of and/or investments in companies or technologies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, we may need to obtain additional sources of capital in the future. We plan to meet our future needs for additional capital through equity and/or debt financings. We currently have no available lines of credit for future borrowings. Future equity or debt financing may not be available on favorable terms or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when required, our ability to continue to support our business growth, including through acquisitions, scale our infrastructure, develop product enhancements and respond to business challenges could be significantly impaired. If we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing.

As of December 31, 2020, we had no outstanding debt obligations. We have no present agreements or commitments with respect to any material acquisitions of businesses or technologies or any other material capital expenditures.

Contractual Obligations

As a smaller reporting company, we are not required to provide the information required by Item 303(a)(5) of Regulation S-K.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Jumpstart Our Business Startups Act of 2012 (JOBS Act)

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of such extended transition period. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable. Subject to certain conditions, as an emerging growth company, we may rely on certain exemptions and reduced reporting requirements under the JOBS Act, including without limitation, (i) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (i) the last day of the fiscal year in which we have total annual gross revenues of $1.07 billion or more, (ii) the last day of the fiscal year following the fifth anniversary of our IPO, (iii) the date on which we have issued more than $1.0 billion in nonconvertible debt over a three-year period, or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, we are not required to provide the information required by Item 305 of Regulation S-K.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Veritone, Inc.

Opinion on the financial statements
We have audited the accompanying consolidated balance sheets of Veritone, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit) , and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2018.

Newport Beach, California
March 5, 2021

VERITONE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share and share data)

	As of December 31, 2020	As of December 31, 2019
ASSETS		
Cash and cash equivalents	$ 114,817	$ 44,065
Accounts receivable, net	16,666	21,352
Expenditures billable to clients	18,365	10,286
Prepaid expenses and other current assets	6,719	5,409
Total current assets	156,567	81,112
Property, equipment and improvements, net	2,354	3,214
Intangible assets, net	10,744	16,126
Goodwill	6,904	6,904
Long-term restricted cash	855	855
Other assets	230	315
Total assets	$ 177,654	$ 108,526
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 15,632	$ 17,014
Accrued media payments	55,874	26,664
Client advances	6,496	9,080
Other accrued liabilities	10,246	6,978
Total current liabilities	88,248	59,736
Other non-current liabilities	1,196	1,379
Total liabilities	89,444	61,115
Commitments and contingencies (Note 7)		
Stockholders' equity		
Common stock, par value $0.001 per share; 75,000,000 shares authorized; 31,799,354 and 25,670,737 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively	32	26
Additional paid-in capital	368,477	279,828
Accumulated deficit	(280,365)	(232,489)
Accumulated other comprehensive income	66	46
Total stockholders' equity	88,210	47,411
Total liabilities and stockholders' equity	$ 177,654	$ 108,526

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

VERITONE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share and share data)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenue	$ 57,708	$ 49,648
Operating expenses:		
Cost of revenue	15,663	15,261
Sales and marketing	19,877	23,508
Research and development	14,379	22,776
General and administrative	50,080	47,314
Amortization	5,382	4,860
Total operating expenses	105,381	113,719
Loss from operations	(47,673)	(64,071)
Other (expense) income, net	(127)	541
Loss before provision for (benefit from) income taxes	(47,800)	(63,530)
Provision for (benefit from) income taxes	76	(1,452)
Net loss	$ (47,876)	$ (62,078)
Net loss per share:		
Basic and diluted	$ (1.73)	$ (2.85)
Weighted average shares outstanding:		
Basic and diluted	27,594,911	21,797,714
Comprehensive loss:		
Net loss	(47,876)	(62,078)
Unrealized gain on marketable securities, net of income taxes	—	48
Foreign currency translation gain (loss), net of income taxes	20	(3)
Total comprehensive loss	$ (47,856)	$ (62,033)

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

VERITONE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance as of December 31, 2018	19,335,220	$ 19	$ 230,674	$ (170,411)	$ 1	$ 60,283
Common stock offerings, net	5,205,430	6	24,367	—	—	24,373
Common stock issued under employee stock plans, net	233,687	—	764	—	—	764
Stock-based compensation expense	—	—	19,402	—	—	19,402
Common stock issued for acquisitions	896,400	1	3,861	—	—	3,862
Machine Box holdback consideration	—	—	760	—	—	760
Net loss	—	—	—	(62,078)	—	(62,078)
Other comprehensive gain	—	—	—	—	45	45
Balance as of December 31, 2019	25,670,737	26	279,828	(232,489)	46	47,411
Common stock offerings, net	4,941,317	5	65,752	—	—	65,757
Common stock issued under employee stock plans, net	482,417	1	1,059	—	—	1,060
Common stock issued for services	12,100	—	95	—	—	95
Release of Machine Box holdback consideration	105,898	—	—	—	—	—
Stock-based compensation expense	—	—	19,481	—	—	19,481
Exercise of warrants	596,437	—	2,100	—	—	2,100
Issuance of warrants	—	—	308	—	—	308
Common stock returned from acquisition escrow	(9,552)	—	(146)	—	—	(146)
Net loss	—	—	—	(47,876)	—	(47,876)
Other comprehensive gain	—	—	—	—	20	20
Balance as of December 31, 2020	31,799,354	$ 32	$ 368,477	$ (280,365)	$ 66	$ 88,210

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

VERITONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	$ (47,876)	$ (62,078)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,407	5,947
Deferred income taxes, net	—	(1,489)
Warrant expense	102	-
Change in fair value of warrant liability	200	(16)
Provision for doubtful accounts	293	51
Stock-based compensation expense	19,539	20,657
Common stock returned from acquisition escrow	(146)	—
Other	(46)	—
Changes in assets and liabilities:		
Accounts receivable	4,393	7,739
Expenditures billable to clients	(8,079)	(7,591)
Prepaid expenses and other current assets	(1,726)	(1,622)
Accounts payable	(1,382)	(11,718)
Accrued media payments	29,210	9,135
Client advances	(2,584)	9,554
Other accrued liabilities	3,311	1,006
Other liabilities	(183)	(7)
Net cash provided by (used in) operating activities	1,433	(30,432)
Cash flows from investing activities:		
Proceeds from sales of marketable securities	—	13,614
Proceeds from the sale of equipment	56	—
Capital expenditures	(175)	(293)
Intangible assets acquired	—	(477)
Acquisition of businesses, net of cash acquired	—	(883)
Net cash (used in) provided by investing activities	(119)	11,961
Cash flows from financing activities:		
Proceeds from common stock offerings, net	66,278	23,851
Proceeds from loan	6,491	—
Repayment of loan	(6,491)	—
Proceeds from the exercise of warrants	2,100	—
Proceeds from issuances of stock under employee stock plans, net	1,060	764
Net cash provided by financing activities	69,438	24,615
Net increase in cash and cash equivalents and restricted cash	70,752	6,144
Cash and cash equivalents and restricted cash, beginning of period	44,920	38,776
Cash and cash equivalents and restricted cash, end of period	$ 115,672	$ 44,920
Supplemental Disclosure of Cash Flow Information		
Cash paid during periods for:		
Taxes paid	$ 69	$ 14
Non-cash investing and financing activities:		
Shares issued for acquisition of businesses and holdback consideration	—	4,622

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

NOTE 1. DESCRIPTION OF BUSINESS

Veritone, Inc., a Delaware corporation ("Veritone") (together with its wholly owned subsidiaries, collectively, the "Company"), is a provider of artificial intelligence ("AI") computing solutions. The Company's proprietary AI operating system, aiWARE™, uses machine learning algorithms, or AI models, together with a suite of powerful applications, to reveal valuable insights from vast amounts of structured and unstructured data. The platform offers capabilities that mimic human cognitive functions such as perception, prediction and problem solving, enabling users to quickly, efficiently and cost effectively transform unstructured data into structured data, and analyze and optimize data to drive business processes and insights. aiWARE is based on an open architecture that enables new AI models, applications and workflows to be added quickly and efficiently, resulting in a future-proof, scalable and evolving solution that can be leveraged by organizations across a broad range of industries, including media and entertainment, government, legal and compliance, energy and other vertical markets.

The Company also offers cloud-native digital content management solutions and content licensing services, primarily to customers in the media and entertainment market. These offerings leverage the Company's aiWARE technologies, providing customers with unique capabilities to enrich and drive expanded revenue opportunities from their content.

In addition, the Company operates a full-service advertising agency that leverages the Company's aiWARE technologies to provide differentiated services to its clients. The Company's advertising services include media planning and strategy, advertisement buying and placement, campaign messaging, clearance verification and attribution, and custom analytics, specializing in host-endorsed and influencer advertising across primarily radio, podcasting, streaming audio, social media and other digital media channels. The Company's advertising services also include its VeriAds™ Network, which is comprised of programs that enable broadcasters, podcasters and social media influencers to generate incremental advertising revenue.

NOTE 2. PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission (the "SEC"). The consolidated financial statements include the accounts of Veritone, Inc. and all of its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications to other assets have been made to prior year amounts for consistency and comparability with the current year's financial statement presentation. These reclassifications had no effect on the reported total assets and liabilities.

Amortization expense, which was presented in prior year periods within cost of revenue, sales and marketing, research and development, and general and administrative operating expenses, has been reclassified and is presented as a single separate line item in operating expenses. Gross profit, which was previously reflected in the statement of operations and comprehensive loss, is no longer presented. Additionally, cost of revenue, which was presented in prior periods within gross profit, is now presented as an operating expense. The Company believes that this presentation more accurately reflects the Company's cost of revenue and operating expenses. These reclassifications had no effect on reported net loss.

Liquidity and Capital Resources

During 2020 and 2019, the Company generated cash flows from operations of $1,433 and negative cash flows from operations of $30,432, respectively, and incurred net losses of $47,876 and $62,078, respectively. Also, the Company had an accumulated deficit of $280,365 as of December 31, 2020. Historically, the Company has satisfied its capital needs with the net proceeds from its sales of equity securities, its issuance of convertible debt, and the exercise of common stock warrants. In 2020, the Company completed an offering of its common stock for aggregate net proceeds of $59,771. In 2020 and 2019, the Company raised net proceeds of $5,986 and $24,373, respectively, through sales of its common stock under an Equity Distribution Agreement dated June 1, 2018 (the "Equity Distribution Agreement").

The Company expects to continue to generate net losses for the foreseeable future as it makes significant investments in developing and selling its aiWARE SaaS solutions. Management believes that the Company's existing balances of cash and cash equivalents, which totaled $114,817 as of December 31, 2020, will be sufficient to meet its anticipated cash requirements for at least twelve months from the date that these financial statements are issued. However, the Company's current cash and cash equivalents may not be sufficient to support the development of its business to the point at which it has positive cash flows from operations. The Company plans to meet its future needs for additional capital through equity and/or debt financings. Equity financings may include sales of common stock. Such financing may not be available on terms favorable to the Company or at all. If the Company is unable to obtain adequate financing or financing on terms satisfactory to it when required, the Company's ability to continue to support its business growth, scale its infrastructure, develop product enhancements and to respond to business challenges could be significantly impaired.

Use of Accounting Estimates

The preparation of the accompanying 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 as of the date of the accompanying consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The principal estimates relate to revenue recognition, allowance for doubtful accounts, purchase accounting, impairment of long-lived assets, the valuation of stock awards and stock warrants and income taxes, where applicable.

There has been uncertainty and disruption in the global economy and financial markets due to the COVID-19 pandemic. The Company is not aware of any specific event or circumstance that would require an update to its estimates or assumptions or a revision of the carrying value of its assets or liabilities as of the date of filing of this Annual Report on Form 10-K.

These estimates and assumptions may change as new events occur and additional information is obtained. As a result, actual results could differ materially from these estimates and assumptions.

Business Combinations

The results of a business acquired in a business combination are included in the Company's consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business generally being recorded at their estimated fair values as of the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill.

Transaction costs associated with business combinations are expensed as incurred and are included in general and administrative expenses in the consolidated statements of operations and comprehensive loss.

The Company performs valuations of assets acquired and liabilities assumed and allocates the purchase price to its respective assets and liabilities. Determining the fair value of assets acquired and liabilities assumed may require management to use significant judgment and estimates, including the selection of valuation methodologies, estimates of future revenues, costs and cash flows, discount rates, and selection of comparable companies. The Company engages the assistance of valuation specialists in concluding on fair value measurements in connection with determining fair values of assets acquired and liabilities assumed in a business combination.

Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Marketable securities are classified and accounted for as available-for-sale securities. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. Marketable securities are classified as short-term based on their availability for use in current operations. Marketable securities are carried at fair value, with unrealized gains and losses, net of income taxes, reported as a component of accumulated other comprehensive income (loss) in stockholders' equity, with the exception of unrealized losses believed to be other-than-temporary, which are reported in the Company's consolidated statement of operations and comprehensive loss in the period in which such determination is made.

Accounts Receivable and Expenditures Billable to Clients

Accounts receivable consist primarily of amounts due from the Company's clients and customers under normal trade terms. Allowances for uncollectible accounts are recorded based upon a number of factors that are reviewed by the Company on an ongoing basis, including historical amounts that have been written off, an evaluation of current economic conditions, and an assessment of customer creditworthiness. Judgment is required in assessing the ultimate realization of accounts receivable.

The amounts due from clients based on costs incurred or fees earned that have not yet been billed to clients are reflected as expenditures billable to clients in the accompanying consolidated balance sheets.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy, which is based on three levels of inputs, the first two of which are considered observable and the last unobservable, that may be used to measure fair value, is as follows:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 — inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3 — unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company classifies its cash equivalents (including money market funds) within Level 1 of the fair value hierarchy on the basis of valuations based on quoted prices for the specific securities in an active market.

The Company's stock warrants are categorized as Level 3 within the fair value hierarchy. Stock warrants are recorded within other accrued liabilities and equity in the Company's consolidated balance sheets as of December 31, 2020 and 2019. The warrants have been recorded at their fair values using a probability weighted expected return model or Black-Scholes-Merton option pricing model. These models incorporate contractual terms and assumptions regarding expected term, risk-free rates and volatility. The value of the Company's stock warrants would increase if a higher risk-free interest rate was used, and would decrease if a lower risk-free interest rate was used. Similarly, a higher volatility assumption would increase the value of the stock warrants, and a lower volatility assumption would decrease the value of the stock warrants. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's management with the assistance of a third-party valuation specialist.

The Company's other financial instruments consist primarily of cash, accounts receivable and accounts payable. The Company has determined that the carrying values of these financial instruments approximate fair value for the periods presented due to their short-term nature and the relatively stable current interest rate environment.

Long-Term Restricted Cash

Long-term restricted cash consists primarily of collateral required as security for the Company's corporate credit cards.

Property, Equipment and Improvements

Property, equipment and improvements are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred. Major improvements enhancing the function and/or useful life of the related assets are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives (or lease term, if shorter) of the related assets. At the time of retirement or disposition of these assets, the cost and accumulated depreciation or amortization are removed from the accounts and any related gains or losses are recorded in the Company's statement of operations and comprehensive loss.

The useful lives of property, equipment and improvements are as follows:

- Property and equipment — 3 years
- Leasehold improvements — 5 years or the remaining lease term, whichever is shorter

The Company assesses the recoverability of property, equipment and improvements whenever events or changes in circumstances indicate that their carrying value may not be recoverable. No property, equipment and improvements were impaired in the periods presented.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the acquisition method. Intangible assets include acquired developed technology, licensed technology, customer relationships, noncompete covenants, and trademarks and tradenames. Intangible assets are amortized on a straight-line basis over the applicable amortization period as set forth below.

The amortization periods for intangible assets are as follows:

- Developed technology — 5 years
- Customer relationships — 5 years
- Noncompete agreements — 3 to 4 years
- Trademarks and trade names — approximately 2 years
- Licensed technology — lesser of the term of the agreement, or the estimated useful life

Intangible asset amortization expense is recorded in the consolidated statements of operations and comprehensive loss.

Impairment of Goodwill and Long-Lived Assets

Goodwill is not amortized but instead is tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that goodwill might be impaired. The Company's annual impairment test is performed during the second quarter. In assessing goodwill impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that the fair value of a reporting unit is less than its carrying amount. The Company's qualitative assessment of the recoverability of goodwill considers various macro-economic, industry-specific and company-specific factors. These factors include: (i) severe adverse industry or economic trends; (ii) significant company-specific actions, including exiting an activity in conjunction with restructuring of operations; (iii) current, historical or projected deterioration of the Company's financial performance; or (iv) a sustained decrease in the Company's market capitalization below its net book value. If, after assessing the totality of events or circumstances, the Company determines it is unlikely that the fair value of such reporting unit is less than its carrying amount, then a quantitative analysis is unnecessary. However, if the Company concludes otherwise, or if it elects to bypass the qualitative analysis, then it is required to perform a quantitative analysis that compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired; otherwise, a goodwill impairment loss is recognized for the lesser of: (a) the amount that the carrying amount of a reporting unit exceeds its fair value; or (b) the amount of the goodwill allocated to that reporting unit.

The Company reviews long-lived assets to be held and used, other than goodwill, for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation of recoverability is required, the estimated undiscounted future cash flows directly associated with the asset are compared with the asset's carrying amount. If the estimated future cash flows from the use of the asset are less than the carrying value, an impairment charge would be recorded to write down the asset to its estimated fair value.

No impairment of goodwill or long-lived assets was recorded for the years ended December 31, 2020 and 2019.

Revenue Recognition

The Company recognizes revenue under its contracts with customers in accordance with ASU 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). The Company derives its revenues primarily from three sources: (1) subscription revenues, which are comprised primarily of subscription and related fees from customers for access to and use of the Company's platforms and associated services delivered as software-as-a-service ("SaaS") and (2) content licensing revenues, which are comprised primarily of fees from customers for licenses to third-party content owners' digital assets and (3) advertising revenues.

The Company recognizes revenue to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company follows a five-step process to determine revenue recognition, as follows:

- Identifies the contracts(s) with a customer;
- Identifies the performance obligations in the contract;
- Determines the transaction price;

- Allocates the transaction price to the performance obligations in the contract; and
- Recognizes revenue when (or as) performance obligations are satisfied.

The Company enters into contracts with customers that may include promises to transfer multiple services. The Company evaluates these services to determine whether they represent distinct, separately identifiable performance obligations that should be accounted for separately or as a single performance obligation. For contracts containing multiple performance obligations, to meet the allocation objective of Topic 606, the Company allocates the transaction price to each performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which the Company would sell a promised service separately to a customer. For certain arrangements, the determinations regarding whether a contract contains multiple performance obligations and, if so, the SSP of each performance obligation, may require judgment by management.

aiWARE SaaS Revenues

The Company has agreements with its customers under which it provides customers with access to and use the Company's aiWARE and digital content management platforms. Under most agreements, the Company provides access to the platform, specified applications and associated data ingestion, hosting and/or processing services, and standard user support. Fees for these services typically take the form of a fixed monthly subscription fee, with certain contracts specifying usage-based fees for data processing services in excess of the data processing services included as part of such subscription services. Fees for excess usage-based data processing services are accounted for as variable consideration. In certain cases, the fixed monthly subscription fee may adjust during each monthly period of the contract based on changes in the monthly volume of services, at the rates established in the contract. These contracts typically have terms ranging from one to three years, with renewal options, and do not contain refund-type provisions. All significant services provided as part of these subscription arrangements are highly interdependent and constitute a single performance obligation comprised of a series of distinct services transferred to the customer in a similar manner throughout the contract term (collectively, the "subscription services"), with the exception of the additional usage-based services, which represent a separate performance obligation as discussed below. The fixed subscription fees are recognized as revenue ratably over the contract term, at the applicable monthly rate, as the performance obligation is satisfied, as this best depicts the pattern of control transfer. If a portion of the term of a contract is cancellable, the Company determines the transaction price for, and recognizes revenue ratably over, the non-cancellable portion of the term of the contract. In certain SaaS arrangements with broadcasters, the fees for subscription services are paid by broadcasters with advertising inventory that is provided to and monetized by the Company. The Company recognizes revenue for these arrangements based on the fair value of the advertising inventory.

The Company also makes data processing, storage and transfer services available to customers through its aiWARE and digital content management platforms under usage-based arrangements with no minimum fees, either separately or in addition to subscription services as described above. Fees are charged for actual usage of such services at the rates specified in the contract for each particular service. Each of these distinct services represents an individual performance obligation. When sold in connection with subscription services, the Company considers the allocation guidance of Topic 606.

Variable consideration for usage-based data processing, storage and transfer services is recognized in the month in which it is earned, as the payment terms relate to a specific outcome (amount of data processed, stored or transferred) of delivering the distinct time increment (the month) of services, and represents the fees to which the Company expects to be entitled for providing the services, and allocating the variable fees in this way is consistent with the allocation objective of Topic 606.

The Company also enters into software license agreements with customers under which the Company provides software representing an on-premises deployment of its aiWARE platform or components thereof. Under these license agreements, the customer is responsible for the installation and configuration of the software in the customer-controlled environment. The Company recognizes the license fees as revenue under these agreements at the time that the software is made available by the Company for download by the customer.

The Company typically invoices its aiWARE SaaS customers for subscription services monthly, for on-premises software at the time the software is made available for download by the customer, and for professional services either monthly or in accordance with an agreed upon invoicing schedule. Invoices are typically due and payable within 30 days following the date of invoice. Amounts that have been invoiced are recorded in accounts receivable or in deferred revenue, depending on whether transfer of control to customers of the promised services has occurred.

aiWARE Content Licensing Revenues

The Company has agreements with third-party owners of digital assets pursuant to which the Company licenses those assets to customers and remits royalties to the content owners. In licensing such third-party digital assets, the Company hosts public and private content libraries on the Company's platform to enable customers to view and search for digital assets to be licensed, establishes and negotiates with customers the scope and term of, and the prices for, licenses to those digital assets, and makes the licensed digital assets available to the end-customers. The Company is considered the principal under most agreements that have this range of services due to obtaining control prior to transfer of the assets, and the Company records the revenue from the customer gross of royalties due to the content owner. In limited cases, the Company does not obtain control prior to transfer of the assets, and accordingly, the Company records revenues net of royalties due to the content owner.

The Company licenses digital assets under (i) individual license agreements, pursuant to which the customer licenses a particular digital asset (or set of digital assets) for a specified license fee, and (ii) bulk license agreements, pursuant to which the customer pays a fixed fee to have access to view and search third-party owners' content and to license a specified number of minutes of that content in each year over the term of the contracts, which typically range from one to three years, with certain contracts specifying usage-based license fees for additional digital assets that may be licensed by the customer.

Under individual license agreements, the Company has a single performance obligation, which is to make the licensed digital assets available to the customer, generally by download. The Company recognizes the license fees charged for the digital assets as revenue when the licensed digital assets are made available to the customer.

Under bulk license agreements, the Company's obligations include hosting the content libraries for access and searching by the customer, updating the libraries with new content provided by the content owner, and making assets selected by the customer available for download, throughout the term of the contract. All of these services are highly interdependent and constitute a single performance obligation comprised of a series of distinct services transferred to the customer in a similar manner throughout the contract term. The predominant item in the single performance obligation is a license providing a right to access the content library throughout the license period. For these arrangements, the Company recognizes the total fixed fees under the contract as revenue ratably over the term of the contract as the performance obligation is satisfied, as this best depicts the pattern of control transfer. If the customer selects digital assets in excess of the amount included in the fixed fees under the contract, the Company constrains the variable consideration until the usage occurs and recognizes such usage-based license fees as the digital assets are made available to the customer, consistent with the usage-based royalty accounting of Topic 606.

Advertising Revenues

The Company's advertising services consist primarily of placing advertisements for clients with media vendors, including broadcasters, podcasters and digital media providers. The Company receives fees, at varying rates of gross advertising media placed, as consideration for services performed by the Company. Under the most common billing arrangements, the Company bills and collects the gross cost of the advertisement it places, less any discounts negotiated with its client off of the media vendor's standard agency fee. The Company then remits to the media vendor the gross amount less the standard agency fee. The amount billed to the client, less the amount payable to the media vendor, represents the Company's fees and is recognized as revenue.

All significant services performed by the Company under its contracts with advertising clients in conjunction with media placements, including planning and placing media and verifying that advertisements have aired, represent a single performance obligation as such services are highly interrelated. The Company's fee, which represents the transaction price, is recognized as revenue at a point in time when the advertisement is aired, which is the point at which the Company has an enforceable right to payment of its fees.

The Company's clients may be required to make a deposit or prepay the gross costs of advertisements, including the Company's fees. Such amounts are reflected as client advances on the Company's consolidated balance sheets until all revenue recognition criteria have been met.

Gross Versus Net Revenue Recognition

The Company reports revenue on a gross or net basis based on management's assessment of whether the Company acts as a principal or agent in the transaction. To the extent the Company acts as the principal, revenue is reported on a gross basis, net of any sales tax from customers, when applicable. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company controls the good or service prior to transfer to the customer. The Company has determined that it acts as the principal in providing all of its services with the exception of certain advertising services, where the Company recognizes its fees on a net basis.

Remaining Performance Obligations

As of December 31, 2020, the aggregate amount of the transaction prices under the Company's contracts allocated to the Company's remaining performance obligations was $5,024, approximately 69% of which the Company expects to recognize as revenue over the next twelve months, and the remainder thereafter. This aggregate amount excludes amounts allocated to remaining performance obligations under contracts that have an original duration of one year or less and variable consideration that is allocated to remaining performance obligations.

Cost of Revenue

Cost of revenue related to the Company's advertising business consists of production costs relating to advertising content for advertisements placed for clients, and amounts payable to media vendors under revenue sharing arrangements for ad inventory transferred to and monetized by the Company.

Cost of revenue related to the Company's aiWARE content licensing and media services include royalties paid to content owners on revenue generated from the Company's licensing of their content, and fees charged by vendors that provide products and services in support of the Company's live event services and obtaining of talent and property clearances.

Cost of revenue related to the Company's aiWARE SaaS solutions consists primarily of fees charged by vendors for cloud infrastructure, computing and storage services and cognitive processing services related to the operation of the Company's platforms. The Company's arrangements with cloud infrastructure providers typically require fees that are based on computing time, data storage and transfer volumes, and reserved computing capacity. The Company also pays fees to third-party providers of AI models, which are generally based upon the hours of media processed through their models.

Stock-Based Compensation

Stock-based compensation expense is estimated at the grant date based on the fair value of the award.

Prior to the Company's initial public offering ("IPO"), the fair values of restricted stock awards were estimated at the date of grant by using both the option-pricing method and the probability-weighted expected return method. All restricted stock awards granted prior to the Company's IPO have vested in full as of the fourth quarter of 2020. Following the Company's IPO, the fair values of restricted stock and restricted stock unit awards granted by the Company are based on the closing market price of the Company's common stock on the date of grant.

The Company estimates the fair values of stock options having time-based vesting conditions, as well as purchase rights under the Company's Employee Stock Purchase Plan ("ESPP"), using the Black-Scholes-Merton option pricing model. The Company's performance-based stock options vest if a specified target price for the Company's common stock is achieved. The Company estimates the fair values of performance-based stock options utilizing a Monte Carlo simulation model, to estimate the date that the specified stock price targets will be achieved (the attainment date), and the Black-Scholes-Merton option pricing model. A fair value is determined for each tranche of such performance-based stock options that is tied to a particular stock price target.

Determining the appropriate fair values of stock options and ESPP purchase rights at the grant date requires significant judgment, including estimating the volatility of the Company's common stock, the expected term of awards, and the derived service periods for each tranche of performance stock options. In determining fair values, the Company estimated volatility based on the historical volatility of its own common stock along with the volatility of the peer group. In calculating estimated volatility, as the number of years of trading history for the Company's common stock has increased, the volatility of the Company's common stock has been given a weighting ranging from 25% to 50% and the volatility of the peer group companies has been given a weighting ranging from 75% to 50%, with each peer company weighted equally. The Company will continue utilizing this combination and will periodically adjust the weightings as additional historical volatility data for its own shares of common stock becomes available.

The expected term for stock options other than performance-based stock options represents the period of time that stock options are expected to be outstanding and is determined using the simplified method. Under the simplified method, the expected term is calculated as the midpoint between the weighted average vesting date and the contractual term of the options. The expected term for performance-based stock options considers the remaining term of the option after the attainment date and the ratio of the stock price at the attainment date to the option exercise price.

The risk-free rate is based on the implied yield of U.S. Treasury notes as of the grant date with aremaining term approximately equal to the expected term of the award.

The assumptions used in the Company's Black-Scholes-Merton option-pricing and Monte Carlo simulation models represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment.

The fair value of stock-based awards (other than performance-based stock options) is amortized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period. For performance-based stock options, expense is recognized over a graded-vesting attribution basis over the period from the grant date to the estimated attainment date, which is the derived service period of each tranche of the award.

In recording stock-based compensation expense, the Company accounts for actual forfeitures as they occur and does not estimate forfeitures.

If performance options are modified, the fair values and the new derived service periods of the modified awards as of the date of modification and the fair values of the original awards immediately before the modification are determined. The amount of incremental compensation expense resulting from the modification of each award is equal to the excess of the fair value of the modified award on the date of modification over the fair value of the original award immediately before the modification. The incremental compensation expense is recognized over the new derived service period of the modified award.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred and are primarily included in sales and marketing expenses in the Company's consolidated statements of operations and comprehensive loss. Advertising and marketing costs include online and print advertising, public relations, tradeshows, and sponsorships. For the years ended December 31, 2020 and 2019, the Company recorded expense of $1,214 and $1,763, respectively, for advertising and marketing costs.

Research and Development Costs and Software Development Costs

Research and development costs are expensed as incurred.

Costs related to the development of computer software to be sold, leased, or otherwise marketed by the Company in the future are expensed as incurred. The costs of internal-use software that is developed to meet the Company's needs and will not be marketed externally is subject to capitalization. The company capitalized $72 of software development costs in 2020 and no software development costs were capitalized in 2019.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are established for temporary differences between the financial statement carrying amounts and the tax bases of the Company's assets and liabilities using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

The Company assesses the likelihood that the deferred tax assets will be recovered from future taxable income and, if recovery is not more likely than not, the Company establishes a valuation allowance to reduce the deferred tax assets to the amounts expected to be realized. Realization of the deferred tax assets is dependent on the Company generating sufficient taxable income in future years to obtain a benefit from the reversal of temporary differences and from net operating losses.

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to determine whether the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. If the first test is met, then the second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

Comprehensive Loss

Comprehensive loss consists of net loss and other gains and losses affecting equity that are excluded from net loss. These consist of unrealized gain (loss) on marketable securities, net of income tax, and foreign currency translation adjustments.

Segment Information

The Company reports segment information based on the internal reporting used by the chief operating decision maker for making decisions and assessing performance as the source of the Company's reportable segments. The Company's reportable segments include Advertising, aiWARE Content Licensing and Media Services and aiWARE SaaS Solutions. In making decisions and assessing performance, the chief operating decision maker evaluates revenue of each reportable segment (see Note 6) but does not evaluate other metrics such as total assets, net income (loss), capital expenditures, goodwill or other intangible assets financial information by reportable segment. The Company evaluates the cost of revenue on a combined but not allocated basis, and evaluates all other operating expenses on a consolidated basis. The Company's presence is primarily in the United States of America and it therefore does not have geographic segments to report.

Significant Customers

No individual customer accounted for 10% or more of the Company's revenue for the years ended December 31, 2020 and 2019. Two advertising clients individually accounted for 10% or more of the Company's accounts receivable as of December 31, 2020,and no individual customers accounted for 10% or more of accounts receivable as of December 31, 2019.

Concentration of Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with what management believes are quality financial institutions in the United States and performs periodic evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any one institution. At times, the value of the United States deposits exceeds federally insured limits. The Company has not experienced any losses in such accounts.

Recently Adopted Accounting Pronouncements

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). The JOBS Act permits emerging growth companies to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. The Company has elected to use the extended transition period for complying with new or revised accounting standards under Section 107 of the JOBS Act. This election allows the Company to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies.

Effective for the Company's fiscal year ended December 31, 2019, the Company adopted the provisions and expanded disclosure requirements described in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)("Topic 606")* for its annual financial statements. The Company adopted the standard using the modified retrospective method. Accordingly, the results for the prior comparable periods were not adjusted to conform to the current year measurement and recognition of results. As of the beginning of 2019, the impact of the adoption of Topic 606 was not material. However, in adopting Topic 606, the Company has modified its revenue recognition policy in the following ways:

- Some multi-year contracts include fixed annual price increases. Historically, the Company recognized revenue based on the price allocated to each year. Now, the Company recognizes the aggregate fixed price as revenue ratably over the full term of the contract.
- Historically, certain variable consideration was recognized one month in arrears when the amount became known. These revenues are now recognized in the month in which the service is provided based on an estimate of the amount that the Company expects to be entitled to receive for the services.

During the year ended December 31, 2019, the Company's quarterly financial statements were prepared using the prior revenue recognition standard, Topic 605, *Revenue Recognition*. Beginning in the first quarter of 2020, the Company's quarterly financial statementsare presented using Topic 606.

In August 2018, the FASB issued ASU No. 2018-13,*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, as part of its disclosure framework project intended to improve the effectiveness of disclosures in the notes to the financial statements by updating certain disclosure requirements related to fair value measurements. The standard became effective for the Company beginning in the first quarter of fiscal year 2020. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments under this pronouncement will change the way all leases with duration of one year or more are treated. Under this guidance, lessees will be required to capitalize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or capital lease liability. The right-of-use asset represents the lessee's right to use, or control the use of, a specified asset for the specified lease term. The lease liability represents the lessee's obligation to make lease payments arising from the lease, measured on a discounted basis. Based on certain characteristics, leases are classified as financing leases or operating leases. Financing lease liabilities, those that contain provisions similar to capitalized leases, are amortized in the same manner as capital leases are amortized under current accounting rules, as amortization expense and interest expense in the statement of operations. Operating lease liabilities are amortized on a straight-line basis over the life of the lease as lease expense in the statement of operations. This standard will be effective for the Company beginning with the first quarter of fiscal year 2022. The Company is currently evaluating the impact this standard will have on its policies and procedures pertaining to its existing and future lease arrangements, its disclosure requirements and its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. which requires measurement and recognition of expected credit losses for financial assets held. This standard will be effective for the Company beginning in the first quarter of fiscal year 2023, and early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements and related disclosures as well as the timing of adoption.

In December 2019, the FASB issued ASU 2019-12 to simplify the accounting in ASC 740 *Income Taxes*. This standard removes certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This standard will be effective for the Company beginning in the first quarter of fiscal year 2022, and early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its financial statements and related disclosures as well as the timing of adoption.

NOTE 3. NET LOSS PER SHARE

The following table presents the computation of basic and diluted net loss per share:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Numerator		
Net loss	$ (47,876)	$ (62,078)
Denominator		
Weighted-average common shares outstanding	27,609,403	21,845,536
Less: Weighted-average shares subject to repurchase	(14,492)	(47,822)
Denominator for basic and diluted net loss per share attributable to common stockholders	27,594,911	21,797,714
Basic and diluted net loss per share	$ (1.73)	$ (2.85)

The Company reported net losses for both periods presented and, as such, all potentially dilutive shares of common stock would have been antidilutive for such periods. The table below presents the weighted-average securities (in common equivalent shares) outstanding during the periods presented that have been excluded from the calculation of diluted net loss per share because their effect would be anti-dilutive:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Common stock options and restricted stock units	10,251,790	9,858,931
Warrants to purchase common stock	1,470,812	1,297,151
	11,722,602	11,156,082

NOTE 4. FINANCIAL INSTRUMENTS

Cash, Cash Equivalents

The Company's money market funds are categorized as Level 1 within the fair value hierarchy.As of December 31, 2020, the Company's cash and cash equivalents were as follows:

	Cost	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$ 44,795	$ —	$ 44,795	$ 44,795	$ —
Level 1:					
Money market funds	70,022	—	70,022	70,022	—
Total	$ 114,817	$ —	$ 114,817	$ 114,817	$ —

As of December 31, 2019, the Company's cash and cash equivalents were as follows:

	Cost	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$ 23,710	$ —	$ 23,710	$ 23,710	$ —
Level 1:					
Money market funds	20,355	—	20,355	20,355	—
Total	$ 44,065	$ —	$ 44,065	$ 44,065	$ —

Stock Warrants

All of the Company's outstanding stock warrants are categorized as Level 3 within the fair value hierarchy. Stock warrants have been recorded at their fair value using either a probability weighted expected return model, the Monte Carlo simulation model or the Black-Scholes option-pricing model. These models incorporate contractual terms, maturity, risk-free interest rates and volatility. The value of the Company's stock warrants would increase if a higher risk-free interest rate was used, and would decrease if a lower risk-free interest rate was used. Similarly, a higher volatility assumption would increase the value of the stock warrants, and a lower volatility assumption would decrease the value of the stock warrants. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's management with the assistance of a third-party valuation specialist.

In April 2020, in connection with a consulting agreement between the Company and a consulting firm, the Company issued to such firm a warrant to purchase up to 50,000 shares of the Company's common stock (the "Compensation Warrant"). The Compensation Warrant was fully vested and exercisable upon issuance, has an exercise price of $3.01 per share and expires on December 31, 2021. The holder is able to redeem the warrant for a number of shares having a value equal to the in-the-money value of the warrant. The fair value of this stock warrant is $59, which was determined using the Black-Scholes option-pricing model and was recorded in general and administrative operating expenses during the year ended December 31, 2020. The Company also issued to such firm in connection with the consulting agreement an additional warrant to purchase up to 400,000 shares of the Company's common stock (the "Performance Warrant" and collectively with the Compensation Warrant, the "2020 Stock Warrants"). The Performance Warrant has an exercise price of $3.01 per share, shall vest and become exercisable in three substantially equal installments of133,333 shares upon the achievement of specified performance goals and/or a market condition, and expires on December 31, 2023. The market condition has been achieved and, accordingly, the first installment of 133,333 shares underlying the Performance Warrant has vested and is exercisable. The fair value of the installment of the Performance Warrant tied to the market condition is $43, which was determined using a Monte Carlo simulation model and was recorded in general and administrative operating expenses for the year ended December 31, 2020. The Company has not recorded any fair value with respect to the remaining installments linked to performance goals, because the achievement of such performance goals is not yet considered probable.

The following table summarizes quantitative information with respect to the significant unobservable inputs that were used to value the 2020 Stock Warrants:

	Compensation Warrant	Performance Warrant
Volatility	88 %	85 %
Risk-free rate	0.23 %	0.34 %
Term	1.7 years	3.7 years

In April 2018, in connection with the advisory agreement between the Company and a financial advisory firm, the Company issued such firm a five-year warrant to purchase up to 20,000 shares of the Company's common stock ("April 2018 Warrant"). The April 2018 Warrant was fully vested and exercisable upon issuance and has an exercise price of $11.73 per share and expires on April 6, 2023. The Company recorded this stock warrant at its fair value of $207 using the Black-Scholes option-pricing model. The holder is able to redeem the warrant for a number of shares having a value equal to the in-the-money value of the warrant. The April 2018 Warrant was outstanding at December 31, 2020.

NOTE 5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The carrying amount of goodwill was $6,904 as of December 31, 2020 and December 31, 2019.

Intangible Assets

The following table sets forth the Company's finite-lived intangible assets resulting from business acquisitions and other purchases, which continue to be amortized:

		December 31, 2020			December 31, 2019		
	Weighted Average Remaining Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Software and technology	1.4	$ 3,582	$ (3,357)	$ 225	$ 3,582	$ (2,171)	$ 1,411
Licensed technology	0.7	500	(375)	125	500	(208)	292
Developed technology	2.7	9,600	(4,480)	5,120	9,600	(2,560)	7,040
Customer relationships	2.7	9,300	(4,340)	4,960	9,300	(2,480)	6,820
Trademarks and trade names	0.0	100	(100)	-	100	(59)	41
Noncompete agreements	1.6	800	(486)	314	800	(278)	522
Total	2.6	$ 23,882	$ (13,138)	$ 10,744	$ 23,882	$ (7,756)	$ 16,126

The following table presents future amortization of the Company's finite-lived intangible assets at December 31, 2020:

2021	$ 4,261
2022	3,963
2023	2,520
Total	$ 10,744

NOTE 6. CONSOLIDATED FINANCIAL STATEMENTS DETAILS

Consolidated Balance Sheets Details

Cash and cash equivalents

As of December 31, 2020 and December 31, 2019, the Company had cash and cash equivalents of $114,817 and $44,065, respectively, including $40,052 and $15,003, respectively, of cash received from advertising clients and content licensees for future payments to vendors.

Accounts Receivable, Net

Accounts receivable consisted of the following:

	As of			
		December 31, 2020		**December 31, 2019**
Accounts receivable — Advertising	$	12,641	$	19,184
Accounts receivable — Other		4,143		2,197
		16,784		21,381
Less: allowance for doubtful accounts		(118)		(29)
Accounts receivable, net	$	16,666	$	21,352

The amount that the Company invoices and collects from advertising clients includes the cost of the advertisements placed for them with media vendors and the amount of the fee earned by the Company. The average fees earned by the Company is typically less than 15% of the total amount invoiced and collected from the advertising clients.

Property, Equipment and Improvements, Net

Property, equipment and improvements consisted of the following:

	As of			
		December 31, 2020		**December 31, 2019**
Property and equipment	$	2,365	$	2,247
Leasehold improvements		2,899		2,876
		5,264		5,123
Less: accumulated depreciation		(2,910)		(1,909)
Property, equipment and improvements, net	$	2,354	$	3,214

Depreciation expense was $1,025 and $1,087 for the years ended December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, the Company disposed of $34 in property, equipment, and improvements and recorded a $10 loss on disposal.

Accounts Payable

Accounts payable consisted of the following:

	As of			
		December 31, 2020		**December 31, 2019**
Accounts payable — Advertising	$	14,667	$	15,697
Accounts payable — Other		965		1,317
Total	$	15,632	$	17,014

Accounts payable – Advertising reflects the amounts due to media vendors for advertisements placed on behalf of the Company’s advertising clients.

Consolidated Statements of Operations and Comprehensive Loss Details

Revenue

Revenue for the periods presented were comprised of the following:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Advertising	$ 31,550	$ 24,364
aiWARE SaaS Solutions	13,863	10,653
aiWARE Content Licensing and Media Services	12,295	14,631
Total revenue	$ 57,708	$ 49,648

During the years ended December 31, 2020 and 2019, the Company's advertising business made $257,817 and $216,483 in gross media placements, of which $237,883 and $200,709, respectively, were billed directly to clients. Of the amounts billed directly to clients, $212,273 and $177,930 represented media-related costs netted against billings during the years ended December 31, 2020 and 2019, respectively.

Disaggregated Revenue

Revenue disaggregated was as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Advertising (by service type):		
Agency	$ 27,531	$ 24,270
VeriAds	4,019	94
Sub-total	31,550	24,364
aiWARE SaaS Solutions (by market):		
Media and Entertainment	10,804	9,735
Government, Legal and Compliance	1,944	918
Other Markets	1,115	-
Sub-total	13,863	10,653
aiWARE Content Licensing and Media Services (by service type):		
Content Licensing	11,673	13,738
Media Services	622	893
Sub-total	12,295	14,631
Total revenue	$ 57,708	$ 49,648

Other (Expense) Income, Net

Other (expense) income, net for the periods presented was comprised of the following:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Interest income, net	$ 85	$ 549
Change in fair value of warrant liability	(200)	16
Other	(12)	(24)
Other (expense) income, net	$ (127)	$ 541

NOTE 7. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases facilities under operating lease arrangements expiring at various years through fiscal 2024. Certain of the Company's leases contain standard rent escalation and renewal clauses. Under certain leases, the Company is required to pay operating expenses in addition to base rent. Rentexpense for lease payments is recognized on a straight-line basis over the lease term.

As of December 31, 2020, future minimum lease payments were as follows:

Year Ending December 31,		Minimum Annual Lease Payments
2021	$	2,242
2022		1,884
2023		1,685
2024		1,730
Total minimum payments	$	7,541

The total rent expense for all operating leases was $3,031 and $2,987 for the years ended December 31, 2020 and 2019, respectively.

Sales Taxes

The Company collects and remits sales tax in jurisdictions in which it has a physical presence or it believes nexus exists, which therefore obligates the Company to collect and remit sales tax. During the year ended December 31, 2020, the Company recorded a $1,036 liability for potential exposure in several states where there is uncertainty about the point in time at which the Company established a sufficient business connection to create nexus.

Other Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on the Company's results of operations, financial position or cash flows.

NOTE 8. STOCKHOLDERS' EQUITY

December 2020 Common Stock Offering

In December 2020, the Company completed an offering of its common stock, pursuant to which the Company sold an aggregate of 3,450,000 shares of common stock (which included the full exercise of the underwriters' option to purchase additional shares) at a price of $18.50 per share, for aggregate net proceeds of approximately $59,771 after deducting underwriting discounts and commissions and offering costs of approximately $4,054.

Other Common Stock Transactions

In June 2018, the Company entered into an Equity Distribution Agreement with JMP Securities as sales agent, pursuant to which it could offer and sell, from time to time, through JMP Securities, shares of its common stock having an aggregate offering price of up to $50,000. In 2020 and 2019, the Company issued an aggregate of 1,491,317 and 5,205,430 shares of its common stock, respectively, which were sold pursuant to the Equity Distribution Agreement. In 2020 and 2019, the Company received net proceeds from such sales of $5,986 and $24,373 after deducting expenses of $291 and $756, respectively. The Company voluntarily terminated the Equity Distribution Agreement in January 2021.

In 2020, the Company issued 154,311 shares of its common stock upon the exercise of warrants for an aggregate exercise price of $2,100, and issued an aggregate of 442,126 shares of common stock upon exercises of warrants to purchase an aggregate of 813,400 shares of common stock, which were effected on a net exercise basis without cash payment of the exercise price.

In 2020, the Company issued 12,100 shares of its common stock to consultants in consideration for services rendered. The Company valued these stock issuances based on the closing price of its common stock on the issuance date and recorded the expense of $95 in general and administrative expenses in the Company's consolidated statement of operations and comprehensive loss for the year ended December 31, 2020.

In 2020 and 2019, the Company issued an aggregate of 482,417 and 233,687 shares of its common stock, respectively, in connection with the exercise of stock options, grants of restricted stock awards and vesting of restricted stock units (net of forfeitures of restricted stock) under its stock incentive plans, and purchases under its Employee Stock Purchase Plan (the "ESPP").

In September 2018, the Company acquired all of the outstanding capital stock of Machine Box, Inc. ("Machine Box"). The purchase consideration for the acquisition was comprised of the initial consideration paid at closing and additional contingent amounts that were payable if Machine Box achieved certain technical development and integration milestones within 12 months after the closing of the acquisition, and 80% of such consideration was payable by issuance of shares of the Company's common stock to the former stockholders of Machine Box. During 2019, the Company determined that Machine Box had achieved the technical development and integration milestones required to be completed during such period and, as a result, the former Machine Box stockholders became entitled to receive an aggregate of 394,604 shares of the Company's common stock, valued at $2,389 based on the closing price of the Company's common stock on the respective milestone dates, of which an aggregate of 315,687 shares were issued to them, and 78,917 shares were held back from issuance by the Company to secure certain indemnification and other obligations of the former stockholders.

In 2020, the Company issued an aggregate of 105,898 shares of common stock to the former stockholders of Machine Box, representing all of the shares previously held back from issuance by the Company with respect to the initial consideration and the additional contingent consideration.

In August 2018, the Company acquired all of the outstanding capital stock of S Media Limited (d/b/a Performance Bridge Media) ("Performance Bridge"). The purchase consideration for the acquisition was comprised of the initial consideration paid at closing and additional earnout consideration that was payable if Performance Bridge achieved certain revenue milestones for its 2018 fiscal year, and 80% of such consideration was payable by issuance of shares of the Company's common stock to the former stockholder of Performance Bridge. The initial consideration was subject to adjustment based on a final calculation of Performance Bridge's net assets at closing, which was completed in the first quarter of 2019 and resulted in the issuance to the former stockholder of Performance Bridge an additional 6,482 shares of common stock valued at $34 based on the closing price of the Company's common stock on January 25, 2019, which was the date both parties agreed upon the final calculation. In March 2019, the Company determined that the additional earnout consideration had been earned and the former stockholder of Performance Bridge became entitled to receive 574,231 shares of the Company's common stock, valued at $3,026 based on the closing price of the Company's common stock on March 28, 2019, which were paid and issued to the former stockholder of Performance Bridge in 2019.

In 2020, 9,552 shares of common stock, which represented a portion of the consideration for the Company's acquisition of Wazee Digital, Inc. ("Wazee") in 2018 that was previously deposited in a third-party escrow account to secure certain indemnification obligations of the former stockholders of Wazee Digital, were returned to the Company and cancelled in connection with the resolution of a claim for indemnification made by the Company.

Common Stock Warrants

As discussed in Note 4 and above, in 2020, the Company issued warrants to purchase an aggregate of 450,000 shares of the Company's common stock and warrants to purchase an aggregate of 967,711 shares of common stock were exercised in 2020.

The table below summarizes the warrants outstanding at December 31, 2020:

Issuance Date	Life in Years		Exercise Price	Number of Shares of Common Stock
Various dates in 2017	10	$	13.6088	313,440
April 2018	5	$	11.73	20,000
April 2020 Compensation Warrant	1.7	$	3.01	50,000
April 2020 Performance Warrant	3.7	$	3.01	396,000
				779,440

The table below summarizes the warrants outstanding at December 31, 2019:

Issuance Date	Life in Years		Exercise Price	Number of Shares of Common Stock
May 2017	5	$	13.6088	809,400
Various dates in 2017	10	$	13.6088	313,440
Various dates in 2016	4	$	13.6088	154,311
April 2018	5	$	11.73	20,000
				1,297,151

NOTE 9. STOCK PLANS

2014 Stock Incentive Plan

In 2014, the Company's Board of Directors and stockholders approved and adopted the 2014 Stock Option/Stock Issuance Plan (the "2014 Plan"), which was amended in March 2015, October 2016 and April 2017. Under the 2014 Plan, incentive stock options, nonstatutory stock options, restricted stock and restricted stock units may be granted to eligible employees, directors and consultants. The Company's Board of Directors resolved not to make any further awards under the 2014 Plan following the completion of the Company's IPO. The 2014 Plan will continue to govern all outstanding awards granted thereunder.

2017 Stock Incentive Plan

In April 2017, the Company's Board of Directors and stockholders approved and adopted the 2017 Stock Incentive Plan (the "2017 Plan"), which became effective on May 11, 2017. Under the 2017 Plan, incentive stock options, nonstatutory stock options, stock appreciation rights, stock awards and restricted stock units may be granted to employees, non-employee directors, consultants and advisors. Awards granted under the 2017 Plan may be subject to time-based and/or performance-based vesting conditions. The Company had initially reserved 2,000,000 shares of its common stock for issuance under the 2017 Plan. The share reserve increases automatically on the first trading day of January each calendar year by an amount equal to 3% of the total number of shares of common stock outstanding on the last trading day in December of the immediately preceding calendar year, up to an annual maximum of 750,000 shares. As of December 31, 2020, an aggregate of596,816 shares of common stock were available for future grant under the 2017 Plan.

2018 Performance-Based Stock Incentive Plan

In June 2018, the Company's stockholders approved the Company's 2018 Performance-Based Stock Incentive Plan (the "2018 Plan"), and approved grants under the 2018 Plan of nonstatutory stock options, having performance-based vesting conditions tied to the future achievement of stock price milestones by the Company (each, a "Performance Option"), to the Company's Chief Executive Officer for 1,809,900 shares (the "CEO Award") and to the Company's President for1,357,425 shares (the "President Award"). In May 2018, the CEO Award and the President Award had been approved by a special committee of the Board of Directors of the Company (the "Special Committee"), and the 2018 Plan had been approved by the Company's Board of Directors, subject to stockholder approval.

The 2018 Plan allows the Company to grant Performance Options to its executive officers and other employees as an incentive for them to remain in service with the Company and to further align their interests with the interests of the Company's stockholders. A total of 4,200,000 shares of the Company's common stock have been authorized for issuance under the 2018 Plan.

As of December 31, 2020,183 shares of common stock were available for future grant under the 2018 Plan.

Inducement Grant Plan

In October 2020, the Company's Board of Directors adopted the Company's Inducement Grant Plan. Under the Inducement Grant Plan, nonstatutory stock options, stock appreciation rights, stock awards, restricted stock units and dividend equivalent rights may be granted as an inducement material for eligible persons to enter into employment with the Company in accordance with NASDAQ Marketplace Rule 5635(c)(4) and the related guidance under NASDAQ IM 5635-1, and any amendments or supplements thereto. The Company has initially reserved 750,000 shares of common stock for issuance under the Inducement Grant Plan. As of December 31, 2020, an aggregate of 408,000 shares of common stock were available for future grant under the Inducement Grant Plan.

Terms of Awards Under Stock Plans

The 2014 Plan, 2017 Plan, 2018 Plan and Inducement Grant Plan are collectively referred to herein as the "Stock Plans." The Stock Plans are administered by the Compensation Committee of the Board of Directors, which determines the recipients and the terms of the awards granted (with the exception of the CEO Award and President Award, which were approved by the Special Committee). All stock options granted under the Stock Plans have exercise prices equal to or greater than the fair market value of the Company's common stock on the grant date, and expire ten years after the grant date, subject to earlier expiration in the event of termination of the optionee's continuous service with the Company as further described in each Stock Plan. The vesting of all awards granted under the Stock Plans is generally subject to the awardee's continuous service with the Company, with certain exceptions, as further described in each Stock Plan.

The Company has granted to employees, non-employee directors and consultants awards of stock options, restricted stock and restricted stock units that are subject to time-based vesting conditions. The time-based stock options that have been granted to employees and consultants generally vest over a period of four years (with the exception of certain stock options granted to the Company's Chief Executive Officer and President in 2017, which vested over a period of three years, and certain other limited exceptions). Restricted stock units that have been awarded to employees generally vest over periods of one to two years. The restricted stock units awarded to members of the Company's Board of Directors under the automatic grant program provisions of the 2017 Plan generally vest over a period of one year.

The Company has also granted Performance Options under the 2018 Plan, the 2017 Plan and the Inducement Grant Plan. All such Performance Options become exercisable in three equal tranches based on the achievement of specific stock price milestones for the Company's common stock. These stock price milestones were amended in August 2020 with respect to substantially all of the Performance Options outstanding at such time, as discussed below. For each tranche to become exercisable, the closing price per share of the Company's common stock must meet or exceed the applicable stock price target for a period of 30 consecutive trading days. In the first quarter of 2021, the Company achieved all of the stock price milestones and, accordingly, substantially all of the then-outstanding Performance Options have vested in full.

Modifications to Performance-Based Stock Options

In August 2020, the disinterested members of the Board of Directors of the Company adopted certain amendments (the "Amendments") to the Company's 2018 Plan, and to the then outstanding Performance Options granted under the 2018 Plan and the 2017 Plan. Such Amendments were approved by the Company's stockholders at the Company's annual meeting of stockholders held on July 24, 2020. The Amendments include (i) amendment of the stock price milestones applicable to the Performance Options, and (ii) reduction of the exercise prices of the Performance Options held by the Company's Chief Executive Officer and the Company's President, which resulted in a modification of the Performance Options.

The Company values the Performance Options using a Monte Carlo simulation model. A fair value per share and a derived service period is determined for each of the three equal tranches of each Performance Award. The Company determined the fair values and the new derived service periods of the modified awards as of the date of modification and the fair values of the original awards immediately before the modification. The amount of incremental compensation expense resulting from the modification of each award is equal to the excess of the fair value of the modified award on the date of modification over the fair value of the original award immediately before the modification. The total incremental compensation expense resulting from the August 2020 modification of the Performance Options for approximately 215 employees was $3,011.

The assumptions used in the Monte Carlo simulation model for computing the fair values of the Performance Options on the modification date and immediately before the modification are set forth in the table below:

Amendment date stock price	$	8.83
Expected volatility		80 %
Risk-free interest rate		0.6 %
Expected dividend yield		— %
Cost of equity		12 %

Stock-based Compensation

The Company recognizes stock-based compensation expense for awards granted under the Stock Plans ratably over the requisite service period. For awards subject to time-based vesting conditions, the service period is generally the vesting period. For Performance Options, a derived service period is estimated for each tranche under the Monte Carlo simulation model. The Company also recognizes stock-based compensation expense related to the Company's ESPP ratably over each purchase interval.

The Company has also issued shares of common stock to consultants in exchange for services under separate agreements outside of the Stock Plans. These share-based payment transactions are measured based on the fair value of the common stock issued and are recognized in the period in which the services are rendered.

The fair values of time-based stock options granted under the Stock Plans and purchase rights under the ESPP are determined as of the grant date using the Black-Scholes-Merton option-pricing model. The assumptions used in calculating the fair values of time-based stock options granted during the years ended December 31, 2020 and 2019 are set forth in the table below:

	Year Ended December 31, 2020	**Year Ended December 31, 2019**
Expected term (in years)	6.0 - 6.1	6.0 - 6.1
Expected volatility	68% - 83%	65% - 68%
Risk-free interest rate	0.4% - 1.2%	1.5% - 2.6%
Expected dividend yield	—	—

The assumptions used in calculating the fair values of purchase rights granted under the ESPP during the years ended December 31, 2020 and 2019 are set forth in the table below:

	Year Ended December 31, 2020	**Year Ended December 31, 2019**
Expected term (in years)	0.5 - 2.0	0.5 - 2.0
Expected volatility	65% - 130%	62% - 71%
Risk-free interest rate	0.1% - 1.5%	1.7% - 2.5%
Expected dividend yield	—	—

The Company values Performance Options using a Monte Carlo simulation model. A fair value per share is determined for each of the three equal tranches of each Performance Option. The assumptions used in the Monte Carlo simulation model for computing the grant date fair values of the Performance Options granted during the year ended December 31, 2020 and 2019 are set forth in the table below:

	Year Ended December 31, 2020	**Year Ended December 31, 2019**
Grant date stock price	$ 11.10	$4.65 - $8.34
Dividend yield	— %	— %
Risk-free interest rate	0.8 %	2.7 %
Estimated volatility	85 %	65 %

The stock-based compensation expense by type of award and by operating expense grouping are presented below:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Stock-based compensation expense by type of award:		
Restricted stock units	$ 5,560	$ 952
Restricted stock awards	181	350
Machine Box contingent common stock issuances	(37)	1,255
Performance-based stock options	8,480	8,000
Stock options	4,767	9,610
Employee stock purchase plan	493	490
Common stock issued for services	95	-
Total	$ 19,539	$ 20,657
Stock-based compensation expense by operating expense grouping:		
Sales and marketing	$ 889	$ 1,035
Research and development	1,046	2,549
General and administrative	17,604	17,073
	$ 19,539	$ 20,657

Stock Plan Activity

Restricted Stock Awards

The Company's restricted stock award activity for the year ended December 31, 2020 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2019	22,813	$ 7.50
Granted	6,903	$ 4.47
Vested	(29,716)	$ 6.80
Unvested at December 31, 2020	-	

As of December 31, 2020, there was no unrecognized compensation cost related to restricted stock awards. Stock awards with respect to a total of 6,903 shares of common stock were granted during the year ended December 31, 2020, which were fully vested upon grant. No stock awards were granted during the year ended December 31, 2019. The fair values of restricted stock awards that vested during the years ended December 31, 2020 and 2019 totaled $238 and $299, respectively.

Restricted Stock Units

The Company's restricted stock units activity for the year ended December 31, 2020 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2019	142,145	$ 6.71
Granted	914,157	$ 10.94
Forfeited	(26,250)	$ 8.44
Vested	(200,928)	$ 5.85
Unvested at December 31, 2020	829,124	$ 11.53

As of December 31, 2020, total unrecognized compensation cost related to restricted stock units was $4,593, which is expected to be recognized over a period of 0.7 year. The weighted average grant date fair values per share of restricted stock units granted in the years ended December 31, 2020 and 2019 were $10.94 and $6.97, respectively. The fair values of restricted stock units vested during the years ended December 31, 2020 and 2019 totaled $2,519 and $362, respectively.

Performance Options

The activity related to Performance Options for the year ended December 31, 2020 was as follows:

	Options	Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2019	4,484,739	$ 16.68		
Granted	120,000	$ 11.10		
Forfeited	(370,719)	$ 5.62		
Outstanding at December 31, 2020	4,234,020	$ 10.55	7.55 years	$ —
Exercisable at December 31, 2020	—	$ —	—	$ —

The weighted average grant date fair values per share of Performance Options granted during the years ended December 31, 2020 and 2019 were $7.36 and $2.55, respectively. No performance-based stock options vested during the years ended December 31, 2020 and 2019. At December 31, 2020, total unrecognized compensation expense related to Performance Options was $16,268 and was expected to be recognized over a weighted average period of1.6 years. During the first quarter of 2021, the Company achieved all of the stock price milestones applicable to Performance Options and, as a result, the remaining $16,268 of unrecognized compensation will be accelerated and recognized in full as a one-time expense in the first quarter of 2021.

Stock Options

The activity related to all other stock options for the year ended December 31, 2020 was as follows:

	Options	Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2019	5,196,778	$ 13.09		
Granted	768,000	$ 7.01		
Exercised	(163,359)	$ 5.70		
Forfeited	(234,917)	$ 8.61		
Expired	(166,432)	$ 14.44		
Outstanding at December 31, 2020	5,400,070	$ 12.60	6.88 years	$ 85,632
Exercisable at December 31, 2020	4,187,251	$ 13.91	6.34 years	$ 60,870

The weighted average grant date fair values per share of stock options granted in the years ended December 31, 2020 and 2019 were $4.69 and $3.47, respectively. The aggregate intrinsic values of the options exercised during the years ended December 31, 2020 and 2019 were $2,238 and $189, respectively. The total grant date fair values of stock options vested during the years ended December 31, 2020 and 2019 were $5,205 and $10,226, respectively.

At December 31, 2020, total unrecognized compensation expense related to stock options was $5,792 and is expected to be recognized over a weighted average period of 2.7 years.

The aggregate intrinsic values in the tables above represent the difference between the fair market value of the Company's common stock and the average option exercise price of in-the-money options multiplied by the number of such options.

Employee Stock Purchase Plan

In April 2017, the Company's Board of Directors and stockholders approved and adopted the ESPP, which became effective on May 11, 2017. The ESPP is administered by the Compensation Committee of the Board of Directors and is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. Under the ESPP, each offering period is generally 24 months with four, six-month purchase intervals, and new offering periods generally commence every six months, as determined by the Compensation Committee of the Board of Directors.

The purchase price for shares of the Company's common stock under the ESPP will be established by the plan administrator prior to the start of the offering period, but will not be less than 85% of the lower of the fair market value of the Company's common stock on (i) the first day of the offering period and (ii) the purchase date. Each purchase right granted to an employee will provide an employee with the right to purchase up to 1,000 shares of common stock on each purchase date within the offering period, subject to an aggregate limit of 200,000 shares purchased under the ESPP on each purchase date, and subject to the purchase limitations in each calendar year under Section 423 of the Internal Revenue Code.

The Company had initially reserved 1,000,000 shares of its common stock for issuance under the ESPP. The share reserve increases automatically on the first trading day of January each calendar year by an amount equal to 1% of the total number of shares of common stock outstanding on the last trading day in December of the immediately preceding calendar year, up to an annual maximum of 250,000 shares.

The ESPP contains a reset provision, which provides that, if the Company's stock price on any purchase date under an offering period is less than the stock price on the start date of that offering period, then all employees participating in that offering period will be automatically transferred to the new offering period starting on the next business day following such purchase date, so long as the stock price on that start date is lower than the stock price on the start date of the offering period in which they are enrolled. This reset feature was triggered under the ESPP on February 1, 2019 and February 1, 2020. These resets constituted modifications pursuant to the guidance in ASC 718, *Stock Based Compensation*. The Company engaged specialists to determine the incremental cost associated with the modification by calculating the expense related to the modified awards using the assumptions before and after the trigger dates. The modifications did not have a material effect on the Company's stock-based compensation expense for the years ended December 31, 2020 and 2019.

Employee payroll deductions accrued under the ESPP as of December 31, 2020 and 2019 totaled $135 and $196, respectively. During the years ended December 31, 2020 and 2019 a total of 126,550 and 129,514 shares of common stock were purchased under the ESPP at a weighted average purchase price of $1.90 and $4.65, respectively.

NOTE 10. PROVISION FOR INCOME TAXES

The components of the Company's loss before the provision for income taxes consisted of the following:

	Year Ended December 31,	
	2020	**2019**
United States of America	$ (47,831)	$ (63,624)
Foreign	31	94
Total	$ (47,800)	$ (63,530)

The provision for income taxes consisted of the following for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Current		
Federal	$ —	$ —
State	70	19
Foreign	6	18
Total Current Provision	76	37
Deferred		
Federal	(11,573)	(14,188)
State	(4,532)	(1,073)
Foreign	—	—
Change in valuation allowance	16,105	13,772
Total deferred (benefit) provision	—	(1,489)
Total provision (benefit)	$ 76	$ (1,452)

A reconciliation of the statutory U.S. federal income tax rate to the Company's effective tax rate for the years ended December 31, 2020 and 2019 is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Tax, computed at the federal statutory rate	21.00 %	21.00 %
State taxes, net of federal tax benefit	9.36	1.17
Meals, entertainment and other	3.17	(0.55)
Benefit from basis difference in acquired asset	—	2.34
Change in valuation allowance	(33.69)	(21.68)
(Provision for) benefit from income taxes	(0.16)%	2.28 %

The significant components of the Company’s deferred income tax assets and liabilities as of December 31, 2020 and 2019 were as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net operating losses	$ 44,711	$ 38,674
Stock-based compensation	15,866	10,702
Accrued expenses	2,352	180
Research credits	3,193	710
Other	518	577
Gross deferred tax assets	66,640	50,843
Less: valuation allowance	(65,110)	(49,005)
Total deferred tax assets	1,530	1,838
Other - fixed assets and intangibles	(1,530)	(1,838)
Total deferred tax liabilities	(1,530)	(1,838)
Net deferred tax assets	$ —	$ —

The Company has evaluated the available positive and negative evidence supporting the realization of its gross deferred tax assets, including its cumulative losses, and the amount and timing of future taxable income, and has determined it is more likely than not that the assets will not be realized. Accordingly, the Company recorded a full valuation allowance as of December 31, 2020 and 2019 against its U.S. federal and state deferred tax assets as of December 31, 2020 and 2019.

The change in the valuation allowance for the years ended December 31, 2020 and 2019 is as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Valuation allowance, at beginning of year	$ 49,005	$ 35,233
Increase in valuation allowance	16,105	13,772
Valuation allowance, at end of year	$ 65,110	$ 49,005

As of December 31, 2020, the Company has federal and state income tax net operating loss carryforwards of approximately $186,324 and $87,251, respectively. The U.S. federal and state net operating losses are projected to expire in 2034 and 2021, respectively, unless previously utilized. Net operating loss carryforwards generated after January 1, 2018 may be carried forward indefinitely, subject to the 80% taxable income limitation on the utilization of the carryforwards. In addition, the Company had federal and state research and development credit carryforwards of approximately $2,421 and $1,807, respectively, as of December 31, 2020. The federal research and development credit will begin to expire in 2036 if unused and the state research and expenditure credit may be carried forward indefinitely. Certain tax attributes may be subject to an annual limitation in the event there has been or is a change of ownership as defined under Internal Revenue Code Section 382.

At December 31, 2020 and 2019, the Company had approximately $720 and $0, respectively, of unrecognized tax benefits all of which would impact the Company's effective tax rate if recognized. If recognized, $655 would result in a deferred tax asset for tax attribute carryforwards, which is expected to require a full valuation allowance based on present circumstances. The Company estimates that none of its unrecognized tax benefits will decrease in the next twelve months.

The Company is subject to taxation in the United States and various states. Certain U.S. federal tax returns and state tax returns are open for examination for tax years 2016 and forward. The Company is not currently under examination from income tax authorities in the jurisdictions in which the Company does business.

On March 27, 2020, the U.S federal government enacted the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act is an emergency economic stimulus package in response to the coronavirus outbreak which, among other things, contains numerous income tax provisions. Some of these tax provisions are effective retroactively for years ended before the date of the enactment. The provisions of the CARES Act did not materially impact the Company's tax position.

NOTE 11. RELATED PARTY TRANSACTIONS

There were no related party transactions as of or during the years ended December 31, 2020 and 2019.

NOTE 12. SUBSEQUENT EVENTS

On January 4, 2021, the Company voluntarily terminated that certain Equity Distribution Agreement dated June 1, 2018 between the Company and JMP Securities LLC, effective January 5, 2021. The ATM Facility was terminable at will by the Company with no penalty.

During the first quarter ending March 31, 2021, the Company achieved all of the stock price milestones applicable to the Performance Options granted under the 2018 Plan, the 2017 Plan and Inducement Grant Plan. As a result, total unrecognized compensation cost associated with such Performance Options of $16,268 was accelerated and recognized in full during such quarter.

On February 23, 2021, the Company entered into an Office Sublease (the "Sublease") with California Pizza Kitchen, Inc. (the "Subtenant"), pursuant to which the Company will sublease its office space located at 575 Anton Boulevard, Costa Mesa, California, consisting of approximately 37,875 square feet, which the Company leases pursuant to the Lease Agreement dated July 14, 2017, between the Company and PR II/MCC South Coast Property Owner, LLC (the "Landlord"), as amended (the "Lease"), subject to the written consent of the Landlord to the Sublease. The term of the Sublease is expected to commence in March 2021 and will continue through December 31, 2024, coterminous with the Lease. Pursuant to the Sublease, the Subtenant will pay to the Company base rent in an initial amount of $95 per month, which is subject to annual rent escalations, as well as a portion of the operating expenses and taxes payable by the Company under the Lease. During the first quarter ending March 31, 2021, the Company recorded approximately $4,500 in charges resulting from the Sublease.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives of ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures, and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. There is no assurance that our disclosure controls and procedures will operate effectively under all circumstances. Based upon the evaluation described above, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Fiscal 2019 Material Weakness Remediated

Based on management's assessment of our internal control over financial reporting for the year ended December 31, 2020 as discussed below, management concluded that the material weakness that had been identified and reported in our Annual Report on Form 10-K for the year ended December 31, 2019, has been fully remediated. This material weakness related to the accounting for advertising net revenues, which resulted in a number of financial statement adjustments, including to net revenues, accounts receivable and prepaid expenses in 2019.

The remediation of this material weakness was achieved through the culmination of various efforts, execution of management's remediation plan, and improvements made throughout the year, as summarized below. Management validated its conclusion that these items were properly remediated through its evaluation and testing completed for the year ended December 31, 2020.

Management, with oversight of the Audit Committee of our Board of Directors, completed numerous remediation actions and made improvements to our control environment and processes throughout 2020. These remediation actions taken included, but were not limited to, the following:

- Hiring competent personnel to oversee the accounting function for advertising net revenues;
- Incorporating new financial close procedures and monthly checklists to ensure the accuracy and timeliness of recording advertising net revenues;
- Implementing new systematic workflows to ensure proper approvals and accuracy over advertising revenues; and
- Migrating data and workflows from legacy acquired systems with limited controls, such as Quickbooks, onto our NetSuite accounting system with stronger and more reliable accounting controls.

Except as described above, there have been no additional changes in our internal control over financial reporting during the fiscal year and fourth quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management's Assessment of the Effectiveness of our Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act).

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded thatour internal control over financial reporting was effective as of December 31, 2020.

Inherent Limitations on Effectiveness of Controls

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

Report of Independent Registered Public Accounting Firm

We are an "emerging growth company," as defined in Rule 405 of the Securities Act and, accordingly, we are not required to provide the attestation report of our independent registered public accounting firm on our internal control over financial reporting required by Item 308(b) of Regulation S-K.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed within 120 days of December 31, 2020 and delivered to stockholders in connection with our 2021 annual meeting of stockholders.

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed within 120 days of December 31, 2020 and delivered to stockholders in connection with our 2021 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed within 120 days of December 31, 2020 and delivered to stockholders in connection with our 2021 annual meeting of stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed within 120 days of December 31, 2020 and delivered to stockholders in connection with our 2021 annual meeting of stockholders.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated herein by reference to our definitive proxy statement to be filed within 120 days of December 31, 2020 and delivered to stockholders in connection with our 2021 annual meeting of stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements.

See the index of the consolidated financial statements that are filed as part of this Annual Report on Form 10-K included in Part II, Item 8 (Financial Statements and Supplementary Data) on page 49.

(2) Financial Statement Schedules.

All financial statement schedules have been omitted because they are not applicable, not material, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits.

The following exhibits are filed as part of this Annual Report on Form 10-K (or are incorporated by reference herein):

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of August 13, 2018, by and among Veritone, Inc., Project West Acquisition Corporation, Wazee Digital, Inc. and West Victory Stockholder Representative, LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on August 15, 2018).
3.1	Third Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 23, 2017).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on May 23, 2017).
4.1	Specimen Stock Certificate evidencing the shares of the Registrant's common stock (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 28, 2017).
4.2	Investor Rights Agreement dated July 15, 2014 among the Registrant and certain of its stockholders, together with Amendment No. 1 thereto (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 (No. 333-216726) filed on March 15, 2017).
4.3	Form of Indenture (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (File No. 333-225394), filed on June 1, 2018).
4.4	Description of Registrant's securities registered under Section 12 of the Exchange Act.
10.1*	Veritone, Inc. 2014 Stock Option/Stock Issuance Plan (2014 Plan) (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (No. 333-216726) filed on March 15, 2017).
10.2*	Amendment to 2014 Plan dated April 27, 2017 (incorporated by reference to Exhibit 10.33 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 28, 2017).
10.3*	Form of Notice of Grant of Stock Option, together with Forms of Stock Option Agreement and Stock Purchase Agreement (for use with the 2014 Plan) (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (No. 333-216726) filed on March 15, 2017).
10.4*	Form of Stock Issuance Agreement (for use with the 2014 Plan with 83(b) election) (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (No. 333-216726) filed on March 15, 2017).
10.5*	Form of Stock Issuance Agreement (annual vesting for use with 2014 Plan without 83(b) election) (incorporated by reference to Exhibit 10.15 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 28, 2017).
10.6*	Form of Notice of Grant of Stock Option, together with Forms of Stock Option Agreement and Stock Purchase Agreement, relating to Time-Based Option granted to each of Chad Steelberg and Ryan Steelberg on May 11, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed on June 26, 2017).
10.7*	Form of Notice of Grant of Stock Option, together with Forms of Stock Option Agreement and Stock Purchase Agreement, relating to Performance-Based Option granted to each of Chad Steelberg and Ryan Steelberg on May 11, 2017 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed on June 26, 2017).

Exhibit No.	Description of Exhibit
10.8*	Form of Change in Control (CIC) Addendum to Stock Option Agreement for use in connection with the grant of stock options to certain executive officers under the 2014 Plan (incorporated by reference to Exhibit 10.38 to the Registrant's Registration Statement on Form S-1 (No. 333-221570) filed on November 15, 2017).
10.9*	Notice of Grant of Stock Option, together with Stock Option Agreement, relating to Stock Options granted to Christopher J. Oates on May 11, 2017 (incorporated by reference to Exhibit 10.39 to the Registrant's Registration Statement on Form S-1 (No. 333-221570) filed on November 15, 2017).
10.10*	2017 Stock Incentive Plan (2017 Plan) (incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 28, 2017).
10.11*	Form of Notice of Grant of Stock Option, together with Forms of Stock Option Agreement and Stock Purchase Agreement, for use with the 2017 Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed on June 26, 2017).
10.12*	Forms of Notice of Grant of Stock Option and Stock Option Agreement for use in connection with grants of stock options to Chad Steelberg and Ryan Steelberg under 2017 Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed on May 8, 2018).
10.13*	Form of Change in Control (CIC) Addendum to Stock Option Agreement for use in connection with grants of stock options to certain executive officers under 2017 Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed on May 8, 2018).
10.14*	Form of Restricted Stock Unit Agreement for use under the 2017 Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed on May 8, 2018).
10.15*	Form of Restricted Stock Unit Agreement for use in connection with the award of restricted stock units to directors pursuant to the automatic grant program under the 2017 Plan (incorporated by reference to Exhibit 99.5 to the Registrant's Registration Statement on Form S-8 (No. 333-217990) filed on May 12, 2017).
10.16*	Form of Restricted Stock Unit Agreement for use in connection with the award of restricted stock units to executive officers under the 2017 Plan (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 filed on March 18, 2019).
10.17*	Form of Notice of Grant of Stock Option and Stock Option Agreement for use in connection with the grant of stock options with performance-based vesting conditions under the 2017 Plan (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 filed on March 18, 2019).
10.18*	2018 Performance-Based Stock Incentive Plan (2018 Plan) (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed on June 1, 2018).
10.19*	Amendment No. 1 to Veritone, Inc. 2018 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 1, 2020).
10.20*	Amended and Restated CEO Award Agreement between the Registrant and Chad Steelberg dated effective as of August 27, 2020 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 1, 2020).
10.21*	Amended and Restated President Award Agreement between the Registrant and Ryan Steelberg dated effective as of August 27, 2020 (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 1, 2020).
10.22*	Form of Award Agreement to be used under the 2018 Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on July 5, 2018).
10.23*	Veritone, Inc. Inducement Grant Plan (the Inducement Plan) (incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 7, 2020).

Exhibit No.	Description of Exhibit
10.24*	Form of Notice of Grant of Stock Option under the Inducement Plan (incorporated by reference to Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 7, 2020).
10.25*	Form of Stock Option Agreement under the Inducement Plan (incorporated by reference to Exhibit 99.3 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 7, 2020).
10.26*	Form of Notice of Grant of Performance-Based Stock Option under the Inducement Plan (incorporated by reference to Exhibit 99.4 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 7, 2020).
10.27*	Form of Performance-Based Stock Option Agreement under the Inducement Plan (incorporated by reference to Exhibit 99.5 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 7, 2020).
10.28*	Form of Restricted Stock Unit Agreement under the Inducement Plan (incorporated by reference to Exhibit 99.6 to the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 7, 2020).
10.29*	Veritone, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.32 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 28, 2017).
10.30*	Employment Agreement between Chad Steelberg and the Registrant dated June 15, 2020 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 17, 2020).
10.31*	Employment Agreement between Ryan Steelberg and the Registrant dated June 15, 2020 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 17, 2020).
10.32*	Offer Letter with Jeffrey B. Coyne, dated October 13, 2016, as amended on January 23, 2017 (incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (No. 333-216726) filed on March 15, 2017).
10.33*	Separation Agreement and Release between Peter F. Collins and the Registrant dated October 6, 2020 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2020).
10.34*	Employment Agreement between Michael L. Zemetra and the Registrant dated October 6, 2020 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2020).
10.35*	Form of Indemnification Agreement for directors and officers (incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 28, 2017).
10.36	Form of Common Stock Purchase Warrant issued to Acacia and Veritone LOC, LLC (incorporated by reference to Exhibit 10.22 to the Registrant's Registration Statement on Form S-1/A (No. 333-216726) filed on April 21, 2017).
10.37	Lease Agreement dated for reference purposes as of July 14, 2017, between the Registrant and PRII/MCC South Coast Property Owner, LLC, for premises located at 575 Anton Boulevard, Costa Mesa, California (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 filed on August 8, 2017).
10.38	Office Sublease dated effective as of February 23, 2021, between the Registrant and California Pizza Kitchen, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 1, 2021.
21.1	List of Subsidiaries.

Exhibit No.	Description of Exhibit
23.1	Consent of Grant Thornton LLP.
24.1	Power of Attorney (included on signature page).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1+	Certifications pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company’s Annual Report on Form 10-K for the year ended December 31, 2020, has been formatted in Inline XBRL.
*	Indicates a management contract or compensatory plan or arrangement.
+	The certifications furnished in Exhibit 32.1 shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act, or the Exchange Act (including this Annual Report on Form 10-K), unless the Registrant specifically incorporates the foregoing information into those documents by reference.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Veritone, Inc.
Date: March 5, 2021	By:	/s/ *Chad Steelberg*
		Chad Steelberg
		Chief Executive Officer and Chairman of the Board

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Chad Steelberg and Michael L. Zemetra, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Chad Steelberg Chad Steelberg	Chief Executive Officer and Chairman of the Board *(Principal Executive Officer)*	March 5, 2021
/s/ Michael L. Zemetra Michael L. Zemetra	Executive Vice President, Chief Financial Officer and Treasurer *(Principal Financial and Accounting Officer)*	March 5, 2021
/s/ Ryan Steelberg Ryan Steelberg	President and Director	March 5, 2021
/s/ Jeff P. Gehl Jeff P. Gehl	Director	March 5, 2021
/s/ G. Louis Graziadio, III G. Louis Graziadio, III	Director	March 5, 2021
/s/ Knute P. Kurtz Knute P. Kurtz	Director	March 5, 2021
/s/ Nayaki R. Nayyar Nayaki R. Nayyar	Director	March 5, 2021
/s/ Richard H. Taketa Richard H. Taketa	Director	March 5, 2021

Exhibit 4.4

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED UNDER SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

Veritone, Inc. ("Veritone," "Company," "we," "our," and "us") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, which is our common stock, par value $0.001 per share. Our common stock is traded on the NASDAQ Global Market under the symbol "VERI." The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

Our amended and restated certificate of incorporation authorizes us to issue 75,000,000 shares of common stock, par value $0.001 per share, and 1,000,000 shares of undesignated preferred stock, par value $0.001 per share.

The following descriptions of our common stock and certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws are summaries only and are qualified by reference to our amended and restated certificate of incorporation and amended and restated bylaws, each of which is an exhibit to the Annual Report on Form 10-K to which this description is an exhibit.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our amended and restated certificate of incorporation. Our amended and restated certificate of incorporation and amended and restated bylaws provide for a classified board of directors consisting of three classes of approximately equal size, each serving staggered three-year terms. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and then only at the times and in the amounts that our board of directors may determine. We have not paid any cash dividends on our common stock, and it is unlikely that any cash dividends will be declared or paid on any common stock in the foreseeable future. Instead, we plan to retain our cash for use in the operation of our business. Our common stock is not entitled to preemptive rights, and is not subject to conversion, redemption or sinking fund provisions. If we become subject to a liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

Demand Registration Rights

Pursuant to the Investor Rights Agreement, dated as of July 15, 2014, as amended (the "Rights Agreement"), entered into by our company and certain stockholders, the holders of at least 30% of the following held by the holders of our then-outstanding Series A and A-1 preferred stock, and the holders of at least 30% of the following held by the holders of our then-outstanding Series B preferred stock: (i) shares of our common stock issued or issuable upon conversion of any of our securities by the parties to such agreement, and (ii) common stock issued as a dividend or other distribution with respect to the shares in (i), can request that we file up to two registration statements registering all or a portion of their registrable shares in a registration statement that would have an aggregate offering price of not less than $5 million. Under specified circumstances, we have the right to defer filing of a requested registration statement. These registration rights are subject to additional conditions and limitations, including the right of the underwriters to limit the number of shares included in any such registration under certain circumstances. We are required to pay all expenses relating to any demand registration by the holders of registrable securities under the Rights Agreement, subject to certain limitations. The registration rights described above will expire for each holder upon the earlier of (i) such time as such holder holds less than one percent of our common stock and Rule 144 or another similar exemption under the Securities Act is available for the sale of such holder's shares without limitation during a three-month period without registration and (ii) May 2022, the fifth anniversary of our initial public offering.

Form S-3 Registration Rights

Pursuant to the Rights Agreement, the holders of at least 20% of the following held by the holders of our then-outstanding Series A and A-1 preferred stock, and the holders of at least 20% of the following held by the holders of our then-outstanding Series B preferred stock: (i) shares of our common stock issued or issuable upon conversion of any of our securities by the parties to such agreement, and (ii) common stock issued as a dividend or other distribution with respect to the shares in (i), have the right to demand that we file additional registration statements, including a shelf registration statement, registering all or a portion of their registrable shares pursuant to a registration statement on Form S-3 that would have an aggregate offering price, net of underwriting discounts and commissions, that exceeds $5 million. Under specified circumstances, we also have the right to defer filing of a requested registration statement. These registration rights are subject to additional conditions and limitations, including the right of the underwriters to limit the number of shares included in any such registration under certain circumstances, and to our right to decline to effect such registration if two such registrations have been effected within the twelve-month period prior to a request for such registration. We are required to pay all expenses relating to any Form S-3 registration by the holders of registrable securities under the Rights Agreement, subject to certain limitations. The registration rights described above will expire for each holder upon the earlier of (i) such time as such holder holds less than one percent of our common stock and Rule 144 or another similar exemption under the Securities Act is available for the sale of such holder’s shares without limitation during a three-month period without registration and (ii) May 2022, the fifth anniversary of our initial public offering.

Piggyback Registration Rights

Pursuant to the Rights Agreement, whenever we propose to file a registration statement under the Securities Act, other than with respect to a registration related to employee benefit or similar plans, or corporate reorganizations or other transactions under Rule 145 under the Securities Act, the holders of registrable (i) shares of our common stock issued or issuable upon conversion of any of our securities by the parties to such agreement, and common stock issued as a dividend or other distribution with respect to the shares in (i), are entitled to notice of the registration and have the right to include their registrable securities in such registration. The underwriters of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement. We are required to pay all expenses relating to any piggyback registration by the holders of registrable securities under the Rights Agreement, subject to certain limitations. The registration rights contained in the Rights Agreement will expire for each holder upon the earlier of (i) such time as such holder holds less than one percent of our common stock and Rule 144 or another similar exemption under the Securities Act is available for the sale of such holder’s shares without limitation during a three-month period without registration and (ii) May 2022, the fifth anniversary of our initial public offering.

Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws

Our amended and restated certificate of incorporation and our amended and restated bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our company, as well as changes in our board of directors or management team, including the following:

Board of Directors Vacancies. Our amended and restated certificate of incorporation and amended and restated bylaws authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is only permitted to be set by a resolution adopted by a majority vote of our entire board of directors. These provisions prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors and will promote continuity of management.

Classified Board. Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board of directors shall be classified into three classes of directors of approximately equal size, each of which hold office for a three-year term. In addition, directors may only be removed from our board of directors for cause. The existence of a classified board could delay a potential acquirer from obtaining majority control of our board of directors, and the prospect of that delay might deter a potential acquirer.

Stockholder Action; Special Meeting of Stockholders. Our amended and restated certificate of incorporation provides that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws. Our amended and restated bylaws further provide that special meetings of our stockholders may be called only by a majority of our board of directors, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. Our amended and restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our amended and restated bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

No Cumulative Voting. The Delaware General Corporation Law ("DGCL"), provides that stockholders are not entitled to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation does not provide for cumulative voting.

Directors Removed Only for Cause. Our amended and restated certificate of incorporation provides that no member of our board of directors may be removed from office by our stockholders except for cause and, in addition to any other vote required by law, upon the approval of not less than two-thirds of the total voting power of all of our outstanding voting stock then entitled to vote in the election of directors.

Exclusive Venue. Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or agents to us or our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or amended and restated bylaws; or (iv) any action asserting a claim against us governed by the internal affairs doctrine. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that, in connection with any action, a court could find the choice of forum provisions contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in such action.

Each of the foregoing provisions will make it more difficult for our existing stockholders to replace our board of directors as well as for another party to obtain control of our company by replacing our board of directors. Since our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management. In addition, the authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change the control of our company.

These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and its policies and to discourage certain types of transactions that may involve an actual or threatened acquisition of our company. These provisions are also designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy rights. However, these provisions could have the effect of discouraging others from making tender offers for our shares and may have the effect of deterring hostile takeovers or delaying changes in control of our company or our management. As a consequence, these provisions also may inhibit fluctuations in the market price of our stock that could result from actual or rumored takeover attempts.

Section 203 of the Delaware General Corporation Law

We are subject to Section 203 of the DGCL, which prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years after the date that such stockholder became an interested stockholder, with the following exceptions:

- before such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned by (1) persons who are directors and also officers and (2) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, lease, exchange, mortgage, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loss, advances, guarantees, pledges or other financial benefits by or through the corporation.

In general, Section 203 defines an "interested stockholder" as an entity or person who, together with the person's affiliates and associates, beneficially owns, or within three years prior to the time of determination of interested stockholder status did own, 15% or more of the outstanding voting stock of the corporation.

Limitation of Liability and Indemnification

Our amended and restated certificate of incorporation and our amended and restated bylaws provide that we will indemnify our directors and officers to the fullest extent permitted under Delaware law, which prohibits our amended and restated certificate of incorporation from limiting the liability of our directors for the following:

- any breach of the director's duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation oflaw;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation also provides that if Delaware law is amended to authorize corporate action further eliminating or limiting the personal liability of a director, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law, as so amended. This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated certificate of incorporation and our amended and restated bylaws also provide that we shall indemnify our employees and agents to the fullest extent permitted by law. Our amended and restated bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in this capacity, regardless of whether we would have the power to indemnify such person against such expense, liability or loss under the DGCL. We have obtained directors' and officers' liability insurance.

We have entered into separate indemnification agreements with our directors and executive officers, in addition to indemnification provided for in our amended and restated certificate of incorporation and amended and restated bylaws. These agreements, among other things, provide for indemnification of our directors and executive officers for expenses, judgments, fines and settlement amounts incurred by this person in any action or proceeding arising out of this person's services as a director or executive officer or at our request. We believe that these provisions in our amended and restated certificate of incorporation and amended and restated bylaws and indemnification agreements are necessary to attract and retain qualified persons as directors and executive officers.

The above description of the indemnification provisions of our amended and restated certificate of incorporation and our amended and restated bylaws is not complete and is qualified in its entirety by reference to these documents, each of which is an exhibit to the Annual Report on Form 10-K to which this description is an exhibit.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and our stockholders. A stockholder's investment may be harmed to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. There is no pending litigation or proceeding naming any of our directors or officers as to which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

LIST OF SUBSIDIARIES

Company Name	Jurisdiction
Machine Box, Inc.	Delaware
Performance Bridge Media, Inc. (indirect)	New York
T3Media Europe Limited (indirect)	United Kingdom
Veritone Alpha, Inc.	Delaware
Veritone Digital, Inc.	Delaware
Veritone Enterprise, LLC	Delaware
Veritone One, Inc.	Delaware
Veritone Politics, LLC	Delaware
Veritone UK Ltd.	United Kingdom

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 5, 2021, with respect to the consolidated financial statements included in the Annual Report of Veritone, Inc. on Form 10-K for the year ended December 31, 2020. We consent to the incorporation by reference of said report in the Registration Statements of Veritone, Inc. on Forms S-3 (File No. 333-225394, File No. 333-227613 and File No. 333-231345) and on Forms S-8 (File No. 333-217990, File No. 333-227477, File No. 333-237114, and File No. 333-249371).

/s/ GRANT THORNTON LLP

Newport Beach, California
March 5, 2021

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

I, Chad Steelberg, certify that:

1. I have reviewed this Annual Report on Form 10-K of Veritone, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 5, 2021

/s/ Chad Steelberg

Chad Steelberg
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

I, Michael L. Zemetra, certify that:

1. I have reviewed this Annual Report on Form 10-K of Veritone, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 5, 2021

/s/ Michael L. Zemetra

Michael L. Zemetra
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATIONS PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)
OF THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350

Each of the undersigned hereby certifies, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, in his capacity as an officer of Veritone, Inc., that, to his knowledge, the Annual Report of Veritone, Inc. on Form 10-K for the fiscal year ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Veritone, Inc.

Date: March 5, 2021	By:	*/s/ Chad Steelberg* Chad Steelberg Chief Executive Officer and Chairman of the Board *(Principal Executive Officer)*
Date: March 5, 2021	By:	*/s/ Michael L. Zemetra* Michael L. Zemetra Executive Vice President, Chief Financial Officer and Treasurer *(Principal Financial and Accounting Officer)*

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Veritone, Inc. and will be retained by Veritone, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.