

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2024

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 001-41261

DIRECT DIGITAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-2306185

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

1177 West Loop South, Suite 1310

Houston, Texas

(Address of principal executive offices)

77027

(Zip code)

(832) 402-1051

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:		
Title of Each Class:	Trading symbol(s)	Name of Each Exchange on Which Registered:
Class A Common Stock, par value \$0.001 per share	DRCT	Nasdaq Capital Market

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

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

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

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

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

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

As of October 11, 2024, there were 3,795,199 shares of the registrant's Class A Common Stock outstanding, par value \$0.001 per share, and 10,868,000 shares of the registrant's Class B Common Stock outstanding, par value \$0.001 per share.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and par value amounts)

	June 30, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,069	\$ 5,116
Accounts receivable, net of provision for credit losses of \$335 and \$344	19,517	37,207
Prepaid expenses and other current assets	889	759
Total current assets	21,475	43,082
Property, equipment and software, net	471	599
Goodwill	6,520	6,520
Intangible assets, net	10,707	11,684
Deferred tax asset, net	6,607	6,132
Operating lease right-of-use assets	912	788
Related party receivable	1,737	1,737
Other long-term assets	47	130
Total assets	\$ 48,476	\$ 70,672
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	\$ 12,372	\$ 33,926
Accrued liabilities	1,125	3,816
Liability related to tax receivable agreement, current portion	41	41
Current maturities of long-term debt	1,840	1,478
Deferred revenues	734	381
Operating lease liabilities, current portion	179	126
Income taxes payable	44	34
Total current liabilities	16,335	39,802
Long-term debt, net of current portion	34,833	28,578
Liability related to tax receivable agreement, net of current portion	5,201	5,201
Operating lease liabilities, net of current portion	879	773
Total liabilities	57,248	74,354
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' DEFICIT		
Class A Common Stock, \$0.001 par value per share, 160,000,000 shares authorized, 3,788,446 and 3,478,776 shares issued and outstanding, respectively	4	3
Class B Common Stock, \$0.001 par value per share, 20,000,000 shares authorized, 10,868,000 shares issued and outstanding	11	11
Additional paid-in capital	3,444	3,067
Accumulated deficit	(3,903)	(2,538)
Noncontrolling interest	(8,328)	(4,225)
Total stockholders' deficit	(8,772)	(3,682)
Total liabilities and stockholders' deficit	\$ 48,476	\$ 70,672

See accompanying notes to the unaudited condensed consolidated financial statements.

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per-share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenues				
Sell-side advertising	\$ 14,298	\$ 23,601	\$ 30,799	\$ 37,384
Buy-side advertising	7,557	11,803	13,331	19,243
Total revenues	21,855	35,404	44,130	56,627
Cost of revenues				
Sell-side advertising	13,209	20,743	28,016	32,584
Buy-side advertising	2,715	4,588	5,185	7,537
Total cost of revenues	15,924	25,331	33,201	40,121
Gross profit	5,931	10,073	10,929	16,506
Operating expenses				
Compensation, taxes and benefits	4,166	4,553	8,690	8,187
General and administrative	3,830	3,265	7,112	6,205
Total operating expenses	7,996	7,818	15,802	14,392
(Loss) income from operations	(2,065)	2,255	(4,873)	2,114
Other income (expense)				
Other income	8	42	92	92
Loss on early termination of line of credit	—	—	—	(300)
Interest expense	(1,358)	(1,028)	(2,655)	(2,045)
Total other expense, net	(1,350)	(986)	(2,563)	(2,253)
(Loss) income before income taxes	(3,415)	1,269	(7,436)	(139)
Income tax (benefit) expense	(274)	74	(475)	—
Net (loss) income	(3,141)	1,195	(6,961)	(139)
Net (loss) income attributable to noncontrolling interest	(2,551)	1,003	(5,596)	(117)
Net (loss) income attributable to Direct Digital Holdings, Inc.	\$ (590)	\$ 192	\$ (1,365)	\$ (22)
Net (loss) income per common share:				
Basic	\$ (0.16)	\$ 0.03	\$ (0.38)	\$ (0.01)
Diluted	\$ (0.16)	\$ 0.03	\$ (0.38)	\$ (0.01)
Weighted-average number of shares of common stock outstanding:				
Basic	3,701	2,921	3,604	2,912
Diluted	3,701	3,113	3,604	2,912

See accompanying notes to the unaudited condensed consolidated financial statements.

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)
(in thousands except share data)

Six Months Ended June 30, 2024

	Common Stock							
	Class A		Class B		APIC	Accumulated Deficit	Noncontrolling Interest	Stockholders' Equity
	Units	Amount	Units	Amount				
Balance, December 31, 2023	3,478,776	\$ 3	10,868,000	\$ 11	\$ 3,067	\$ (2,538)	\$ (4,225)	\$ (3,682)
Stock-based compensation	—	—	—	—	662	—	—	662
Issuance related to vesting of restricted stock units, net of tax withholdings	192,138	1	—	—	(1)	—	—	—
Warrants exercised	39,101	—	—	—	215	—	—	215
Stock options exercised	8,754	—	—	—	82	—	—	82
Issuance of stock in lieu of cash bonus, net of tax withholdings	69,677	—	—	—	912	—	—	912
Net loss	—	—	—	—	—	(1,365)	(5,596)	(6,961)
Noncontrolling interest rebalancing	—	—	—	—	(1,493)	—	1,493	0
Balance, June 30, 2024	3,788,446	\$ 4	10,868,000	\$ 11	\$ 3,444	\$ (3,903)	\$ (8,328)	\$ (8,772)

Three Months Ended June 30, 2024

	Common Stock				APIC	Accumulated Deficit	Noncontrolling Interest	Stockholders' Equity
	Class A		Class B					
	Units	Amount	Units	Amount				
Balance, March 31, 2024	3,684,278	\$ 4	10,868,000	\$ 11	\$ 3,441	\$ (3,313)	\$ (5,934)	\$ (5,791)
Stock-based compensation	—	—	—	—	158	—	—	158
Issuance related to vesting of restricted stock units, net of tax withholdings	103,752	—	—	—	—	—	—	—
Stock options exercised	416	—	—	—	2	—	—	2
Net loss	—	—	—	—	—	(590)	(2,551)	(3,141)
Noncontrolling interest rebalancing	—	—	—	—	(157)	—	157	—
Balance, June 30, 2024	3,788,446	\$ 4	10,868,000	\$ 11	\$ 3,444	\$ (3,903)	\$ (8,328)	\$ (8,772)

Six Months Ended June 30, 2023

	Common Stock				APIC	Accumulated Deficit	Noncontrolling Interest	Stockholders' Equity
	Class A		Class B					
	Units	Amount	Units	Amount				
Balance, December 31, 2022	2,900,000	\$ 3	11,278,000	\$ 11	\$ 2,611	\$ (344)	\$ 3,314	\$ 5,595
Stock-based compensation	—	—	—	—	304	—	—	304
Warrants exercised	2,200	—	—	—	12	—	—	12
Issuance related to vesting of restricted stock units, net of tax withholdings	86,716	—	—	—	—	—	—	—
Distributions to holders of LLC Units	—	—	—	—	—	—	(752)	(752)
Net loss	—	—	—	—	—	(22)	(117)	(139)
Balance, June 30, 2023	2,988,916	\$ 3	11,278,000	\$ 11	\$ 2,927	\$ (366)	\$ 2,445	\$ 5,020

Three Months Ended June 30, 2023

	Common Stock						Accumulated Deficit	Noncontrolling Interest	Stockholders' Equity
	Class A		Class B		APIC				
	Units	Amount	Units	Amount					
Balance, March 31, 2023	2,902,200	\$ 3	11,278,000	\$ 11	\$ 2,717	\$ (558)	\$ 2,194	\$ 4,367	
Stock-based compensation	—	—	—	—	210	—	—	210	
Issuance related to vesting of restricted stock units, net of tax withholdings	86,716	—	—	—	—	—	—	—	
Distributions to holders of LLC Units	—	—	—	—	—	—	(752)	(752)	
Net income (loss)	—	—	—	—	—	192	1,003	1,195	
Balance, June 30, 2023	2,988,916	\$ 3	11,278,000	\$ 11	\$ 2,927	\$ (366)	\$ 2,445	\$ 5,020	

See accompanying notes to the unaudited condensed consolidated financial statements.

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2024	2023
Cash Flows (Used In) Provided By Operating Activities:		
Net loss	\$ (6,961)	\$ (139)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of deferred financing costs	372	272
Amortization of intangible assets	977	977
Reduction in carrying amount of right-of-use assets	76	85
Depreciation and amortization of property, equipment and software	137	121
Stock-based compensation	662	304
Deferred income taxes	(475)	(6)
Loss on early termination of line of credit	—	300
Provision for credit losses/bad debt expense, net of recoveries	(13)	52
Changes in operating assets and liabilities:		
Accounts receivable	17,704	(3,326)
Prepaid expenses and other assets	(130)	(257)
Accounts payable	(21,554)	5,662
Accrued liabilities and tax receivable agreement payable	(1,226)	(944)
Income taxes payable	10	(152)
Deferred revenues	350	404
Operating lease liability	(40)	(48)
Related party payable	—	(251)
Net cash (used in) provided by operating activities	(10,111)	3,054
Cash Flows Used In Investing Activities:		
Cash paid for capitalized software and property and equipment	(10)	(137)
Net cash used in investing activities	(10)	(137)
Cash Flows Provided by (Used In) Financing Activities:		
Payments on term loan	(372)	(328)
Proceeds from lines of credit	6,700	—
Payments on shares withheld for taxes	(551)	—
Payment of deferred financing costs	—	(228)
Proceeds from options exercised	82	—
Proceeds from warrants exercised	215	12
Distributions to holders of LLC Units	—	(752)
Net cash provided by (used in) financing activities	6,074	(1,296)
Net (decrease) increase in cash and cash equivalents	(4,047)	1,621
Cash and cash equivalents, beginning of the period	5,116	4,047
Cash and cash equivalents, end of the period	\$ 1,069	\$ 5,668
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes	\$ 257	\$ 349
Cash paid for interest	\$ 2,235	\$ 1,769

See accompanying notes to the unaudited condensed consolidated financial statements.

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Organization and Description of Business

Direct Digital Holdings, Inc., incorporated as a Delaware corporation on August 23, 2021 and headquartered in Houston, Texas, together with its subsidiaries, operates an end-to-end, programmatic advertising platform primarily focused on providing advertising technology, data-driven campaign optimization and other solutions intended for underserved and less efficient markets on both the sell- and buy-side of the digital advertising ecosystem. Direct Digital Holdings, Inc. is the holding company for Direct Digital Holdings, LLC ("DDH LLC"), which is, in turn, the holding company for the business formed by DDH LLC's founders in 2018 through the acquisition of Colossus Media, LLC ("Colossus Media") and Huddled Masses, LLC ("Huddled Masses" or "Huddled Masses"). Colossus Media operates the Company's proprietary sell-side programmatic platform operating under the trademarked banner of Colossus SSP™ ("Colossus SSP"). In late September 2020, DDH LLC acquired Orange142, LLC ("Orange 142") to further bolster its overall programmatic buy-side advertising platform and to enhance its offerings across multiple industry verticals such as travel, healthcare, education, financial services, consumer products, and other sectors with particular emphasis intended for small and mid-sized businesses transitioning into digital with growing digital media budgets. In February 2022, Direct Digital Holdings, Inc. completed an initial public offering of its securities and, together with DDH LLC, effected a series of transactions (together, the "Organizational Transactions") whereby Direct Digital Holdings, Inc. became the sole managing member of DDH LLC, the holder of 100% of the voting interests of DDH LLC and the holder of 19.7% of the economic interests of DDH LLC, commonly referred to as an "Up-C" structure. (See Note 6 — Related Party Transactions). In these condensed consolidated financial statements, the "Company," "Direct Digital," "Direct Digital Holdings," "DDH," "we," "us" and "our" refer to Direct Digital Holdings, Inc., and, unless otherwise stated, all of its subsidiaries, including DDH LLC and its subsidiaries. All of the subsidiaries are incorporated in the state of Delaware, except for DDH LLC, which was formed under the laws of the State of Texas.

The subsidiaries of Direct Digital Holdings, Inc. are as follows:

Subsidiary	Current % Ownership	Business Segment	Date of Formation	Date of Acquisition
Colossus Media, LLC	100%	Sell-side	September 8, 2017	June 21, 2018
Orange142, LLC	100%	Buy-side	March 6, 2013	September 30, 2020
Huddled Masses, LLC	100%	Buy-side	November 13, 2012	June 21, 2018
Direct Digital Holdings, LLC ⁽¹⁾		N/A	June 21, 2018	February 15, 2022

⁽¹⁾ DDH owns 100% of the voting interest in Direct Digital Holding, LLC. As of June 30, 2024, DDH owns 25.8% of the economic interest in Direct Digital Holdings, LLC. See further discussion of the Up-C structure in Note 6 of our condensed consolidated financial statements.

Colossus SSP is a stand-alone platform intended to deliver targeted advertising to diverse and multicultural audiences as well as to general audiences. Both buy-side subsidiaries, Orange 142 and Huddled Masses, offer technology-enabled advertising solutions and consulting services to clients through demand side platforms ("DSPs").

Providing both the front-end, buy-side operations coupled with the Company's proprietary sell-side operations enables the Company to curate the first through the last mile in the ad tech ecosystem execution process to drive higher results.

Note 2 — Basis of Presentation and Consolidation and Summary of Significant Accounting Policies

Basis of presentation and consolidation

The accompanying condensed unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and as required by Rule 8-03 of Regulation S-X. Accordingly, the condensed unaudited consolidated financial statements may not include all of the information and notes required by GAAP for audited financial statements. The consolidated financial statements data for the year ended December 31, 2023 included herein was derived from audited financial statements but does not include all disclosures required by GAAP for complete financial statements. In the opinion of the Company's management, the accompanying condensed unaudited consolidated financial statements contain all adjustments, consisting of items of a normal and recurring nature, necessary to present fairly the Company's financial

position as of June 30, 2024, the results of its operations for the three and six months ended June 30, 2024 and 2023, cash flows for the six months ended June 30, 2024 and 2023, and stockholders' deficit for the three and six months ended June 30, 2024 and 2023. The results of operations for the three and six months ended June 30, 2024, respectively, are not necessarily indicative of the results to be expected for the full year. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, and related disclosures, as of the date of the financial statements, and the amounts of revenues and expenses reported during the period. Actual results could differ from estimates. The accompanying condensed unaudited consolidated financial statements should be read in conjunction with the Company's audited financial statements and the accompanying notes for the year ended December 31, 2023, which was included in Form 10-K filed with the SEC on October 15, 2024.

The condensed consolidated financial statements include the accounts of Direct Digital Holdings, Inc. and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards otherwise applicable to public companies until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an emerging growth company or (ii) it affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates. The adoption dates discussed below reflect this election.

Revenue recognition

The Company recognizes revenue using the following five steps: 1) identification of a contract with a customer; 2) identification of the performance obligation(s) in the contract; 3) determination of the transaction price; 4) allocation of the transaction price to the performance obligation(s) in the contract; and 5) recognition of revenue when, or as, the performance obligation(s) are satisfied. The Company's revenues are derived primarily from two sources: sell-side advertising and buy-side advertising. Thus, the Company disaggregates the revenue earned into these two segments. For additional segment disclosures, refer to Note 7 — Segment Information of our condensed consolidated financial statements. The Company maintains agreements with its customers in the form of written service agreements, which set out the terms of the relationship, including payment terms (typically 30 to 90 days) and access to its platform.

For the sell-side advertising segment, the Company generates revenue by selling advertising inventory (digital ad units) that the Company purchases from publishers to advertisers through a process of monetizing ad impressions on the Company's proprietary sell-side programmatic platform operating under the trademarked banner Colossus SSP. For the buy-side advertising segment, the Company generates revenue from customers that enter into agreements with the Company to provide managed advertising campaigns, which include digital marketing and media services to purchase digital advertising space, data and other add-on features.

In connection with the Company's analysis of principal vs agent considerations, the Company has evaluated the specified goods or services and considered whether the Company controls the goods or services before they are provided to the customer, including the three indicators of control. Based upon this analysis and the Company's specific facts and circumstances, the Company concluded that it is a principal for the goods or services sold through both the Company's sell-side advertising segment and buy-side advertising segment because the Company controls the specified good or service before it is transferred to the customer and the Company is the primary obligor in the agreement with customers. Therefore, the Company reports revenue on a gross basis inclusive of all supplier costs and pays suppliers for the cost of digital media, advertising inventory, data and any add-on services or features.

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. For example, in our sell-side advertising segment, many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year in order to coincide with increased holiday purchasing while, in our buy-side segment, the second and third quarters of the year reflect our highest levels of advertising activity and the first quarter reflects the lowest level of such activity.

Sell-side advertising

The Company partners with publishers to sell advertising inventory to the Company's Colossus Media-curated clients and the open markets (collectively referred to as "buyers") seeking to access the general market as well as unique multi-cultural audiences. The Company generates revenue from the delivery of targeted digital media solutions, enabling advertisers to connect intelligently with their audiences across online display, video, social and mobile mediums using its proprietary programmatic sell-side platform ("SSP"). The Company refers to its publishers, app developers, and channel partners collectively as its "publishers". The Company's platform allows the Company to sell, in real time, ad impressions from publishers to buyers and provides automated inventory management and monetization tools to publishers across various device types and digital ad formats. The Company recognizes revenue at a point in time when an ad is delivered or displayed in response to a winning bid request from ad buyers.

Buy-side advertising

The Company purchases media based on the budget established by its customers with a focus on leveraging data services, customer branding, real-time market analysis and micro-location advertising. The Company offers its services on a fully managed basis, which is recognized over time using the output method when the performance obligation is fulfilled. An "impression" is delivered when an advertisement appears on pages viewed by users. The performance obligation is satisfied over time as the volume of impressions are delivered up to the contractual maximum. Many customers run several different campaigns throughout the year to capitalize on different seasons, special events and other happenings at their respective regions and localities. The Company provides digital advertising and media buying capabilities with a focus on generating measurable digital and financial life for its customers.

Revenue arrangements are evidenced by a fully executed insertion order ("IO") and/or a master service agreement ("MSA") covering a combination of marketing tactics. Generally, IOs specify the number and type of advertising impressions to be delivered over a specified time at an agreed upon price and performance objectives for an ad campaign. Performance objectives are generally a measure of targeting, as defined by the parties in advance, such as number of ads displayed, consumer clicks on ads or consumer actions (which may include qualified leads, registrations, downloads, inquiries or purchases). These payment models are commonly referred to as CPM (cost per impression), CPC (cost per click) and CPA (cost per action). The majority of the Company's contracts are flat-rate, fee-based contracts.

Cash payments received prior to the Company's delivery of its services are recorded to deferred revenue until the performance obligation is satisfied. The Company recorded deferred revenue (contract liabilities) to account for billings in excess of revenue recognized, primarily related to contractual minimums billed in advance and customer prepayment, of \$0.7 million and \$0.4 million as of June 30, 2024 and December 31, 2023, respectively. Revenue recognized during the six months ended June 30, 2024 and 2023 from amounts included within the deferred revenue balances at the beginning of each respective period amounted to \$0.4 million and \$0.5 million, respectively.

Accounting Standards Codification ("ASC") 606 provides various optional practical expedients. The Company elected the use of the practical expedient relating to the disclosure of remaining performance obligations within a contract and will not disclose remaining performance obligations for contracts with an original expected duration of one year or less.

Goodwill

As of June 30, 2024 and December 31, 2023, goodwill was \$ 6.5 million, which includes \$2.4 million as a result of the acquisition of Huddled Masses and Colossus Media in 2018 and \$4.1 million from the acquisition of Orange 142 in 2020. The Company expects to deduct goodwill for tax purposes in future years. Goodwill is attributable to entry into new markets not previously accessible and generation of future growth opportunities. Goodwill is assessed for impairment at least annually (December 31) starting with a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit containing goodwill is less than its carrying value. This qualitative assessment may include, but is not limited to, reviewing factors such as macroeconomic conditions, industry and market considerations, cost factors, entity-specific financial performance and other events, such as changes in our management, strategy and primary user base. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value, then a quantitative goodwill impairment analysis is performed. Depending upon the results of the quantitative measurement, the recorded goodwill may be written down and an impairment expense is recorded in the condensed consolidated statements of operations when the carrying amount of the reporting unit exceeds the fair value of the reporting unit. Goodwill is reviewed annually and tested for impairment upon the occurrence of a triggering event. The Company determined that there was no impairment of goodwill during the six months ended June 30, 2024 and 2023.

Intangible assets, net

Intangible assets consist of customer relationships, trademarks and non-compete agreements. Intangible assets are recorded at fair value at the time of their acquisition and are stated within the condensed consolidated balance sheets net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives and recorded as amortization expense within general and administrative expenses in the condensed consolidated statements of operations. The Company's intangible assets are being amortized over their estimated useful lives, using the straight-line method with non-compete agreements over 5 years and other intangibles over 10 years.

Impairment of long-lived assets

The Company evaluates the recoverability of long-lived assets, including property, equipment and software costs and intangible assets if facts or circumstances indicate that any of those assets might be impaired. ASC 360-10-15 requires the Company to group assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities and evaluate the asset group against the sum of the undiscounted future cash flows to determine if a write-down to fair value is necessary. No impairment loss was recognized during the six months ended June 30, 2024 and 2023.

Stock-based compensation

Stock-based compensation cost for options and restricted stock units ("RSU") awarded to employees and directors is measured at the grant date based on the calculated fair value of the award and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant). Contingently issued awards with a requisite service period that precedes the grant date are measured and recognized at the start of the requisite service period and remeasured each reporting period until the grant date.

The Company estimates the fair value of RSU's based on the closing price of the Company's common stock on the date of the grant. The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the fair value of the Company's common stock, as well as assumptions regarding the expected common stock price volatility over the term of the stock options, the expected term of the stock options, risk-free interest rates and the expected dividend yield. Given the Company's short history as a public company, the expected volatility is determined based on the trading history of several unrelated public companies within the industry that the Company considers to be comparable and the expected term is determined based on a combination of the terms of stock options and peer data. The risk-free interest rate is derived using the U.S. Treasury yield curve in effect at date of grant. Other assumptions are based on historical experience and activity. The Company considers an estimated forfeiture rate for stock options based on historical experience and the anticipated forfeiture rates during the future contract life.

Income taxes

In February 2022, concurrent with the Organizational Transactions, the Company entered into a tax receivable agreement ("Tax Receivable Agreement" or "TRA") with DDH LLC and Direct Digital Management, LLC ("DDM"). The TRA provides for certain income (loss) allocations between the Company and DDH LLC under the agreement. DDH LLC is a limited liability company, is treated as a partnership for federal income tax purposes and generally is not subject to any entity-level U.S. federal income tax and certain state and local income taxes. Any taxable income or loss generated by the Company is allocated to holders of LLC units ("LLC Units") in accordance with the Second Amended and Restated Limited Liability Company Agreement ("LLC Agreement"), and distributions to the owners of LLC Units in an amount sufficient to fund their tax obligations. The Company is subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income or loss under the LLC Agreement. Pursuant to the Company's election under Section 754 of the Internal Revenue Code (the "Code"), the Company expects to obtain an increase in its share of the tax basis in the net assets of DDH, LLC when LLC Units are redeemed or exchanged by the members of DDH, LLC. The Company made an election under Section 754 of the Code for each taxable year in which a redemption or exchange of LLC interest occurred. During the six months ended June 30, 2024 and 2023, members of DDM exchanged no shares of Class B Common Stock into shares of Class A Common Stock.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The establishment of a valuation allowance requires significant judgment and is impacted by various estimates. Both positive and negative evidence, as well as the objectivity and verifiability of that

evidence, is considered in determining the appropriateness of recording a valuation allowance on deferred tax assets. As of June 30, 2024 and December 31, 2023, the Company recorded a valuation allowance of \$0.5 million and \$0.5 million, respectively.

Accounts receivable, net

Accounts receivable primarily consists of billed amounts for products and services rendered to customers under normal trade terms. The Company performs credit evaluations of its customers' financial condition and generally does not require collateral. Accounts receivable are stated at net realizable value. The Company insures a significant portion of its accounts receivable with unrelated third-party insurance companies in an effort to mitigate any future write-offs and establishes provision for credit losses as deemed necessary for accounts not covered by this insurance. Management periodically reviews outstanding accounts receivable for reasonableness. If warranted, the Company processes a claim with the third-party insurance company to recover uncollected balances, rather than writing the balances off to bad debt expense. The guaranteed recovery for the claim is approximately 90% of the original balance, and if the full amount is collected by the insurance company, the remaining 10% is remitted to the Company. If the insurance company is unable to collect the full amount, the Company records the remaining 10% to bad debt expense. The Company's provision for credit losses reflects the current expected credit loss inherent in the accounts receivable considering the Company's aging analysis, historical collection experience, customer creditworthiness, current and future economic conditions and market conditions. Accounts receivable balances are written off against the provision when the Company believes it is probable the receivable will not be recovered. For the six months ended June 30, 2024 and 2023 the Company's provision for credit losses net of recoveries, as reflected in the condensed consolidated statements of cash flows was less than \$0.1 million.

Concentrations of customers and suppliers

There is an inherent concentration of credit risk associated with accounts receivable arising from revenue from major customers on both the sell-side and buy-side of the business. For the three months ended June 30, 2024 and 2023, one customer of the sell-side of the business represented 28% and 63% of revenues, respectively. For the six months ended June 30, 2024 and 2023, one customer of the sell-side of the business represented 62% and 62% of revenues, respectively. As of June 30, 2024 and December 31, 2023, one customer of the sell-side of the business accounted for 64% and 83%, respectively, of accounts receivable.

As of June 30, 2024 and December 31, 2023, three sellers of advertising inventory each accounted for at least 10%, and collectively accounted for 36% and 77%, respectively, of consolidated accounts payable.

Accrued Liabilities

The components of accrued liabilities on the balance sheet as of June 30, 2024 and December 31, 2023 are as follows (in thousands):

	June 30, 2024	December 31, 2023
Accrued compensation and benefits	\$ 371	\$ 2,789
Accrued expenses	604	631
Accrued severance	27	190
Accrued litigation settlement ⁽¹⁾	42	171
Accrued interest	81	36
Total accrued liabilities	<u>\$ 1,125</u>	<u>\$ 3,816</u>

(1) In July 2022, the Company entered into a litigation settlement agreement with a vendor of Huddled Masses related to a delinquent balance from 2019 and agreed to pay a total of \$0.5 million with monthly installment payments over 24 months beginning September 1, 2022.

Cash and cash equivalents

Cash and cash equivalents consist of funds deposited with financial institutions and highly liquid instruments with original maturities of three months or less. Such deposits may, at times, exceed federally insured limits. The risk of loss attributable to any uninsured balances is mitigated by depositing funds only in high credit quality financial institutions. The

Company has not experienced any losses in such amounts and believes it is not exposed to any significant credit risk to cash.

Deferred offering costs

The Company records certain legal, accounting and other third-party fees that are directly associated with an offering to stockholders' equity or debt in the event that the Company completes an offering. Costs associated with debt offerings are amortized to interest expense using the straight-line method over the life of the debt. As of June 30, 2024 and December 31, 2023, \$ 1.4 million and \$1.7 million, respectively, of unamortized deferred financing costs are netted against debt in the condensed consolidated balance sheets.

Fair value measurements

The Company employs a hierarchy which prioritizes the inputs used to measure recurring fair value into three distinct categories based on the lowest level of input that is significant to the fair value measurement. The methodology for categorizing assets and liabilities that are measured at fair value pursuant to this hierarchy gives the highest priority to unadjusted quoted prices in active markets and the lowest levels to unobservable inputs, summarized as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities).
- Level 3 – Significant unobservable inputs (including our own assumptions in determining fair value).

We use the cost, income or market valuation approaches to estimate the fair value of our assets and liabilities when insufficient market-observable data is available to support our valuation assumptions.

Fair value of financial instruments

The Company considers the fair value of all financial instruments, including cash, accounts receivable and accounts payable to approximate their carrying values at year-end due to their short-term nature. The carrying value of the Company's debt approximates fair value due to the market rates of interest.

Net income (loss) per share

Basic net income (loss) per share excludes dilution and is determined by dividing net income (loss) by the weighted average number of common shares outstanding including participating securities during the period. Diluted net income (loss) per share reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common stock.

Recent Accounting Pronouncements

Accounting pronouncements adopted

No standards have been adopted which have had a material impact on the Company's condensed consolidated financial statements.

Accounting pronouncements not yet adopted

In December 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2023-09, *Improvements to Income Tax Disclosures*, a final standard on improvements to income tax disclosures. The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions and applies to all entities subject to income taxes. The new standard is effective for emerging growth companies for annual periods beginning after December 15, 2025. This accounting standard is effective in the first quarter of the Company's fiscal year ending December 31, 2026. The Company is currently evaluating the impact of adoption on our financial disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures*. The ASU requires that an entity disclose significant segment expenses impacting profit and loss that

are regularly provided to the Company's chief operating decision maker ("CODM"). The update is required to be applied retrospectively to prior periods presented, based on the significant segment expense categories identified and disclosed in the period of adoption. The amendments in this ASU are required to be adopted for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of adoption on our financial disclosures.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's condensed consolidated financial statements.

Liquidity and capital resources

Going Concern

The Company evaluated whether relevant conditions or events, considered in the aggregate, raise substantial doubt about the Company's ability to continue as a going concern. Substantial doubt exists when conditions and events, considered in the aggregate, indicate it is probable that a company will not be able to meet its obligations as they become due within one year after the issuance date of its financial statements. Management's assessment is based on the relevant conditions that are known or reasonably knowable as of the date these consolidated financial statements were issued or were available to be issued.

As discussed in Note 9, one of the Company's sell-side customers paused its connection to the Company for a couple of weeks in May 2024, which reduced sell-side sales volumes. As of the date of this report, sell-side volumes related to this customer have resumed but not yet at the levels experienced prior to the pause in May 2024 which has created significant disruption in the Company's sell-side business. The Company is actively working with its partners to achieve prior volume levels. However, there can be no assurance that the Company will be able to achieve prior volume levels with its partners or on the timing of achieving such volume levels. Additionally, the Company (1) incurred a net loss of \$6.8 million in 2023 primarily related to payments made to a few publishers of \$8.8 million associated with a disputed short payment from a customer and a net loss of \$7.0 million in the six months ended June 30, 2024 reflecting the impact of the sell-side disruption described above and a decrease in customer spend on the buy-side, (2) reported an accumulated deficit of \$3.9 million as of June 30, 2024, (3) reported cash and cash equivalents of \$1.1 million as of June 30, 2024, (4) has borrowed \$9.7 million as of June 30, 2024 and the date of this report, under the Credit Agreement which matures in July 2025, (5) was notified on April 17, 2024 that the Company's auditor had resigned and (6) was unable to timely file its 2023 annual report and quarterly reports for the first two quarters of 2024. The delay in filing the Company's annual and quarterly reports disrupted existing capital-raising efforts and created additional audit, legal and other expenses. These factors raise substantial doubt about the Company's ability to continue as a going concern over the next twelve months.

The Company anticipates sources of liquidity to include cash on hand and cash flow from operations and has taken several actions to address liquidity concerns. These actions include (1) a plan to reduce expenses through a staff reduction, a pause on hiring and cost savings measures that were executed on July 1, 2024, (2) working with lenders to provide temporary various relief from debt covenants (see Note 3 – Long-Term Debt) while rebuilding sell-side volumes, (3) raising capital through arrangements with various providers, and (4) regaining compliance with respect to delinquent SEC filings which will allow the Company to access the capital markets as well as other financing sources. There can be no assurance that the Company's actions will be successful or that additional financing will be available when needed or on acceptable terms.

The accompanying consolidated financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from uncertainty related to its ability to continue as a going concern.

Note 3 — Long-Term Debt

At June 30, 2024 and December 31, 2023, long-term debt consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
2021 Credit Facility	\$ 28,221	\$ 28,594
Credit Agreement	9,700	3,000
Economic Injury Disaster Loan	150	150
Total long-term debt	38,071	31,744
Less: deferred financing costs	(1,398)	(1,688)
Total long-term debt, net of deferred financing costs	36,673	30,056
Less: current portion	(1,840)	(1,478)
Total long-term debt, net of current portion	\$ 34,833	\$ 28,578

The components of interest expense and related fees for long-term debt is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Interest expense – Lafayette Square	\$ 981	\$ 890	\$ 1,955	\$ 1,769
Interest expense – East West Bank	189	—	324	—
Interest expense – Other	2	2	4	4
Amortization of deferred financing costs	186	136	372	272
Total interest expense and amortization of deferred financing costs	\$ 1,358	\$ 1,028	\$ 2,655	\$ 2,045

Lafayette Square

On December 3, 2021, the Company entered into the Term Loan and Security Agreement (the “2021 Credit Facility”) with Lafayette Square Loan Services, LLC (“Lafayette Square”) as administrative agent, and the various lenders thereto. The term loan under the 2021 Credit Facility initially provided for a term loan in the principal amount of up to \$32.0 million, consisting of a \$22.0 million closing date term loan (the “Term Loan”) and an up to \$10.0 million delayed draw term loan (the “Delayed Draw Loan”). The loans under the 2021 Credit Facility originally bore interest at LIBOR plus the applicable margin minus any applicable impact discount. The applicable margin under the 2021 Credit Facility was determined based on the consolidated total net leverage ratio of the Company and its consolidated subsidiaries, at a rate of 6.50% per annum if the consolidated total net leverage ratio is less than 2.00 to 1.00 and up to 9.00% per annum if the consolidated total net leverage ratio was greater than 4.00 to 1.00. On June 1, 2023, as originally contemplated under the 2021 Credit Facility, the Company entered into an agreement with Lafayette Square to convert the existing LIBOR based rate to a Term Secured Overnight Financing Rate (“SOFR”) with a credit spread of 0.15% per annum for the interest periods of three months and providing for a credit spread adjustment of 0.10%, 0.15% or 0.25% per annum for interest periods of one month, three months or six months, respectively. The loans under the 2021 Credit Facility bear interest at SOFR plus the applicable credit spread adjustment plus the applicable margin minus any applicable impact discount. Prior to entering into the Fifth Amendment as defined below, the applicable margin under the 2021 Credit Facility was based on the consolidated total net leverage ratio of the Company at a rate of 7.00% per annum if the consolidated total net leverage ratio was less than or equal to 1.00 to 1.00 with gradual increases as the ratio increased up to 10.00% per annum if the consolidated total net leverage ratio was greater than 3.50 to 1.00. The maturity date of the 2021 Credit Facility is December 3, 2026.

On July 28, 2022, the Company entered into the Second Amendment and Joinder to Term Loan and Security Agreement and received proceeds of \$4.3 million borrowed under the Delayed Draw Loan to pay the balance owed on the common unit redemption as well as costs associated with the transaction.

Subsequently, on October 3, 2023, the Company entered into the Fourth Amendment to the 2021 Credit Facility (the “Fourth Amendment”) and received proceeds of \$3.6 million borrowed under the Delayed Draw Loan to make payments in connection with the consummation of the 2023 warrant tender offer and fees and expenses incurred as described in Note 4 — Stockholders’ Deficit and Stock-Based Compensation in the notes to the condensed consolidated financial statements. In

connection with the Fourth Amendment, the Company agreed it would not be permitted to request any additional funds under the Delayed Draw Loan, and Lafayette Square would not be obligated to fund any such requests.

Quarterly installment payments on the Term Loan and the Delayed Draw Loan, due on the last day of each fiscal quarter, began March 31, 2022 with a final installment due December 3, 2026 for remaining balances outstanding under each loan. Each quarterly installment payment under the closing date term loan was \$0.1 million from January 1, 2022 through December 31, 2023, and each installment payment thereafter until maturity is \$ 0.3 million. Each quarterly installment payment under the Delayed Draw Loan was 0.625% of the amount of the Delayed Draw Loan through December 31, 2023, and each installment payment thereafter until maturity is 1.25% of the amount of the Delayed Draw Loan.

Under the 2021 Credit Facility, dividends and distributions by DDH LLC to the Company and any shareholders of the Company are permitted so long as (i) no default or event of default is continuing or would occur after giving pro forma effect to such dividends and distributions under the 2021 Credit Facility, (ii) the Company, on a pro forma basis, maintains a consolidated senior net leverage ratio of not greater than 1.5 to 1.0, and (iii) the Company, on a pro forma basis, maintains liquidity of not less than \$15.0 million.

The obligations under the 2021 Credit Facility are secured by senior, first-priority liens on all or substantially all assets of the Company. As of June 30, 2024, the Company owed a balance on the 2021 Credit Facility of \$28.2 million. No additional deferred financing costs were incurred during the six months ended June 30, 2024 and less than \$0.1 million of additional deferred financing costs were incurred during the six months ended June 30, 2023. Unamortized deferred financing costs as of June 30, 2024 and December 31, 2023 were \$1.4 million and \$1.7 million respectively. Accrued and unpaid interest was less than \$0.1 million and \$0.1 million as of June 30, 2024 and December 31, 2023, respectively. The 2021 Credit Facility contains customary affirmative and negative covenants. Prior to entering into the Fifth Amendment, the Company was required to maintain a net leverage ratio of no more than 3.50 to 1.00 as of December 31, 2021 and the last day of each fiscal quarter through December 31, 2023, 3.25 to 1.00 as of March 31, 2024 and the last day of each fiscal quarter through March 31, 2025, 3.00 to 1.00 as of June 30, 2025 and September 30, 2025, with incremental tightening of the ratio to 2.50 to 1.00 as of June 30, 2026 and thereafter through maturity. Prior to entering into the Fifth Amendment, the 2021 Credit Facility also required the Company to maintain a fixed charge coverage ratio of not less than 1.50 to 1.00 as of the last day of each fiscal quarter, as well as restrictions on the ability to incur indebtedness, create certain liens, make certain investments, make certain dividends and other types of distributions, and enter into or undertake certain mergers, consolidations, acquisitions and sales of certain assets and subsidiaries. The Company was in compliance with all the financial covenants under the 2021 Credit Facility as of June 30, 2024 after giving effect to the amendments to the 2021 Credit Facility under the Fifth Amendment. With the Fifth Amendment, the Company expects to be in compliance with all amended covenants for at least one year from the balance sheet date in this quarterly report.

On October 15, 2024, with an effective date of June 30, 2024, the Company and Lafayette Square entered into the Fifth Amendment to the Term Loan and Security Agreement (the "Fifth Amendment") which among other things, (1) defers quarterly installment payments on the Term Loan and the Delayed Draw Loan for the periods from June 30, 2024 through December 31, 2025, (2) requires that the Company pay a commitment fee of 50 basis points or an amount of \$0.1 million to Lafayette Square, (3) allows proceeds from future equity raises by the Company, if any, to cure potential financial covenant noncompliance, (4) provides for one-month and three-month interest periods, (5) replaces the calculation of the consolidated total net leverage ratio with a consolidated total leverage ratio for purposes of calculating the applicable margin and the financial covenant and (6) replaces the financial covenants under the 2021 Credit Facility (effective as of June 30, 2024) with the following:

As of	Minimum TTM* EBITDA (\$ in millions)	Minimum Liquidity (\$ in millions)	Maximum Consolidated Total Leverage Ratio	Minimum Fixed Charge Coverage Ratio
June 30, 2024	n/a	n/a	n/a	n/a
September 30, 2024	\$5.0	\$1.5	n/a	n/a
December 31, 2024	\$3.5	\$1.5	n/a	n/a
March 31, 2025	\$5.5	\$2.0	n/a	n/a
June 30, 2025	\$7.5	\$2.0	n/a	1.50 to 1.00
September 30, 2025	n/a	\$2.0	4.25 to 1.00	1.50 to 1.00
December 31, 2025	n/a	\$2.0	4.00 to 1.00	1.50 to 1.00
March 31, 2026	n/a	\$2.0	3.75 to 1.00	1.50 to 1.00
June 30, 2026	n/a	\$2.0	3.50 to 1.00	1.50 to 1.00
September 30, 2026	n/a	\$2.0	3.25 to 1.00	1.50 to 1.00

* TTM = Trailing Twelve Months

2023 Revolving Line of Credit - East West Bank

On July 7, 2023, the Company entered into a Credit Agreement (as amended, the “Credit Agreement”), with East West Bank (“EWB”), as lender. The Credit Agreement provides for a revolving credit facility in the principal amount of up to \$10 million, subject to a borrowing base determined based on eligible accounts, and an up to \$5 million uncommitted incremental revolving facility. Loans under the Credit Agreement mature on July 7, 2025 (the “Maturity Date”), unless the Credit Agreement is otherwise terminated pursuant to the terms of the Credit Agreement.

Borrowings under the Credit Agreement bear interest at a rate per annum equal to the one-month Term SOFR rate and as determined by EWB on the first day of the applicable interest period, plus 0.10% (10 basis points), plus 3.00% per annum (the “Loan Rate”); provided, that, in no event shall the Loan Rate be less than 0.50% of the Loan Rate effective as of the date of the Credit Agreement nor more than the maximum rate of interest allowed under applicable law. Upon an event of default under the Credit Agreement, the outstanding principal amounts of any advances will accrue interest at a rate per annum equal to the Loan Rate plus five percent (5%), but in no event in excess of the maximum rate of interest allowed under applicable law.

At the Company's option, the Company may at any time prepay the outstanding principal balance of the Credit Agreement in whole or in part, without fee, penalty or premium. All accrued but unpaid interest on outstanding advances under the Credit Agreement are payable in monthly installments on the last day of each monthly interest period until the Maturity Date when the then-outstanding principal balance of the advances and all accrued but unpaid interest thereon becomes due and payable. The obligations under the Credit Agreement are secured by all or substantially all of the borrowers' assets.

Prior to entering into the Third Amendment as defined below, the Company was required to maintain compliance at all times with the following financial covenants on a consolidated basis: (i) a fixed charge coverage ratio of not less than 1.25 to 1.0, beginning with the fiscal quarter ended on June 30, 2023 and at the end of each fiscal quarter thereafter; (ii) a total funded debt-to-EBITDA ratio of no more than 3.50 to 1.00 as of June 30, 2023 and the last day of each fiscal quarter through December 31, 2023, 3.25 to 1.00 as of March 31, 2024 and the last day of each fiscal quarter through March 31, 2025 and 3.00 to 1.00 as of June 30, 2025 and thereafter through maturity; and (iii) a liquidity covenant requiring the Company to maintain minimum liquid assets at all times (calculated in the manner provided for in the Credit Agreement), in one or more accounts held with EWB plus Revolving Credit Availability in the amount of \$1.0 million. Revolving Credit Availability is defined as an amount such that the ratio of the value of eligible accounts to the aggregate amount of all outstanding advances under the credit agreement at such time is not less than 2.0 to 1.0. The Company was in compliance with all the financial covenants under the Credit Agreement as of June 30, 2024 after giving effect to the amendments to the Credit Agreement under the Third Amendment. Additionally, the amounts outstanding under the Credit Agreement exceeded the Company's borrowing base as of June 30, 2024 by \$0.5 million, which was addressed in the Third Amendment, requiring a \$ 1.0 million principal payment on the outstanding loans under the Credit Agreement as of the date of the Third Amendment. With the Third Amendment, the Company expects to be in compliance with all amended covenants for at least one year from the balance sheet date in this quarterly report.

On October 15, 2024, with an effective date of June 30, 2024, the Company and EWB entered into the Third Amendment to the Credit Agreement (the “Third Amendment”) which, among other things, (1) provides that the Company

will make prepayments of the outstanding principal balance of the Credit Agreement of \$ 1.0 million upon execution of the Third Amendment, \$ 1.0 million on or before January 15, 2025 and \$2.0 million on or before April 15, 2025, (2) requires the Company to file a registration statement with the SEC to establish an equity line of credit offering on or before October 31, 2024 and to use commercially reasonable efforts to cause such registration statement to become effective, (3) requires the net proceeds of a potential equity line of credit to be applied to the outstanding principal balance under the Credit Agreement in an amount that would cause the ratio of the value of eligible accounts to the aggregate amount of revolving credit advances to be not less than 1.00 to 1.00, (4) requires the consent of EWB prior to the ability of the Company to make certain restricted payments, including cash dividends, (5) requires the Company to make additional prepayments in the amount by which the outstanding loans under the Credit Agreement exceed the borrowing base between the calendar months ending November 30, 2024 and April 15, 2025, and (6) replaces the financial covenants under the Credit Agreement, effective as of June 30, 2024, with the following:

As of	Minimum TTM ⁽¹⁾ EBITDA (\$ in millions)	Minimum Liquid Assets (\$ in millions)	Maximum Total Funded Debt to EBITDA Leverage Ratio	Minimum Fixed Charge Coverage Ratio	Revolving Credit Availability (as of each month end)
June 30, 2024	n/a	\$1.0	n/a	n/a	n/a
September 30, 2024	\$5.0	\$1.5	n/a	n/a	n/a
December 31, 2024	\$3.5	\$1.5	n/a	n/a	1.00 to 1.00 ⁽²⁾
March 31, 2025	\$5.5	\$2.0	n/a	n/a	1.50 to 1.00 ⁽³⁾
June 30, 2025	\$7.5	\$2.0	n/a	1.25 to 1.00	2.00 to 1.00 ⁽⁴⁾

(1) TTM = Trailing Twelve Months

(2) Beginning November 30, 2024

(3) Beginning January 31, 2025

(4) Beginning April 15, 2025

The Credit Agreement contains customary representations and warranties and includes affirmative and negative covenants applicable to the borrowers and their respective subsidiaries. The affirmative covenants include, among others, covenants requiring the Company to maintain its legal existence and governmental compliance, deliver certain financial reports and maintain insurance coverage. The negative covenants include, among others, restrictions on indebtedness, liens, investments, mergers, dispositions, prepayment of other indebtedness and dividends and other distributions.

The Credit Agreement also includes customary events of default, including, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, defaults under any of the loan documents, certain cross-defaults to other indebtedness, certain bankruptcy and insolvency events, invalidity of guarantees or grant of security interest, certain ERISA-related transactions and events, certain orders of forfeiture, change of control, certain undischarged attachments, sequestrations, or similar proceedings, and certain undischarged or non-stayed judgments, in certain cases subject to certain thresholds and grace periods. The occurrence of an event of default could result in the acceleration of the obligations under the Credit Agreement of the Company or other borrowers. During the six months ended June 30, 2024, the Company did not incur any deferred financing costs associated with the Credit Agreement. As of June 30, 2024, there was \$9.7 million outstanding under the Credit Agreement.

The collateral securing the obligations under the 2021 Credit Facility and the Credit Agreement is subject to intercreditor agreements between Lafayette Square and EWB.

Silicon Valley Bank ("SVB") Financing

On January 9, 2023, the Company entered into the SVB Loan Agreement, by and among SVB, as lender, and DDH LLC, the Company, Huddled Masses, Colossus Media and Orange 142, as borrowers. The SVB Loan Agreement provided for a revolving credit facility (the "SVB Revolving Credit Facility") in the original principal amount of \$5 million, subject to a borrowing base determined based on eligible accounts, and up to an additional \$2.5 million incremental revolving facility subject to the lender's consent, which would increase the aggregate principal amount of the Credit Facility to \$7.5 million. Loans under the SVB Revolving Credit Facility were to mature on September 30, 2024 unless the Credit Facility was otherwise terminated pursuant to the terms of the Loan Agreement.

On March 10, 2023, the California Department of Financial Protection and Innovation closed SVB and appointed the Federal Deposit Insurance Corporation as receiver. As the Company had not yet drawn any amounts under the SVB Revolving Credit Facility, on March 13, 2023, the Company issued a notice of termination of the SVB Loan Agreement.

The termination of the SVB Revolving Credit Facility became effective April 20, 2023. Prior to issuing the notice of termination, the Company received consent to terminate the SVB Revolving Credit Facility and a waiver of the terms relating to the SVB Revolving Credit Facility under its Term Loan and Security Agreement, dated as of December 3, 2021, with Lafayette Square Loan Servicing, LLC ("Lafayette Square"). The Company did not hold material cash deposits or securities at Silicon Valley Bank and did not experience any adverse impact to its liquidity or to its current and projected business operations, financial condition or results of operations as a result of the SVB closure. During the six months ended June 30, 2023, the Company incurred \$0.4 million of deferred financing costs. After the Company issued the notice of termination, total deferred financing costs of \$ 0.3 million were expensed to loss on early termination of line of credit during the six months ended June 30, 2023.

U.S. Small Business Administration Loans

Economic Injury Disaster Loan

In 2020, the Company applied and was approved for a loan pursuant to the Economic Injury Disaster Loan ("EIDL"), administered by the U.S. Small Business Administration ("SBA"). The Company received the loan proceeds of \$0.2 million on June 15, 2020. The loan bears interest at a rate of 3.75% and matures on June 15, 2050. Installment payments, including principal and interest, of less than \$0.1 million began monthly on December 15, 2022. Each payment will first be applied to pay accrued interest, then the remaining balance will be used to reduce principal. The loan is secured by substantially all assets of DDH LLC.

Accrued and unpaid interest expense as of June 30, 2024 and December 31, 2023 was less than \$ 0.1 million and is included in accrued expenses on the condensed consolidated balance sheets.

Overall

As of June 30, 2024, future minimum payments related to long-term debt are as follows (in thousands):

2024	\$	1,109
2025		11,160
2026		25,657
2027		3
2028		3
Thereafter		139
Total		38,071
Less current portion		(1,840)
Less deferred financing costs		(1,398)
Long-term debt, net	\$	<u><u>34,833</u></u>

Note 4 — Stockholders' Deficit and Stock-Based Compensation

Stockholders' Equity – Initial Public Offering

Following the completion of the Organizational Transactions, DDH LLC's limited liability company agreement was amended and restated to, among other things, appoint the Company as the sole managing member of DDH LLC and effectuate a recapitalization of all outstanding preferred units and common units into (i) economic nonvoting units of DDH LLC held by the Company and, through their indirect ownership of DDM, the Company's Chairman and Chief Executive Officer and President, and (ii) noneconomic voting units of DDH LLC, 100% of which are held by the Company. In August 2022 and December 2023, DDM tendered 100,000 and 410,000, respectively, of its limited liability company units to the Company in exchange for newly issued shares of Class A Common Stock of the Company on a one-for-one basis. In connection with these exchanges, an equivalent number of the holder's shares of Class B Common Stock were cancelled. As of June 30, 2024, DDM held 10,868,000 shares of Class B Common Stock.

The Company is authorized to issue 160,000,000 shares of Class A Common Stock, par value \$ 0.001 per share, 20,000,000 shares of Class B Common Stock, par value \$0.001 per share, and 10,000,000 shares of preferred stock, par value \$ 0.001 per share.

On February 15, 2022, the Company completed its initial public offering of 2,800,000 units ("Units"), each consisting of (i) one share of its Class A Common Stock and (ii) one warrant entitling the holder to purchase one share of its Class A Common Stock at an exercise price of \$ 5.50 per share. The warrants became immediately exercisable upon issuance and were exercisable for a period of five years after the issuance date. The shares of Class A Common Stock and warrants were immediately transferable separately upon issuance. At June 30, 2024, none of these warrants were outstanding. The underwriters in our initial public offering were granted a 45-day option to purchase up to an additional 420,000 shares and/or warrants, or any combination thereof, to cover over-allotments, which they initially exercised, in part, electing to purchase warrants to purchase an additional 420,000 shares of Class A Common Stock. As of June 30, 2024, none of these warrants were outstanding. In connection with the Company's initial public offering, the Company issued to the underwriters of the offering a unit purchase option to purchase (i) an additional 140,000 Units at a per Unit exercise price of \$6.60, which was equal to 120% of the public offering price per Unit sold in the initial public offering, and (ii) warrants to purchase 21,000 shares of Class A Common Stock at a per warrant exercise price of \$0.012, which was equal to 120% of the public offering price per warrant sold in the offering. A group of underwriters exercised 70,000 Units and 10,500 warrants in November 2023 and exercised 70,000 Units and 10,500 warrants in February 2024.

The warrants had a fair value of \$0 that was calculated using the Black-Scholes option-pricing model. Variables used in the Black-Scholes option-pricing model include: (1) discount rate of 1.94% based on the applicable U.S. Treasury bill rate, (2) expected life of 5 years, (3) expected volatility of approximately 66% based on the trading history of similar companies, and (4) zero expected dividends.

On August 29, 2023, the Company filed a Tender Offer Statement on Schedule TO pursuant to which the Company offered to purchase all of its outstanding warrants for \$1.20 per warrant in cash. The Tender Offer expired at one minute after 11:59 PM, Eastern Time on September 28, 2023. The Company accepted all validly tendered warrants for purchase and settlement on October 2, 2023. As a result of the Tender Offer, a total of 2,213,652 warrants were tendered and not validly withdrawn prior to the expiration of the tender offer for a total purchase price of approximately \$2.7 million. On October 23, 2023, the Company distributed a notice of redemption to the registered holders of the remaining outstanding warrants announcing the redemption of those warrants for \$0.35 per warrant. The redemption closed on October 30, 2023, and all remaining 1,004,148 warrants were purchased for an aggregate price of approximately \$0.4 million.

Noncontrolling Interest

Direct Digital Holdings, Inc. is the sole managing member of DDH LLC, and consolidates the financial results of DDH LLC. Therefore, Direct Digital Holdings, Inc. reports a noncontrolling interest ("NCI") based on the common units of DDH LLC held by DDM. While Direct Digital Holdings, Inc. retains its controlling interest in DDH LLC, changes in its ownership interest in DDH LLC are accounted for as equity transactions. As such, future redemptions or direct exchanges of LLC Units by DDM will result in a change in ownership and reduce or increase the amount recorded as noncontrolling interest and increase or decrease additional paid-in capital when DDH LLC has positive or negative net assets, respectively.

Stock-Based Compensation Plans

In connection with the initial public offering, the Company adopted the 2022 Omnibus Incentive Plan ("2022 Omnibus Plan") to facilitate the grant of equity awards to the Company's employees, consultants and non-employee directors. The Company's board of directors reserved 1,500,000 shares of Class A Common Stock for issuance in equity awards under the 2022 Omnibus Plan. Information on activity for both the stock options and RSUs is detailed below.

During the six months ended June 30, 2024 and 2023, the Company recognized \$ 0.7 million and \$0.3 million, respectively, of total stock-based compensation expense in the condensed consolidated statement of operations in compensation, tax and benefits.

Stock Options

Options to purchase shares of common stock vest annually on the grant date anniversary over a period of three years and expire 10 years following the date of grant. The following table summarizes the stock option activity under the 2022 Omnibus Plan as of June 30, 2024:

	Stock Options			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2024	371,116	\$ 2.51	8.77	\$ 4,591
Granted	—	\$ —	—	\$ —
Exercised	(8,754)	\$ 2.62	—	\$ 172
Forfeited	(2,383)	\$ 2.82	—	\$ 17
Outstanding at June 30, 2024	359,979	\$ 2.51	8.09	\$ 549
Vested and exercisable at June 30, 2024	175,405	\$ 2.17	7.99	\$ 327

As of June 30, 2024, unrecognized stock-based compensation of \$ 0.3 million related to 184,574 of unvested stock options which will be recognized on a straight-line basis over a weighted-average vesting period of 1.09 years.

Restricted Stock Units

RSUs generally vest annually on the grant date anniversary over a period of three years. A summary of RSU activity during the six months ended June 30, 2024 and related information is as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested- January 1, 2024	542,396	\$ 2.87
Granted	99,474	\$ 16.90
Vested	(358,899)	\$ 8.24
Forfeited	(1,751)	\$ 3.25
Unvested- June 30, 2024	281,220	\$ 2.81

The majority of vested RSUs were net share settled such that the Company withheld shares with a value equivalent to the employees' obligation for the applicable income and other employment taxes. The total shares withheld were 97,086 and were based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. As of June 30, 2024, there was unrecognized stock-based compensation of \$0.7 million related to unvested RSUs which will be recognized on a straight-line basis over a weighted average period of 1.13 years.

Note 5 — Tax Receivable Agreement and Income Taxes

Tax Receivable Agreement

The Company's TRA with DDH LLC and DDM (together, the "TRA Holders") provides for payment by the Company to the TRA Holders of 85% of the net cash savings, if any, in U.S. federal, state and local income tax and franchise tax that the Company actually realizes or is deemed to realize in certain circumstances. The Company retains the benefit of the remaining 15% of these net cash savings.

The TRA liability is calculated by determining the tax basis subject to the TRA ("tax basis") and applying a blended tax rate to the basis differences and calculating the resulting impact. The blended tax rate consists of the U.S. federal income tax rate and assumed combined state and local income tax rate driven by the apportionment factors applicable to each state. Any taxable income or loss generated by the Company will be allocated to TRA Holders in accordance with the TRA, and distributions to the owners of LLC Units in an amount sufficient to fund their tax obligations will be made.

Pursuant to the Company's election under Section 754 of the Code in 2022, the Company expects to obtain an increase in its share of the tax basis in the net assets of DDH, LLC when LLC interests are redeemed or exchanged by the members of DDH, LLC. In August 2022 and December 2023, members of DDM exchanged 100,000 and 410,000 Class B shares into Class A shares, respectively.

The Company has recorded a liability related to the tax receivable agreement of \$5.2 million as of June 30, 2024 and December 31, 2023. The Company has recorded a deferred tax asset primarily from the outside basis difference in the partnership interest of \$6.6 million and \$6.1 million as of June 30, 2024 and December 31, 2023, respectively. The deferred tax asset is net of a valuation allowance of \$0.5 million as of June 30, 2024 and December 31, 2023. Payments of less than \$0.1 million and \$0.8 million were made during the six months ended June 30, 2024 and 2023, respectively. The payments under the TRA will not be conditional on holder of rights under the TRA having a continued ownership interest in either DDH LLC or the Company. The Company may elect to defer payments due under the TRA if the Company does not have available cash to satisfy its payment obligations under the TRA. Any such deferred payments under the TRA generally will accrue interest from the due date for such payment until the payment date. The Company accounts for any amounts payable under the TRA in accordance with ASC Topic 450, *Contingencies*, and recognizes subsequent period changes to the measurement of the liability from the TRA in the statement of operations as a component of income before taxes. For the six months ended June 30, 2024 and 2023, no amounts were recorded as income in other income (expense) for such change.

The term of the TRA commenced upon completion of the initial public offering and will continue until all tax benefits that are subject to the TRA have been utilized or expired, unless the Company exercises its right to terminate the TRA. If the Company elects to terminate the TRA early (or it is terminated early due to changes in control), the obligations under the TRA would accelerate and the Company would be required to make an immediate payment equal to the present value of the anticipated future payments to be made by the Company under the TRA.

Income Taxes

Through the Organizational Transactions completed in February 2022, the Company formed an Up-C structure which allows DDM to continue to realize tax benefits associated with owning interests in an entity that is treated as a partnership for U.S. federal income tax purposes. Under the Up-C structure, the Company is subject to corporation income tax on the variable ownership changes. The ownership was 20.45% as of January 1, 2023 and increased to 23.35% in the fourth quarter of 2023. There was no exchange of shares of Class B common stock for shares of Class A common stock in the six months ended June 30, 2024.

The Company recorded a tax benefit for federal and state income tax for which the components and the effective income tax rates are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Income tax expense (benefit)	\$ (274)	\$ 74	\$ (475)	\$ —
Effective income tax rate	8.0 %	5.8 %	6.4 %	— %

The effective tax rates were lower than the statutory tax rates for the three and six months ended June 30, 2024 and 2023 primarily due to the Company's partnership loss that is not subject to federal and state taxes.

As of June 30, 2024, the Company had federal net operating loss carryforwards of \$ 3.3 million that can be carried forward indefinitely.

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions. In the normal course of business, the Company can be examined by various tax authorities, including the Internal Revenue Service in the United States. There are currently no federal or state audits in process. The Company analyzes its tax filing positions in all of the U.S. federal, state and local tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Federal and various states returns for the years ended December 2022 and 2021 remain open as of June 30, 2024. The Company evaluates tax positions taken or expected to be taken in the course of preparing an entity's tax returns to determine whether it is "more-likely-than-not" that each tax position will be sustained by the applicable tax authority. As of June 30, 2024 and December 31, 2023, the Company had no uncertain tax positions. Accordingly, the Company has not recognized any penalty, interest or tax impact related to uncertain tax positions.

Note 6 — Related Party Transactions

Related Party Transactions

Member Payable

As of June 30, 2024 and December 31, 2023, the Company had a net receivable from members that totaled \$ 1.7 million, which is included as a related party receivable on the condensed consolidated balance sheets.

Up-C Structure

In February 2022, the Company completed an initial public offering of its securities, and through the Organizational Transactions, formed an Up-C structure, which is often used by partnerships and limited liability companies and allows DDM, a Delaware limited liability company indirectly owned by Mark Walker ("Walker") and Keith Smith ("Smith"), to retain its equity ownership in DDH LLC and to continue to realize tax benefits associated with owning interests in an entity that is treated as a partnership, or "pass-through" entity, for U.S. federal income tax purposes. DDM holds economic nonvoting LLC Units in DDH LLC and holds noneconomic voting equity interests in the form of the Class B Common Stock in Direct Digital Holdings (See Note 4 — Stockholders' Deficit and Stock-Based Compensation). One of the tax benefits to DDM associated with this structure is that future taxable income of DDH LLC that is allocated to DDM will be taxed on a pass-through basis and therefore will not be subject to corporate taxes at the entity level. Additionally, DDM may, from time to time, redeem or exchange its LLC Units for shares of the Company's Class A Common Stock on a one-for-one basis. The Up-C structure also provides DDM with potential liquidity that holders of non-publicly traded limited liability companies are not typically afforded. If the Company ever generates sufficient taxable income to utilize the tax benefits, DDH expects to benefit from the Up-C structure because, in general, the Company expects cash tax savings in amounts equal to 15% of certain tax benefits arising from such redemptions or exchanges of DDM's LLC Units for Class A Common Stock or cash and certain other tax benefits covered by the TRA. (See Note 5 — Tax Receivable Agreement and Income Taxes).

The aggregate balance of tax receivable liabilities as of June 30, 2024 and December 31, 2023, is as follows (in thousands):

	June 30, 2024	December 31, 2023
Liability related to tax receivable agreement		
Short term	\$ 41	\$ 41
Long term	5,201	5,201
Total liability related to tax receivable agreement	<u>\$ 5,242</u>	<u>\$ 5,242</u>

Note 7 — Segment Information

Revenue by business segment is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sell-side advertising	\$ 14,298	\$ 23,601	\$ 30,799	\$ 37,384
Buy-side advertising	7,557	11,803	13,331	19,243
Total revenues	<u>\$ 21,855</u>	<u>\$ 35,404</u>	<u>\$ 44,130</u>	<u>\$ 56,627</u>

Operating loss by business segment reconciled to loss before income taxes is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sell-side advertising	\$ 447	\$ 2,172	\$ 1,409	\$ 3,450
Buy-side advertising	1,848	3,924	2,141	5,429
Corporate office expenses	(4,360)	(3,841)	(8,423)	(6,765)
Total operating loss	(2,065)	2,255	(4,873)	2,114
Corporate other expense	(1,350)	(986)	(2,563)	(2,253)
Loss before taxes	\$ (3,415)	\$ 1,269	\$ (7,436)	\$ (139)

Total assets by business segment are as follows (in thousands):

	June 30, 2024	December 31, 2023
Sell-side advertising	\$ 15,302	\$ 34,354
Buy-side advertising	22,560	22,539
Corporate office	10,614	13,779
Total assets	\$ 48,476	\$ 70,672

Note 8 — Net (Loss) Income Per Share

The Company has two classes of common stock, Class A and Class B. Shares of the Company's Class B Common Stock do not share in the earnings or losses attributable to Direct Digital Holdings, Inc. and are therefore not participating securities. The Company uses the two-class method to calculate basic and diluted earnings per share as a result of outstanding participating securities in the form of warrants for the three and six months ended June 30, 2023. The following table sets forth the computation of the Company's basic and diluted net (loss) income per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net (loss) income attributable to Class A shareholders and participating securities	\$ (590)	\$ 192	\$ (1,365)	\$ (22)
Less: net income allocated to participating securities	—	99	—	—
Net (loss) income allocated to Class A shareholders	\$ (590)	\$ 93	\$ (1,365)	\$ (22)
Weighted average common shares outstanding - basic	3,700,615	2,921,258	3,604,220	2,911,801
Class B Common Stock	—	—	—	—
Options to purchase common stock	—	51,180	—	—
Unvested restricted stock units	—	140,751	—	—
Weighted average common shares outstanding - diluted	3,700,615	3,113,189	3,604,220	2,911,801
Net (loss) income per common share, basic	\$ (0.16)	\$ 0.03	\$ (0.38)	\$ (0.01)
Net (loss) income per common share, diluted	\$ (0.16)	\$ 0.03	\$ (0.38)	\$ (0.01)

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net (loss) income per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Class B Common Stock	10,868	11,278	10,868	11,278
Warrants to purchase common stock	—	—	—	3,218
Options to purchase common stock	360	312	364	307
Unvested restricted stock units	392	432	464	485
Total excludable from net loss per share attributable to common stockholders - diluted	11,620	12,022	11,696	15,288

Note 9 — Commitments and Contingencies

Litigation

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. As of the date hereof, except as set forth below, we are not a party to any material legal or administrative proceedings nor are there any proceedings in which any of our directors, executive officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention.

On May 23, 2024, an alleged stockholder, purportedly on behalf of the persons or entities who purchased or acquired publicly traded securities of the Company between April 2023 and March 2024, filed a putative class action against the Company, certain of our officers and directors, and other defendants in the U.S. District Court for the Southern District of Texas, alleging violations of federal securities laws related to alleged false or misleading disclosures made by the Company in its public filings. On July 9, 2024, another alleged stockholder filed a similar securities class action against the Company, certain of our officers and directors, also in the Southern District of Texas. The two actions have been consolidated. Each of these complaints seeks unspecified damages, plus costs, fees, and attorneys' fees. The Company cannot make any predictions about the final outcome of this matter or the timing thereof but believes that plaintiffs' claims lack merit and intends to vigorously defend these lawsuits.

On May 10, 2024, the Company was the subject of a defamatory article / blog post. In connection with this post, one of the Company's sell-side customers paused its connection to the Company while the allegations were investigated. This customer reconnected the Company on May 22, 2024 and sell-side volumes have resumed but not yet at the levels experienced prior to the pause in May 2024. The Company is actively working with its partners to achieve prior volume levels. On May 14, 2024, the Company filed a lawsuit against the author of the defamatory article and is vigorously pursuing its rights. The Company cannot make any predictions about the final outcome of this litigation matter or the timing thereof.

Operating Leases

During the six months ended June 30, 2024 and 2023, the Company incurred fixed rent expense associated with operating leases for real estate of \$0.1 million. The Company did not have any finance leases, short-term leases nor variable leases over this time period. During the three and six months ended June 30, 2024 and 2023, the Company had the following cash and non-cash activities associated with leases (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflow for operating leases	\$ 41	\$ 40	\$ 78	\$ 80
Non-cash changes to the operating lease ROU assets and operating lease liabilities				
Additions and modifications to ROU asset obtained from new operating liabilities	\$ 200	\$ —	\$ 200	\$ —

The weighted-average remaining lease term and discount rate for the Company's operating lease is 5.0 years and 8.4%, respectively, as of June 30, 2024. The weighted-average remaining lease term and discount rate for the Company's operating leases is 6.3 years and 8.4%, respectively, as of June 30, 2023.

The future payments due under operating leases as of June 30, 2024 us as follows (in thousands):

2024	\$ 128
2025	258
2026	265
2027	269
2028	167
Thereafter	200
Total undiscounted lease payments	1,287
Less effects of discounting	(229)
Less current lease liability	(179)
Total operating lease liability, net of current portion	\$ 879

Note 10 — Property, Equipment and Software, net

Property, equipment and software, net consists of the following (in thousands):

	Useful Life (Years)	June 30, 2024	December 31, 2023
Furniture and fixtures	5	\$ 137	\$ 128
Computer equipment	3	20	20
Leasehold improvements	15	36	36
Capitalized software	3	702	702
Property, equipment and software, gross		895	886
Less: accumulated depreciation and amortization		(424)	(287)
Total property, equipment and software, net		\$ 471	\$ 599

The following table summarizes depreciation and amortization expense related to property, equipment and software by line item for the three and six months ended June 30, 2024 and 2023 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cost of revenue	\$ 59	\$ 56	\$ 120	\$ 104
General and administrative	9	9	17	17
Total depreciation and amortization	\$ 68	\$ 65	\$ 137	\$ 121

Note 11 — Intangible Assets, net

In September 2020, the Company acquired Orange142 for a purchase price of \$ 26.2 million. The acquisition of Orange142 was recorded by allocating the total purchase consideration to the fair value of the net tangible assets acquired, including goodwill and intangible assets, in accordance with ASC 805. The purchase consideration exceeded the fair value of the net assets, resulting in goodwill of \$4.1 million and intangible assets of \$18.0 million. The Company records amortization expense on a straight-line basis over the life of the identifiable intangible assets. For the three months ended June 30, 2024 and 2023, amortization expense of \$0.5 million and for the six months ended June 30, 2024 and 2023, amortization expense of \$1.0 million, respectively, was recognized. As of June 30, 2024 and December 31, 2023, intangible assets net of accumulated amortization was \$10.7 million and \$11.7 million, respectively.

As of June 30, 2024, intangible assets and the related accumulated amortization, weighted-average remaining life and future amortization expense are as follows:

	June 30, 2024			
	Weighted-Average	Original	Accumulated	Net
	Remaining Life (Years)	Amount	Amortization	Total
Customer Lists	6.3	\$ 13,028	\$ (4,886)	\$ 8,143
Trademarks and tradenames	6.3	3,501	(1,313)	2,188
Non-compete agreements	1.3	1,504	(1,128)	376
Total intangible assets, net		<u>\$ 18,034</u>	<u>\$ (7,327)</u>	<u>\$ 10,707</u>

	December 31, 2023			
	Weighted-Average	Original	Accumulated	Net
	Remaining Life (Years)	Amount	Amortization	Total
Customer Lists	6.8	\$ 13,028	\$ (4,234)	\$ 8,794
Trademarks and tradenames	6.8	3,501	(1,138)	2,363
Non-compete agreements	1.8	1,504	(978)	527
Total intangible assets, net		<u>\$ 18,034</u>	<u>\$ (6,350)</u>	<u>\$ 11,684</u>

	Total
2024	\$ 977
2025	1,879
2026	1,653
2027	1,653
2028	1,653
Thereafter	2,892
Total future amortization expense	<u>\$ 10,707</u>

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

You should read the following discussion together with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section titled "*Risk Factors*" in our Annual Report on Form 10-K or in other parts of this Quarterly Report on Form 10-Q. See "*Cautionary Note Regarding Forward-Looking Statements*" below. Our historical results are not necessarily indicative of the results that may be expected for any period in the future.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws and which are subject to certain risks, trends and uncertainties. We use words such as "could," "would," "may," "might," "will," "expect," "likely," "believe," "continue," "anticipate," "estimate," "intend," "plan," "project" and other similar expressions to identify forward-looking statements, but not all forward-looking statements include these words. All of our forward-looking statements involve estimates and uncertainties that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to the information described under the caption "*Risk Factors*" in our Annual Report on Form 10-K and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on assumptions that we have made in light of our industry experience and our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (many of which are beyond our control) and assumptions.

Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual operating and financial performance and cause our performance to differ materially from the performance expressed in or implied by the forward-looking statements. We believe these factors include, but are not limited to, the following:

- the restrictions and covenants imposed upon us by our credit facilities;
- the substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing;
- our ability to secure additional financing to meet our capital needs;
- ineligibility to file short-form registration statements on Form S-3, which may impair our ability to raise capital;
- failure to satisfy applicable listing standards of the Nasdaq Capital Market resulting in a potential delisting of our common stock;
- costs, risks and uncertainties related to the restatement of certain prior period financial statements;
- any significant fluctuations caused by our high customer concentration;
- risks related to non-payment by our clients;
- reputational and other harms caused by our failure to detect advertising fraud;
- operational and performance issues with our platform, whether real or perceived, including a failure to respond to technological changes or to upgrade our technology systems;
- restrictions on the use of third-party "cookies," mobile device IDs or other tracking technologies, which could diminish our platform's effectiveness;
- unfavorable publicity and negative public perception about our industry, particularly concerns regarding data privacy and security relating to our industry's technology and practices, and any perceived failure to comply with laws and industry self-regulation;
- our failure to manage our growth effectively;

- the difficulty in identifying and integrating any future acquisitions or strategic investments;
- any changes or developments in legislative, judicial, regulatory or cultural environments related to information collection, use and processing;
- challenges related to our buy-side clients that are destination marketing organizations and that operate as public/private partnerships;
- any strain on our resources or diversion of our management's attention as a result of being a public company;
- the intense competition of the digital advertising industry and our ability to effectively compete against current and future competitors;
- any significant inadvertent disclosure or breach of confidential and/or personal information we hold, or of the security of our or our customers', suppliers' or other partners' computer systems;
- as a holding company, we depend on distributions from Direct Digital Holdings, LLC ("DDH LLC") to pay our taxes, expenses (including payments under the Tax Receivable Agreement) and any amount of any dividends we may pay to the holders of our common stock;
- the fact that DDH LLC is controlled by DDM, whose interest may differ from those of our public stockholders;
- any failure by us to maintain or implement effective internal controls or to detect fraud; and
- other factors and assumptions discussed under "*Risk Factors*" and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Should one or more of these risks or uncertainties materialize or should any of these assumptions prove to be incorrect, our actual operating and financial performance may vary in material respects from the performance projected in these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we undertake no obligation to update any forward-looking statement contained in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors that could cause our business not to develop as we expect emerge from time to time, and it is not possible for us to predict all of them. Further, we cannot assess the impact of each currently known or new factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

Direct Digital Holdings, Inc. and its subsidiaries (collectively the "Company," "DDH," "we," "us" and "our"), headquartered in Houston, Texas, is an end-to-end, full-service programmatic advertising platform primarily focused on providing advertising technology, data-driven campaign optimization and other solutions intended for underserved and less efficient markets on both the sell- and buy-side of the digital advertising ecosystem. Direct Digital Holdings, Inc. is the holding company that, since the completion of our initial public offering on February 15, 2022, owns certain common units, and serves as the manager of DDH LLC, which operates the business formed in 2018 through the acquisition of Colossus Media, LLC ("Colossus Media"), a sell-side marketing platform, and Huddled Masses, LLC ("Huddled Masses™" or "Huddled Masses"), a buy-side marketing platform.

In late September 2020, DDH LLC acquired Orange142, LLC ("Orange 142") to further bolster its overall programmatic buy-side advertising platform and enhance its offerings across multiple industry verticals such as travel, education, healthcare, financial services, consumer products and other sectors, with particular emphasis on small- and mid-sized businesses transitioning into digital with growing digital media budgets.

The subsidiaries of Direct Digital Holdings, Inc. are as follows:

Subsidiary	Current % Ownership	Business Segment	Date of Formation	Date of Acquisition
Colossus Media, LLC	100%	Sell-side	September 8, 2017	June 21, 2018
Orange142, LLC	100%	Buy-side	March 6, 2013	September 30, 2020
Huddled Masses, LLC	100%	Buy-side	November 13, 2012	June 21, 2018
Direct Digital Holdings, LLC ⁽¹⁾		N/A	June 21, 2018	February 15, 2022

- (1) DDH owns 100% of the voting interest in Direct Digital Holding, LLC. As of June 30, 2024, DDH owns 25.8% of the economic interest in Direct Digital Holdings, LLC. See further discussion of the Up-C structure in Note 6 of our condensed consolidated financial statements.

Colossus Media operates our proprietary sell-side programmatic platform operating under the trademarked banner of Colossus SSP™ ("Colossus SSP"). Colossus SSP is a stand-alone sell-side platform ("SSP") intended to deliver targeted advertising to diverse and multicultural audiences as well as to general audiences, including African Americans, Latin Americans, Asian Americans and LGBTQIA+ customers, as well as general audiences. Both buy-side advertising businesses, Orange 142 and Huddled Masses, offer technology-enabled advertising solutions and consulting services to clients through demand side platforms ("DSPs").

Providing both the front-end, buy-side advertising businesses coupled with our proprietary sell-side operations enables us to curate the first through the last mile in the ad tech ecosystem execution process to drive higher results.

Operating segments are components of an enterprise for which separate financial information is available and evaluated regularly by our chief operating decision maker ("CODM") for purpose of allocating resources and assessing performance. Our CODM is our Chairman and Chief Executive Officer. We operate as two reportable segments: sell-side advertising, which includes the results of Colossus Media, and buy-side advertising, which includes the results of Orange 142 and Huddled Masses. All our revenues are attributable to the United States.

Recent Developments

Nasdaq Rule Noncompliance.

On April 17, 2024, May 21, 2024 and August 21, 2024, we received notices from the Listing Qualifications Department of Nasdaq regarding the Company's failure to timely file its Annual Report on Form 10-K for the year ended December 31, 2023, its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024 and its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2023, respectively, with the SEC. The Company submitted a plan to Nasdaq to regain compliance with respect to the Delinquent Filings, and Nasdaq granted the Company an exception until October 14, 2024 to evidence compliance with the rule requiring filing of our periodic reports. Neither the notices from Nasdaq nor the Company's non-compliance with the rule has an immediate effect on the listing or trading of the Company's securities on Nasdaq, which currently continues to trade on The Nasdaq Capital Market under the symbol "DRCT." We have since filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024 on October 15, 2024, making this Quarterly Report for the fiscal quarter ended June 30, 2024 the final Delinquent Report left to file. Upon the filing of this report, the Company believes it will have evidenced compliance with Nasdaq's rules; however, the Company is awaiting a formal compliance determination from the Staff of the Listing Qualifications Department of Nasdaq. The Company will provide an update upon receipt of such determination.

Restatement of 2023 Quarterly Financial Information.

On October 14, 2024, the Company's management and the audit committee of the Company's Board of Directors determined that interim financial statements (collectively, the "Prior Period Financial Statements") as of the periods ended March 31, 2023, June 30, 2023 and September 30, 2023, and for the three months ended March 31, 2023, the three and six months ended June 30, 2023 and the three and nine months ended September 30, 2023, could no longer be relied upon. During the preparation of Company's consolidated financial statements as of and for the year ended December 31, 2023, the Company identified prior-period accounting errors resulting from the incorrect (1) accounting for, and presentation of, noncontrolling interests ("NCI"), (2) recognition of an organizational transaction in connection with the Company's initial public offering, (3) presentation of earnings per share considering the effect of certain features of the Company's warrants and the impact of correcting the accounting for, and presentation of, NCI and (4) timing of the recording of the 2023 redemption of warrants. As a result, on October 14, 2024, the Audit Committee, in consultation with management, determined that the Prior Period Financial Statements could no longer be relied upon and the Company included a restatement of the Prior Period Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2023 it filed on October 15, 2024.

Relationship with Sell-Side Customer.

On May 10, 2024, the Company was the subject of a defamatory article / blog post which the Company believes was part of a coordinated misinformation campaign. In connection with this post, one of the Company's sell-side customers paused its connection to the Company while the allegations were investigated. This customer reconnected the Company on May 22, 2024 and sell-side volumes have resumed but not yet at the levels experienced prior to the pause in May 2024. The Company is actively working with its partners to achieve prior volume levels. On May 14, 2024, the Company filed a

lawsuit against the author of the defamatory article and is vigorously pursuing its rights. The Company cannot make any predictions about the final outcome of this litigation matter or the timing thereof.

Key Factors Affecting Our Performance

We believe our growth and financial performance are dependent on many factors, including those described below.

Sell-side advertising business

Increasing revenue from customers through increased advertising spend from buyers

Colossus Media operates our proprietary sell-side programmatic platform operating under the trademarked banner of Colossus SSP. Our customers (or buyers) include ad exchanges, DSPs, agencies and individual advertisers. We have broad exposure to the ecosystem of buyers, reaching on average approximately 156,000 advertisers per month in the three months ended June 30, 2024, an increase of 31% over the 119,000 advertisers per month in the three months ended June 30, 2023. As spending on programmatic advertising increasingly becomes a larger share of the overall ad spend, advertisers and agencies are seeking greater control of their digital advertising supply chains. To take advantage of this industry shift, we have entered into Supply Path Optimization agreements directly with customers which address acceptable advertisements and data usage. As part of these agreements, we provide advertisers and agencies with benefits ranging from custom data and workflow integrations, product features, volume-based business terms, and visibility into campaign performance data and methodology. As a result of these direct relationships, our existing advertisers and agencies are incentivized to allocate an increasing percentage of their advertising budgets to our platform.

We also strive to retain existing publishers and add new publishers. Establishing multiple header bidding integrations by leveraging our technology capabilities allows us to maximize our access to publishers' ad formats, devices and various properties that a publisher may own. We may also up-sell additional products including our header bidding management, identity, and audience solutions. We enter into master service agreements with our publishers which, among other terms, set a fixed rate for content to be sold on Colossus SSP. Our strategy on the sell-side advertising business represents growth potential, and we believe we are well positioned to be able to bring underserved multicultural publishers into the advertising ecosystem, thereby increasing our value proposition across all customers, including large advertisers and agencies.

Monetizing ad impressions for publishers and buyers

We curate advertisers and increase access to publishers with valuable ad impressions. We focus on monetizing digital impressions by coordinating daily real-time auctions and bids. The publisher makes its ad inventory available on Colossus SSP and invites advertisers to bid based on the user's data received. Each time the publisher's web page loads, an ad request is sent to multiple ad exchanges and, in some cases, to the demand side platform directly from Colossus SSP. In case of real-time bidding ("RTB") media buys, many DSPs would place bids to the impressions being offered by the publisher during the auction. The advertiser that bids a higher amount compared to other advertisers will win the bid and pay the second highest price for the winning impression to serve the ads. We continuously review our available inventory from existing publishers across every format (mobile, desktop, digital video, OTT, CTV, and rich media). The factors we consider when determining which impressions we process include transparency, viewability, and whether or not the impression is human sourced. By consistently applying these criteria, we believe the ad impressions we process will be valuable and marketable to advertisers.

Enhancing ad inventory quality

In the advertising industry, inventory quality is assessed in terms of invalid traffic ("IVT") which can be impacted by fraud such as "fake eyeballs" generated by automated technologies set up to artificially inflate impression counts. Through our platform design and proactive IVT mitigation efforts, we address and minimize IVT on a number of fronts, including sophisticated technology, which detects and avoids IVT on the front end; direct publisher and inventory relationships, for supply path optimization; and ongoing campaign and inventory performance review, to ensure inventory quality and brand protection controls are in place.

Growing access to valuable ad impressions

Our recent growth has been driven by a variety of factors including increased access to mobile web (display and video) and mobile app (display and video) impressions and desktop video impressions. Our performance is affected by our ability to maintain and grow our access to valuable ad impressions from current publishers as well as through new relationships

with publishers. For the three months ended June 30, 2024, we processed over 721.2 billion average monthly bid requests, up 20% from 2023.

Expanding and managing investments

Each impression or transaction occurs in a fraction of a second. Given that most transactions take place in an auction/bidding format, we continue to make investments across the platform to further reduce the processing time. In addition to the robust infrastructure supporting our platform, it is also critical that we align with key industry partners in the digital supply chain. The Colossus SSP is agnostic to any specific demand side platform.

We automate workflow processes whenever feasible to drive predictable and value-added outcomes for our customers and increase productivity of our organization. In the first half of 2023, we transitioned our server platform to HPE Greenlake, which provides increased capacity, faster response time, and expansion capabilities to align with growth in our business.

Managing industry dynamics

We operate in the rapidly evolving digital advertising industry. Due to the scale and complexity of the digital advertising ecosystem, direct sales via manual, person-to-person processes are insufficient for delivering a real-time, personalized ad experience, creating the need for programmatic advertising. In turn, advances in programmatic technologies have enabled publishers to auction their ad inventory to more buyers, simultaneously, and in real time through a process referred to as header bidding. Header bidding has also provided advertisers with transparent access to ad impressions. As advertisers keep pace with ongoing changes in the way that consumers view and interact with digital media we anticipate further innovation and expect that header bidding will be extended into new areas such as OTT/CTV. We believe our focus on publishers and buyers has allowed us to understand their needs and our ongoing innovation has enabled us to quickly adapt to changes in the industry, develop new solutions and do so cost effectively. Our performance depends on our ability to keep pace with industry changes such as header bidding and the evolving needs of our publishers and buyers while continuing our cost efficiency.

Seasonality

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. For example, in our sell-side advertising segment, many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year in order to coincide with increased holiday purchasing. We expect our sell-side revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole.

Buy-side advertising business

New Customer Acquisitions

On the buy-side of our business, our customers consist of purchasers of programmatic advertising inventory (ad space) looking to place their advertisements. We serve the needs of over 215 small and mid-sized clients, consisting of advertising space buyers, including small and mid-sized companies, large advertising holding companies (which may manage several agencies), independent advertising agencies and mid-market advertising service organizations. We serve a variety of customers across multiple industries including travel/tourism (including destination marketing organizations ("DMOs")), education, energy, consumer packaged goods, healthcare, financial services (including cryptocurrency technologies) and other industries.

We are focused on increasing the number of customers that use our buy-side advertising businesses as their advertising partner. Our long-term growth and results of operations will depend on our ability to attract more customers, including DMOs, across multiple geographies.

Expand Sales to Existing Customers

Our customers understand the independent nature of our platform and relentless focus on driving results based on return on investment ("ROI"). Our value proposition is complete alignment across our entire digital supply platform beginning with the first dollar in and last dollar out. We are technology, DSP and media agnostic, and we believe our clients trust us to provide the best opportunity for success of their brands and businesses. As a result, our clients have been loyal, with approximately 90% client retention amongst the clients that represent approximately 80% of our revenue during the six months ended June 30, 2024. In addition, we cultivate client relationships through our pipeline of managed and

moderate serve clients that conduct campaigns through our platform. The managed services delivery model allows us to combine our technology with a highly personalized offering to strategically design and manage advertising campaigns.

Shift to Digital Advertising

Media has increasingly become more digital as a result of three key ongoing developments:

- Advances in technology with more sophisticated digital content delivery across multiple platforms;
- Changes in consumer behavior, including spending longer portions of the day using mobile and other devices; and
- Better audience segmentation with more efficient targeting and measurable results.

The resulting shift has enabled a variety of options for advertisers to efficiently target and measure their advertising campaigns across nearly every media channel and device. These efforts have been led by big-budgeted, large, multi-national corporations incentivized to cast a broad advertising net to support national brands.

Increased Adoption of Digital Advertising by Small-and Mid-Sized Companies

Only recently have small and mid-sized businesses begun to leverage the power of digital media in meaningful ways, as emerging technologies have enabled advertising across multiple channels in a highly localized nature. Campaign efficiencies yielding measurable results and higher advertising ROI have prompted these companies to begin utilizing digital advertising on an accelerated pace. We believe this market is rapidly expanding, and that small-to-mid-sized advertisers will continue to increase their digital spend.

Seasonality

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. Historically, for our buy-side advertising segment, the second and third quarters of the year reflect our highest levels of advertising activity and the first quarter reflects the lowest level of such activity. We expect our buy-side revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole.

Components of Our Results of Operations

Revenue

For the sell-side advertising segment, we generate revenue by selling advertising inventory (digital ad units) that we purchase from publishers to advertisers through a process of monetizing ad impressions on our proprietary sell-side programmatic platform operating under the trademarked banner Colossus SSP. For the buy-side advertising segment, we generate revenue from customers that enter into agreements with us to provide managed advertising campaigns, which include digital marketing and media services to purchase digital advertising space, data and other add-on features.

In connection with our analysis of principal vs agent considerations, we have evaluated the specified goods or services and we considered whether we control the goods or services before they are provided to the customer including the three indicators of control. Based upon this analysis and our specific facts and circumstances, we concluded that we are a principal for the goods or services sold through both our sell-side advertising segment and our buy-side segment because we control the specified good or service before it is transferred to the customer and we are the primary obligor in the agreement with the customer. Therefore, we report revenue on a gross basis inclusive of all supplier costs. We pay suppliers for the cost of digital media, advertising inventory, data and any add-on services or features.

Our revenue recognition policies are discussed in more detail under “ —Critical Accounting Estimates and Related Policies .”

Cost of revenues

For cost of revenues for our sell-side advertising segment, we pay publishers a fee, which is typically a percentage of the value of the ad impressions monetized through our platform. Cost of revenues consists primarily of publisher media fees and data center co-location costs. Media fees include the publishing and real time bidding costs to secure advertising space. For the buy-side advertising segment, cost of revenues consists primarily of digital media fees, third-party platform access fees, and other third-party fees associated with providing services to our customers.

Operating expenses

Operating expenses consist of compensation expenses related to our executive, sales, finance and administrative personnel (including salaries, commissions, stock-based compensation, bonuses, benefits and taxes); general and administrative expenses (including rent expense, professional fees, independent contractor costs, selling and marketing fees, administrative and operating system subscription costs, insurance, amortization expense related to our intangible assets); and other expenses (including transactions that are unusual in nature or which are occurring infrequently).

Other expense, net

Other income. Other income includes income associated with recovery of receivables and other miscellaneous credit card rebates.

Interest expense. Interest expense is mainly related to our debt as further described below in “—Liquidity and Capital Resources.”

Loss on early termination of line of credit. In January 2023, we entered into a Loan and Security Agreement (the “Loan Agreement”), by and among Silicon Valley Bank (“SVB”), which provided for a revolving credit facility (the “Credit Facility”). In March 2023, we issued a notice of termination and recognized a loss on the write-off of the deferred financing fees.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2024 and 2023

The following tables set forth our condensed consolidated results of operations for the periods presented (in thousands). The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended				Six Months Ended June			
	June 30,		Change		30,		Change	
	2024	2023	Amount	%	2024	2023	Amount	%
Revenues								
Sell-side advertising	\$ 14,298	\$ 23,601	\$ (9,303)	(39)%	\$ 30,799	\$ 37,384	\$ (6,585)	(18)%
Buy-side advertising	7,557	11,803	(4,246)	(36)%	13,331	19,243	(5,912)	(31)%
Total revenues	21,855	35,404	(13,549)	(38)%	44,130	56,627	(12,497)	(22)%
Cost of revenues								
Sell-side advertising	13,209	20,743	(7,534)	(36)%	28,016	32,584	(4,568)	(14)%
Buy-side advertising	2,715	4,588	(1,873)	(41)%	5,185	7,537	(2,352)	(31)%
Total cost of revenues	15,924	25,331	(9,407)	(37)%	33,201	40,121	(6,920)	(17)%
Gross profit	5,931	10,073	(4,142)	(41)%	10,929	16,506	(5,577)	(34)%
Operating expenses	7,996	7,818	178	2 %	15,802	14,392	1,410	10 %
Loss from operations	(2,065)	2,255	(4,320)	(192)%	(4,873)	2,114	(6,987)	(331)%
Other expense, net	(1,350)	(986)	(364)	(8)%	(2,563)	(2,253)	(310)	(8)%
Loss before income taxes	(3,415)	1,269	(4,684)	(369)%	(7,436)	(139)	(7,297)	5250 %
Income tax benefit	(274)	74	(348)	(470)%	(475)	—	(475)	100 %
Net loss	\$ (3,141)	\$ 1,195	\$ (4,336)	(363)%	\$ (6,961)	\$ (139)	\$ (6,822)	4908 %
Adjusted EBITDA ⁽¹⁾	\$ (1,343)	\$ 3,061	\$ (4,404)	(144)%	\$ (3,005)	\$ 3,608	\$ (6,613)	(183)%

⁽¹⁾ For a definition of Adjusted EBITDA, an explanation of our management's use of this measure, and a reconciliation of Adjusted EBITDA to net income see “—Non-GAAP Financial Measures.”

Revenues

Our revenues of \$21.9 million for the three months ended June 30, 2024 decreased by \$13.5 million, or 38%, from \$35.4 million for the three months ended June 30, 2023. Sell-side advertising revenue decreased \$9.3 million, or 39%, primarily due to a decrease in impression inventory. This decrease was primarily caused by one of the Company's sell-side customers pausing its connection to the Company while it investigated allegations made against the Company in a defamatory article / blog post which the Company believes was part of a coordinated misinformation campaign. This customer reconnected the Company on May 22, 2024 and sell-side volumes have resumed but not yet at the levels experienced prior to the pause in May 2024. The Company sold approximately 2.0 billion average monthly impressions over the three months ended June 30, 2024, a decrease of 27% from the prior period. Buy-side revenue decreased \$4.2 million, or 36%, over the three months ended June 30, 2023 due to a \$3.0 million decrease in spending from our existing customer base, a \$1.6 million decrease from completion of certain one-time campaigns in 2023 partially offset by a shift in timing of spend among quarters.

Our revenues of \$44.1 million for the six months ended June 30, 2024 decreased by \$12.5 million, or 22%, from \$56.6 million for the six months ended June 30, 2023. Sell-side advertising revenue decreased \$6.6 million, or 18%, primarily due to a decrease in impression inventory, including as a result of the customer suspension that occurred during May 2024. The Company sold approximately 2.0 billion average monthly impressions over the six months ended June 30, 2024, a decrease of 14% from the prior period. Buy-side revenue decreased \$5.9 million, or 31%, over the six months ended June 30, 2023 due to a \$3.8 million decrease in spending from our existing customer base, a \$3.0 million decrease from completion of certain one-time campaigns in 2023 partially offset by growth from existing and new customers.

Cost of revenues

Consistent with the overall decrease in revenues, cost of revenues of \$15.9 million for the three months ended June 30, 2024 decreased by \$9.4 million, or 37% from \$25.3 million for the three months ended June 30, 2023. Sell-side advertising cost of revenues decreased \$7.5 million, to \$13.2 million, or 92% of revenue for the three months ended June 30, 2024, compared to \$20.7 million, or 88% of revenue, for the same period in 2023. The decrease in costs was primarily due to the related decrease in revenue, while the 4% increase as a percentage of revenue was due to an increase in fixed costs of approximately \$0.6 million related to new analytic costs to support the growth as well as the mix and concentration of publishers and the related costs. Buy-side advertising cost of revenues decreased \$1.9 million, to \$2.7 million, or 36% of revenue for the three months ended June 30, 2024, compared to \$4.6 million, or 39% of revenue, for the same period in 2023.

Consistent with the overall decrease in revenues, cost of revenues of \$33.2 million for the six months ended June 30, 2024 decreased by \$6.9 million, or 17% from \$40.1 million for the six months ended June 30, 2023. Sell-side advertising cost of revenues decreased \$4.6 million, to \$28.0 million, or 91% of revenue for the six months ended June 30, 2024, compared to \$32.6 million, or 87% of revenue, for the same period in 2023. The decrease in costs was primarily due to the related decrease in revenue, while the 4% increase as a percentage of revenue was due to an increase in fixed costs of approximately \$0.6 million related to an increase in server capacity and approximately \$0.7 million related to new analytic costs to support the growth as well as the mix and concentration of publishers and the related costs. Buy-side advertising cost of revenues decreased \$2.4 million, to \$5.2 million, or 39% of revenue for the six months ended June 30, 2024, compared to \$7.5 million, or 39% of revenue, for the same period in 2023.

Gross profit

Gross profit was \$5.9 million, or 27% of revenue, for the three months ended June 30, 2024, compared to \$10.1 million, or 28% of revenue, for the same period in 2023, reflecting a decrease of \$4.1 million or 41%. The change in margin for the three months ended June 30, 2024 is attributable to the mix in revenue between our business segments as our sell-side segment has higher cost of revenues compared to our buy-side segment, as well as the additional fixed costs related to an increase in server capacity.

Sell-side advertising gross profit decreased \$1.8 million for the three months ended June 30, 2024 as compared to the same period in 2023, primarily due an increase in fixed costs related to our servers and the decrease in revenues. Sell-side advertising gross margin was 8% and 12% for the three months ended June 30, 2024 and 2023, respectively. Sell-side gross margin in 2024 was negatively impacted by additional fixed costs of approximately \$0.2 million incurred in the three months ended June 30, 2024, related to an increase in server capacity to support our growth. Buy-side advertising gross profit decreased \$2.4 million for the three months ended June 30, 2024, as compared to the same period in the prior year, primarily due to the decrease in revenue. Buy-side advertising gross margin was 64% and 61% for the three months ended June 30, 2024 and 2023, respectively.

Gross profit was \$10.9 million, or 25% of revenue, for the six months ended June 30, 2024, compared to \$16.5 million, or 29% of revenue, for the same period in 2023, reflecting a decrease of \$5.6 million or 34%. The change in margin for the six months ended June 30, 2024 is attributable to the mix in revenue between our business segments as our sell-side segment has higher cost of revenues compared to our buy-side segment, as well as the additional fixed costs related to an increase in server capacity.

Sell-side advertising gross profit decreased \$2.0 million for the six months ended June 30, 2024 as compared to the same period in 2023, primarily due the increase in temporary fixed costs related to our servers partially and the decrease in revenues. Sell-side advertising gross margin was 9% and 13% for the six months ended June 30, 2024 and 2023, respectively. Sell-side gross margin in 2024 was negatively impacted by additional fixed costs of approximately \$0.8 million incurred in the six months ended June 30, 2024, related to an increase in server capacity to support our growth. Buy-side advertising gross profit decreased \$3.6 million for the six months ended June 30, 2024, as compared to the same period in the prior year, primarily due to the decrease in revenue. Buy-side advertising gross margin was 61% and 61% for the six months ended June 30, 2024 and 2023, respectively.

Operating expenses

The following table sets forth the components of operating expenses for the periods presented (in thousands):

	Three Months Ended				Six Months Ended June			
	June 30,		Change		30,		Change	
	2024	2023	Amount	%	2024	2023	Amount	%
Compensation, tax and benefits	\$ 4,166	\$ 4,553	\$ (387)	(8)%	\$ 8,690	\$ 8,187	\$ 503	6 %
General and administrative	3,830	3,265	565	17 %	7,112	6,205	907	15 %
Total operating expenses	\$ 7,996	\$ 7,818	\$ 178	2 %	\$ 15,802	\$ 14,392	\$ 1,410	10 %

Compensation, taxes and benefits

Compensation, taxes and benefits of \$4.2 million, decreased by \$0.4 million, or 8%, for the three months ended June 30, 2024 from \$4.6 million for the same period in 2023. The decrease is due to a decrease in bonus expense, severance costs and commissions expense, partially offset by headcount additions made throughout 2023 primarily in our operations area to support our growth as well as in our shared services to support our public company infrastructure. Sequentially, compensation, taxes and benefits decreased by \$0.4 million, or 8%, from \$4.5 million for the three months ended March 31, 2024 primarily due to lower bonus and stock compensation expense.

Compensation, taxes and benefits of \$8.7 million, increased by \$0.5 million, or 6%, for the six months ended June 30, 2024 from \$8.2 million for the same period in 2023. The increase is due to headcount additions made throughout 2023 primarily in our operations area to support our growth as well as in our shared services to support our public company infrastructure and increased stock compensation, partially offset by a decrease bonus and severance expense.

We expect to continue to invest in corporate infrastructure and incur additional expenses associated with our transition to and operation as a public company. However, on July 1, 2024, we executed an internal reorganization plan that included a staff reduction, a pause on hiring and cost savings measures, which we anticipate will lower certain ongoing expenses, especially as the Company incurs additional one-time expenses to regain compliance with respect to delinquent SEC filings.

General and administrative expenses

General and administrative ("G&A") expenses of \$3.8 million for the three months ended June 30, 2024 increased from \$3.3 million for the same period in 2023. G&A expenses as a percentage of revenue was 18% and 9% for the three months ended June 30, 2024 and 2023, respectively. During the three months ended June 30, 2024, we incurred higher professional fees, corporate expenses, sales and marketing expenses and software licenses. Sequentially, G&A expenses increased by \$0.6 million, or 17%, from \$3.3 million for the three months ended March 31, 2024 primarily due to higher professional fees, sales and marketing costs, corporate expenses and software licenses.

General and administrative ("G&A") expenses of \$7.1 million for the six months ended June 30, 2024 increased from \$6.2 million for the same period in 2023. G&A expenses as a percentage of revenue was 16% and 11% for the six months ended June 30, 2024 and 2023, respectively. During the six months ended June 30, 2024, we incurred higher professional fees, corporate expenses, sales and marketing expenses and software licenses.

We expect to continue to invest in and incur additional expenses associated with our operation as a public company, including increased professional fees, investment in automation, and compliance costs associated with developing the requisite infrastructure required for internal controls. However, on July 1, 2024, we executed an internal reorganization plan that included a staff reduction, a pause on hiring and cost savings measures, which we anticipate will lower certain ongoing expenses, especially as the Company incurs additional one-time expenses to regain compliance with respect to delinquent SEC filings.

Other expense, net

The following table sets forth the components of other expense, net for the periods presented (in thousands).

	Three Months Ended				Six Months Ended June			
	June 30,		Change		30,		Change	
	2024	2023	Amount	%	2024	2023	Amount	%
Interest expense	\$ (1,358)	\$ (1,028)	\$ (330)	32 %	\$ (2,655)	\$ (2,045)	\$ (610)	30 %
Other income	8	42	(34)	(81)%	92	92	—	— %
Loss on early termination of line of credit	—	—	—	nm	—	(300)	300	nm
Total other expense, net	<u>\$ (1,350)</u>	<u>\$ (986)</u>	<u>\$ (364)</u>	37 %	<u>\$ (2,563)</u>	<u>\$ (2,253)</u>	<u>\$ (310)</u>	14 %

nm – not meaningful

Other expense, net for the three months ended June 30, 2024 primarily consists of \$1.4 million of interest expense. Other expense, net for the three months ended June 30, 2023 is primarily consists of \$1.0 million of interest expense.

Interest expense increased for the three months ended June 30, 2024 to \$1.4 million, compared to \$1.0 million for the three months ended June 30, 2023. The increase in interest expense in the period is due to additional net borrowings of \$12.6 million under the Company's credit facilities, as well as higher interest rates.

Other expense, net for the six months ended June 30, 2024 primarily consists of \$2.7 million of interest expense. Other expense, net for the six months ended June 30, 2023 is primarily consists of \$2.0 million of interest expense and \$0.3 million related to the loss on early termination of the line of credit with SVB.

Interest expense increased for the six months ended June 30, 2024 to \$2.7 million, compared to \$2.0 million for the six months ended June 30, 2023. The increase in interest expense in the period is due to additional net borrowings of \$12.6 million under the Company's credit facilities, as well as higher interest rates.

Liquidity and Capital Resources

Going Concern

As discussed in Note 9 to the condensed consolidated financial statements, on May 10, 2024, the Company was the subject of a defamatory article / blog post which the Company believes was part of a coordinated misinformation campaign. In connection with this post, one of the Company's sell-side customers paused its connection to the Company for a couple of weeks in May 2024, which reduced sell-side sales volumes. As of the date of this report, sell-side volumes related to this customer have resumed but not yet at the levels experienced prior to the pause in May 2024 which has created significant disruption in the Company's sell-side business. The Company is actively working with its partners to achieve prior volume levels. However, there can be no assurance that the Company will be able to achieve prior volume levels with its partners or on the timing of achieving such volume levels. Additionally, the Company (1) incurred a net loss of \$6.8 million in 2023 primarily related to payments made to a few publishers of \$8.8 million associated with a disputed short payment from a customer and a net loss of \$7.0 million in the six months ended June 30, 2024 reflecting the impact of the sell-side disruption described above and a decrease in customer spend on the buy-side, (2) reported an accumulated deficit of \$3.9 million as of June 30, 2024, (3) reported cash and cash equivalents of \$1.1 million as of June 30, 2024, (4) has borrowed \$9.7 million as of June 30, 2024 and the date of this report, under the Credit Agreement which matures in July 2025, (5) was notified on April 17, 2024 that the Company's auditor had resigned and (6) was unable to timely file its 2023 annual report and quarterly reports for the first two quarters of 2024. The delay in filing the Company's annual and quarterly reports disrupted existing capital-raising efforts and created additional audit, legal and other expenses. These factors raise substantial doubt about the Company's ability to continue as a going concern over the next twelve months.

The Company anticipates sources of liquidity to include cash on hand and cash flow from operations and has taken several actions to address liquidity concerns. These actions include (1) a plan to reduce expenses through a staff reduction,

a pause on hiring and cost savings measures that were executed on July 1, 2024, (2) working with lenders to provide temporary relief from debt covenants (see Note 3 – Long-Term Debt in the condensed consolidated financial statements) while rebuilding sell-side volumes, (3) raising capital through arrangements with various providers, and (4) regaining compliance with respect to delinquent SEC filings which will allow the Company to access the capital markets as well as other financing sources. There can be no assurance that the Company's actions will be successful or that additional financing will be available when needed or on acceptable terms.

Sources of Liquidity

The following table summarizes our cash and cash equivalents, working capital, and availability under our Credit Agreement (as defined below) on June 30, 2024 and December 31, 2023 (in thousands):

	June 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 1,069	\$ 5,116
Working capital	\$ 5,140	\$ 3,280
Availability under Credit Agreement	\$ 300	\$ 7,000

To fund our operations and service our debt thereafter and depending on our growth and results of operations, we may raise additional capital through the issuance of additional equity and/or debt, which could have the effect of diluting our stockholders. Any future equity or debt financings may be on terms which are not favorable to us. As our credit facilities become due, we will need to repay, extend or replace such indebtedness. Our ability to do so will be subject to future economic, financial, business and other factors, many of which are beyond our control.

Credit Facilities

The terms and conditions of the various credit facilities we entered into are further described in Note 3 – Long-Term Debt in the notes to the condensed consolidated financial statements.

Historical Cash Flows:

The following table sets forth our cash flows for the six months ended June 30, 2024 and 2023 (in thousands):

	Six Months Ended June 30,	
	2024	2023
Net cash (used in) provided by operating activities	\$ (10,111)	\$ 3,054
Net cash used in investing activities	(10)	(137)
Net cash provided by (used in) financing activities	6,074	(1,296)
Net (decrease) increase in cash and cash equivalents	\$ (4,047)	\$ 1,621

Our cash and cash equivalents at June 30, 2024 were held for working capital and general corporate purposes. The decrease in cash and cash equivalents compared with June 30, 2023, primarily resulted from \$10.1 million in cash flows used in operating activities partially offset by \$6.1 million in cash flows provided by financing activities.

Operating Activities

For the Six Months Ended June 30, 2024 and 2023

Cash provided by operating activities has typically been generated from net income and by changes in our operating assets and liabilities, particularly in the areas of accounts receivable and accounts payable and accrued expenses, adjusted for certain non-cash and non-operating expense items such as depreciation, amortization, stock-based compensation and deferred income taxes.

For the six months ended June 30, 2024, net cash flows used in operating activities were \$10.1 million and consisted of net loss of \$7.0 million, \$1.7 million in adjustments for non-cash and non-operating items and \$4.9 million of cash out flows from working capital. Adjustments for non-cash and non-operating items mainly consisted of depreciation and amortization expense of \$1.5 million and stock-based compensation expense of \$0.7 million partially offset by \$0.5 million of deferred tax benefit.

The \$4.9 million decrease in cash resulting from changes in working capital primarily consisted of a \$21.6 million decrease in accounts payable and a \$1.2 million decrease in accrued expenses such as payroll and payroll related expenses partially offset by a \$17.7 million decrease in accounts receivable. The decrease in accounts payable and accounts receivable is mainly due to the May 2024 temporary disconnection by a significant customer as a result of a customer investigating a defamatory article / blog post against the Company, as well as a payment of \$8.8 million to a few publishers associated with a charge recorded in 2023 related to a disputed short pay from a customer.

For the six months ended June 30, 2023, net cash flows provided by operating activities were \$3.1 million and mainly consisted of net loss of \$0.1 million, \$2.1 million in adjustments for noncash and non-operating items and \$1.1 million of cash inflows from working capital. Adjustments for non-cash and non-operating items primarily consisted of depreciation and amortization expense of \$1.4 million, stock-based compensation expense of \$0.3 million and loss on early termination of line of credit of \$0.3 million.

The \$1.1 million increase in cash resulting from changes in working capital consisted primarily of a \$5.7 million increase in accounts payable and a \$0.4 million increase in deferred revenues, partially offset by a \$3.3 million increase in accounts receivable, a \$0.9 million decrease in accrued liabilities and a \$0.3 million increase in prepaid expenses. The increase in accounts receivable and accounts payable is mainly due to the seasonal nature of the sell-side segment of the business.

Investing Activities

For the Six Months Ended June 30, 2024 and 2023

Our investing activities to date have consisted primarily of purchases of software, office furniture and leasehold improvements.

For the six months ended June 30, 2024 and 2023, net cash flows used in investing activities of less than \$0.1 million were primarily related to leasehold improvements and office furniture.

Financing Activities

For the Six Months Ended June 30, 2024 and 2023

For the six months ended June 30, 2024, net cash provided by financing activities was \$6.1 million mainly resulting from \$6.7 million of proceeds from line of credit and \$0.2 million proceeds from warrants exercised partially offset by \$0.4 million paid on term loan.

For the six months ended June 30, 2023, net cash used in financing activities was \$1.3 million mainly resulting from \$0.8 million for distributions paid to LLC holders, \$0.3 million paid on term loan and \$0.2 million deferred financing costs.

Contractual Obligations and Future Cash Requirements

As of June 30, 2024, our principal contractual obligations expected to give rise to material cash requirements consist of the 2021 Credit Facility, the Credit Agreement and non-cancelable leases for our various facilities. We anticipate that the future minimum payments related to our current indebtedness over the next five years will be \$1.1 million in 2024, \$11.2 million in 2025, \$25.7 million in 2026, less than \$0.1 million in 2027, less than \$0.1 million in 2028, and \$0.1 million thereafter, assuming we do not refinance our indebtedness, enter into a new revolving credit facility or make any further draws under the revolving facility. The leases will require minimum payments of \$0.1 million in 2024, \$0.3 million in 2025, \$0.3 million in 2026, \$0.3 million in 2027, \$0.2 million in 2028, and \$0.2 million thereafter. As of June 30, 2024, we had cash and cash equivalents of \$1.1 million. Based on projections of revenue and operating results in the coming year, the available cash held by the Company and the amounts the Company may borrow under the Credit Agreement, the Company believes that it will have sufficient cash resources to finance its operations and service any maturing debt obligations for at least the next twelve months following the issuance of these financial statements.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. generally accepted accounting principles ("GAAP"), including, in particular operating income, net cash provided by operating activities, and net income, we believe that earnings before interest, taxes, depreciation and amortization, as adjusted for loss on early termination of line of credit and stock-based compensation ("Adjusted EBITDA"), a non-GAAP measure, is useful in evaluating our operating performance. The most directly comparable GAAP measure to Adjusted EBITDA is net income.

The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net loss	\$ (3,141)	\$ 1,195	\$ (6,961)	\$ (139)
Add back (deduct):				
Interest expense	1,358	1,028	2,655	2,045
Amortization of intangible assets	488	489	977	977
Stock-based compensation	158	210	662	304
Depreciation and amortization of property, equipment and software	68	65	137	121
Loss on early termination of line of credit	—	—	—	300
Income tax benefit	(274)	74	(475)	—
Adjusted EBITDA	\$ (1,343)	\$ 3,061	\$ (3,005)	\$ 3,608

In addition to operating income and net income, we use Adjusted EBITDA as a measure of operational efficiency. We believe that this non-GAAP financial measure is useful to investors for period-to-period comparisons of our business and in understanding and evaluating our operating results for the following reasons:

- Adjusted EBITDA is widely used by investors and securities analysts to measure a company's operating performance without regard to items such as depreciation and amortization, interest expense, provision for income taxes, stock-based compensation, revaluation of tax receivable agreement liability, and certain one-time items such as acquisition transaction costs, losses from early termination or redemption of credit agreements or preferred units and gains from settlements or loan forgiveness that can vary substantially from company to company depending upon their financing, capital structures and the method by which assets were acquired;
- Our management uses Adjusted EBITDA in conjunction with GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance; and
- Adjusted EBITDA provides consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations, and also facilitates comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

Our use of this non-GAAP financial measure has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP.

Critical Accounting Estimates and Related Policies

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The Company bases its estimates on past experiences, market conditions, and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis.

There have been no material changes to our critical accounting estimates and related policies as compared to the critical accounting estimates and related policies described in our "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our Annual Report on Form 10-K for the year ended December 31, 2023.

Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements for accounting pronouncements recently adopted and accounting pronouncements not yet adopted.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

As a "smaller reporting company," we are not required to provide the information required by this Part I, Item 3.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures ("Disclosure Controls") as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate to allow timely decisions regarding required disclosure. The Company conducted an evaluation (the "Evaluation"), under the supervision and with the participation of the CEO and CFO, of the effectiveness of the design and operation of our Disclosure Controls as of June 30, 2024 pursuant to the Rules 13a-5(b) and 15d-15(b) of the Exchange Act. In designing and evaluating the Disclosure Controls, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management was required to apply judgement in evaluating its controls and procedures. Based on this Evaluation, due to the material weaknesses described below, the CEO and CFO concluded that the Company's Disclosure Controls were not effective as of June 30, 2024.

Management's Annual Report on Internal Controls Over Financial Reporting

The Company's management, including the Company's CEO and CFO, is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal controls over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The internal controls over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (ii) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal controls over financial reporting as of December 31, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on this evaluation, management concluded that the Company's internal controls over financial reporting was still not effective as of June 30, 2024.

We identified material weaknesses in our controls over the journal entry processes, information technology general controls ("ITGC") and the technical evaluation of accounting matters that existed as of December 31, 2023. A material weakness is a deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses are a result of our processes and related controls not operating effectively related to journal entry processes, ITGC and the technical evaluation of accounting matters. As further detailed in Note 13 – Restatement (Unaudited) of the Company's consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, the Company identified prior year accounting errors in the Company's previously reported unaudited interim consolidated financial statements beginning March 31, 2022 resulting from the incorrect (1) accounting for and presentation of noncontrolling interests ("NCI"), (2) recognition of an

organizational transaction, (3) presentation of earnings per share considering the effect of certain features of the Company's warrants and the impact of correcting the accounting for, and presentation of NCI, and (4) timing of the recording of the 2023 redemption of warrants. The Company's management and the audit committee of the Company's Board of Directors concluded that it was appropriate to restate the quarterly unaudited consolidated financial statements for the quarterly periods ended March 31, 2023, June 30, 2023, and September 30, 2023.

Other than the described above, there were no material misstatements as a result of these material weaknesses; however, it could have resulted in a material misstatement to the annual or interim financial statements that would not have been prevented or detected on a timely basis. Due to the material weaknesses, we have concluded that our internal controls over financial reporting were not effective as of June 30, 2024.

Management's Plan to Remediate the Previously Reported Material Weaknesses

Management has implemented remediation steps to address the material weaknesses and to improve our internal controls. Specifically, in late 2023, the Company engaged consultants to assist with identifying and testing the design of controls over business processes as well as ITGC. The first phase of the project was completed in the first quarter of 2024. We are now in the process of enhancing the design of certain internal control procedures and implementing new internal controls over (1) the segregation of duties within the journal entry process, (2) the access to program and change management within our information technology environment, and (3) the evaluation of technical accounting matters. These controls are planned to be tested for design and operating effectiveness in future periods. The Company will continue the engagement with outside consultants to review the revised control processes and procedures.

While the Company has implemented remediation steps, the material weaknesses cannot be considered fully remediated until the improved controls have been in place and operate for a sufficient period of time. However, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, notwithstanding the identified material weaknesses in our internal controls over financial reporting, the financial statements fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

Changes in Internal Controls Over Financial Reporting

Other than as discussed above, there were no changes in internal controls over financial reporting during the six months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls system over financial reporting.

PART II. Other Information

ITEM 1. Legal Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. As of the date hereof, except as set forth below, we are not a party to any material legal or administrative proceedings nor are there any proceedings in which any of our directors, executive officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention.

On May 23, 2024, an alleged stockholder, purportedly on behalf of the persons or entities who purchased or acquired publicly traded securities of the Company between April 2023 and March 2024, filed a putative class action against the Company, certain of our officers and directors, and other defendants in the U.S. District Court for the Southern District of Texas, alleging violations of federal securities laws related to alleged false or misleading disclosures made by the Company in its public filings. On July 9, 2024, another alleged stockholder filed a similar securities class action against the Company, certain of our officers and directors, also in the Southern District of Texas. The two actions have been consolidated. Each of these complaints seeks unspecified damages, plus costs, fees, and attorneys' fees. The Company cannot make any predictions about the final outcome of this matter or the timing thereof.

On May 10, 2024, the Company was the subject of a defamatory article / blog post which the Company believes was part of a coordinated misinformation campaign. In connection with this post, one of the Company's sell-side customers paused its connection to the Company while the allegations were investigated. This customer reconnected the Company on May 22, 2024 and sell-side volumes have resumed but not yet at the levels experienced prior to the pause in May 2024. The Company is actively working with its partners to achieve prior volume levels. On May 14, 2024, the Company filed a

lawsuit against the author of the defamatory article and is vigorously pursuing its rights. The Company cannot make any predictions about the final outcome of this litigation matter or the timing thereof.

ITEM 1A. Risk Factors

Not applicable.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Rule 10b5-1 Trading Plans

During the six months ended June 30, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. Exhibits

Exhibit No.	Description	Form	File Number	Date	Exhibit No.	Filed or Furnished herewith
3.1	Amended and Restated Certificate of Incorporation of Direct Digital Holdings, Inc.	8-K	001-41261	February 16, 2022	3.1	
3.2	Amended and Restated Bylaws of Direct Digital Holdings, Inc.	8-K	001-41261	February 16, 2022	3.2	
31.1	Certification of the Chief Executive Officer of Direct Digital Holdings, Inc., pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of the Chief Financial Officer of Direct Digital Holdings, Inc., pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS*	Inline XBRL Instance Document					X
101.SCH*	Inline XBRL Taxonomy Extension Schema					X
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase					X
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase					X
101.PRE*	Inline XBRL Extension Presentation Linkbase					X
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					X

* This exhibit will not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 15, 2024

DIRECT DIGITAL HOLDINGS, INC.

By:

/s/ Diana P. Diaz

DIANA P. DIAZ

Chief Financial Officer

(Duly Authorized Signatory, Principal Financial and Accounting Officer)

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

I, Mark Walker, certify that:

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

Date: October 15, 2024

/s/ Mark Walker

Mark Walker,
Chairman and Chief Executive Officer
(Principal Executive Officer)

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

I, Diana P. Diaz, certify that:

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

Date: October 15, 2024

/s/ Diana P. Diaz

Diana P. Diaz,

Chief Financial Officer

(Principal Financial and Accounting Officer)

**Certification Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Direct Digital Holdings, Inc. (the "Company") for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Walker, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2024

/s/ Mark Walker

Mark Walker,

Chairman and Chief Executive Officer

(Principal Executive Officer)

**Certification Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Direct Digital Holdings, Inc. (the "Company") for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Diana P. Diaz, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2024

/s/ Diana P. Diaz

Diana P. Diaz,

Chief Financial Officer

(Principal Financial and Accounting Officer)