Table of Contents

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, 2023
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
Warrants to Purchase Common Stock	DRCTW	NASDAQ

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

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

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

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

As of August 9, 2023, there were 2,988,916 shares of the registrant's Class A common stock outstanding, par value $0.001 per share, and 11,278,000 shares of the registrant's Class B common stock outstanding, par value $0.001 per share.

TABLE OF CONTENTS

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,668,479	$ 4,047,453
Accounts receivable, net	29,628,797	26,354,114
Prepaid expenses and other current assets	1,051,982	883,322
Total current assets	36,349,258	31,284,889
Property, equipment and software, net of accumulated depreciation and amortization of $155,698 and $34,218, respectively	688,716	673,218
Goodwill	6,519,636	6,519,636
Intangible assets, net	12,660,850	13,637,759
Deferred tax asset, net	5,170,870	5,164,776
Operating lease right-of-use assets	714,129	798,774
Other long-term assets	46,987	46,987
Total assets	$ 62,150,446	$ 58,126,039
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 23,357,665	$ 17,695,404
Accrued liabilities	3,879,420	4,777,764
Liability related to tax receivable agreement, current portion	40,112	182,571
Notes payable, current portion	982,500	655,000
Deferred revenues	950,831	546,710
Operating lease liabilities, current portion	47,668	91,989
Income taxes payable	22,280	174,438
Related party payables	1,197,175	1,448,333
Total current liabilities	30,477,651	25,572,209
Notes payable, net of short-term portion and deferred financing cost of $1,858,720 and $2,115,161, respectively	22,515,030	22,913,589
Economic Injury Disaster Loan	150,000	150,000
Liability related to tax receivable agreement, net of current portion	4,246,263	4,149,619
Operating lease liabilities, net of current portion	741,771	745,340
Total liabilities	58,130,715	53,530,757
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
Class A common stock, $0.001 par value per share, 160,000,000 shares authorized, 3,519,780 and 3,252,764 shares issued and outstanding, respectively	3,520	3,253
Class B common stock, $0.001 par value per share, 20,000,000 shares authorized, 11,278,000 shares issued and outstanding	11,278	11,278
Additional paid-in capital	8,539,858	8,224,012
Accumulated deficit	(4,534,925)	(3,643,261)
Total stockholders' equity	4,019,731	4,595,282
Total liabilities and stockholders' equity	$ 62,150,446	$ 58,126,039

See accompanying notes to the unaudited consolidated financial statements.

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenues				
Buy-side advertising	$ 11,803,092	$ 9,321,267	$ 19,242,758	$ 15,152,308
Sell-side advertising	23,600,708	11,940,041	37,383,952	17,479,337
Total revenues	35,403,800	21,261,308	56,626,710	32,631,645
Cost of revenues				
Buy-side advertising	4,587,897	3,154,471	7,537,050	5,223,817
Sell-side advertising	20,743,266	9,771,017	32,583,972	14,291,209
Total cost of revenues	25,331,163	12,925,488	40,121,022	19,515,026
Gross profit	10,072,637	8,335,820	16,505,688	13,116,619
Operating expenses				
Compensation, taxes and benefits	4,553,029	3,494,692	8,187,325	6,049,728
General and administrative	3,265,160	1,776,981	6,205,254	3,417,873
Total operating expenses	7,818,189	5,271,673	14,392,579	9,467,601
Income from operations	2,254,448	3,064,147	2,113,109	3,649,018
Other income (expense)				
Other income	42,313	—	92,141	47,982
Forgiveness of Paycheck Protection Program loan	—	287,143	—	287,143
Loss on redemption of non-participating preferred units	—	—	—	(590,689)
Contingent loss on early termination of line of credit	—	—	(299,770)	—
Interest expense	(1,027,493)	(650,251)	(2,044,794)	(1,364,038)
Total other expense	(985,180)	(363,108)	(2,252,423)	(1,619,602)
Income (loss) before taxes	1,269,268	2,701,039	(139,314)	2,029,416
Tax expense (benefit)	74,312	86,676	(336)	86,676
Net income (loss)	$ 1,194,956	$ 2,614,363	$ (138,978)	$ 1,942,740
Net income (loss) per common share:				
Basic	$ 0.08	$ 0.18	$ (0.01)	$ 0.18
Diluted	$ 0.08	$ 0.18	$ (0.01)	$ 0.18
Weighted-average number of shares of common stock outstanding:				
Basic	14,772,624	14,257,827	14,676,096	10,701,715
Diluted	14,834,051	14,257,827	14,676,096	10,701,715

See accompanying notes to the unaudited consolidated financial statements.

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

Six Months Ended June 30, 2023

	Common Stock							
	Class A		Class B					
	Units	Amount	Units	Amount	APIC	Accumulated deficit	Stockholders' equity
Balance, December 31, 2022	3,252,764	$ 3,253	11,278,000	$ 11,278	$ 8,224,012	$ (3,643,261)	$ 4,595,282
Stock-based compensation	—	—	—	—	304,013	—	304,013
Issuance of restricted stock net of shares withheld for vested awards	291,031	290	—	—	(290)	—	—
Restricted stock forfeitures	(26,215)	(25)	—	—	25	—	—
Warrants exercised	2,200	2	—	—	12,098	—	12,100
Distributions to members	—	—	—	—	—	(752,686)	(752,686)
Net loss	—	—	—	—	—	(138,978)	(138,978)
Balance, June 30, 2023	3,519,780	$ 3,520	11,278,000	$ 11,278	$ 8,539,858	$ (4,534,925)	$ 4,019,731

Three Months Ended June 30, 2023

	Common Stock						
	Class A		Class B				
	Units	Amount	Units	Amount	APIC	Accumulated deficit	Stockholders' equity
Balance, March 31, 2023	3,491,318	$ 3,491	11,278,000	$ 11,278	$ 8,330,412	$ (4,977,195)	$ 3,367,986
Stock-based compensation	—	—	—	—	209,475	—	209,475
Issuance of restricted stock net of shares withheld for vested awards	54,277	54	—	—	(54)	—	—
Restricted stock forfeitures	(25,815)	(25)	—	—	25	—	—
Distributions to members	—	—	—	—	—	(752,686)	(752,686)
Net income	—	—	—	—	—	1,194,956	1,194,956
Balance, June 30, 2023	3,519,780	$ 3,520	11,278,000	$ 11,278	$ 8,539,858	$ (4,534,925)	$ 4,019,731

Six Months Ended June 30, 2022

			Common Stock						
	Common Units		Class A		Class B				Members' / Stockholders' equity
	Units	Amount	Units	Amount	Units	Amount	APIC	Accumulated deficit	(deficit)
Balance, December 31, 2021	34,182	$ 4,294,241	—	$ —	—	$ —	$ —	$ (4,669,097)	$ (374,856)
Issuance of Class A common stock, net of transaction costs	—	—	2,800,000	2,800	—	—	10,164,243	—	10,167,043
Conversion of member units to Class B shares	(28,545)	(200)	—	—	11,378,000	11,378	(11,178)	—	—
Redemption of common units	(5,637)	(4,294,041)	—	—	—	—	(2,905,959)	—	(7,200,000)
Stock-based compensation	—	—	—	—	—	—	15,407	—	15,407
Issuance of restricted stock	—	—	363,214	363	—	—	(363)	—	—
Distributions to members	—	—	—	—	—	—	—	(309,991)	(309,991)
Additional paid-in capital related to tax receivable agreement	—	—	—	—	—	—	485,100	—	485,100
Net income	—	—	—	—	—	—	—	1,942,740	1,942,740
Balance, June 30, 2022	—	$ —	3,163,214	$ 3,163	11,378,000	$ 11,378	$ 7,747,250	$ (3,036,348)	$ 4,725,443

Three Months Ended June 30, 2022

	Common Stock						
	Class A		Class B				
	Units	Amount	Units	Amount	APIC	Accumulated deficit	Stockholders' equity
Balance, March 31, 2022	2,800,000	$ 2,800	11,378,000	$ 11,378	$ 7,272,856	$ (5,489,170)	$ 1,797,864
Transaction costs associated with IPO	—	—	—	—	(25,750)	—	(25,750)
Stock-based compensation	—	—	—	—	15,407	—	15,407
Issuance of restricted stock	363,214	363	—	—	(363)	—	—
Distributions to members	—	—	—	—	—	(161,541)	(161,541)
Additional paid-in capital related to tax receivable agreement	—	—	—	—	485,100	—	485,100
Net income	—	—	—	—	—	2,614,363	2,614,363
Balance, June 30, 2022	3,163,214	$ 3,163	11,378,000	$ 11,378	$ 7,747,250	$ (3,036,348)	$ 4,725,443

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022
Cash Flows Provided By Operating Activities:		
Net income (loss)	$ (138,978)	$ 1,942,740
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred financing costs	272,008	301,105
Amortization of intangible assets	976,909	976,909
Amortization of right-of-use assets	84,645	50,021
Amortization of capitalized software	104,005	—
Depreciation of property and equipment	17,475	—
Stock-based compensation	304,013	15,407
Forgiveness of Paycheck Protection Program loan	—	(287,143)
Deferred income taxes	(6,094)	38,966
Payment on tax receivable agreement	(45,815)	—
Loss on redemption of non-participating preferred units	—	590,689
Contingent loss on early termination of line of credit	299,770	—
Bad debt expense	51,532	24,799
Changes in operating assets and liabilities:		
Accounts receivable	(3,326,215)	(6,996,667)
Prepaid expenses and other assets	(256,496)	386,258
Accounts payable	5,662,261	3,406,355
Accrued liabilities	(769,344)	601,699
Income taxes payable	(152,158)	47,710
Deferred revenues	404,121	(905,111)
Operating lease liability	(47,890)	(49,422)
Related party payable	(251,158)	(70,801)
Net cash provided by operating activities	3,182,591	73,514
Cash Flows Used In Investing Activities:		
Cash paid for capitalized software and property and equipment	(136,978)	—
Net cash used in investing activities	(136,978)	—
Cash Flows Provided by (Used In) Financing Activities:		
Payments on term loan	(327,500)	(275,000)
Payments of litigation settlement	(129,000)	—
Payment of deferred financing costs	(227,501)	(185,093)
Proceeds from Issuance of Class A common stock, net of transaction costs	—	11,212,043
Redemption of common units	—	(3,237,838)
Redemption of non-participating preferred units	—	(7,046,251)
Proceeds from warrants exercised	12,100	—
Distributions to members	(752,686)	(309,991)
Net cash provided by (used in) financing activities	(1,424,587)	157,870
Net increase in cash and cash equivalents	1,621,026	231,384
Cash and cash equivalents, beginning of the period	4,047,453	4,684,431
Cash and cash equivalents, end of the period	$ 5,668,479	$ 4,915,815
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes	$ 348,862	$ —
Cash paid for interest	$ 1,769,452	$ 1,058,548
Non-cash Financing Activities:		
Transaction costs related to issuances of Class A shares included in accrued liabilities	$ —	$ 1,045,000
Common unit redemption balance included in accrued liabilities	$ —	$ 3,962,162
Outside basis difference in partnership	$ —	$ 3,234,000
Tax receivable agreement payable to Direct Digital Management, LLC	$ —	$ 2,748,900
Tax benefit on tax receivable agreement	$ —	$ 485,100

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

DIRECT DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO 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, full-service programmatic advertising platform primarily focused on providing advertising technology, data-driven campaign optimization and other solutions to underserved and less efficient markets on both the buy- and sell-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 Huddled Masses, LLC ("Huddled Masses™" or "Huddled Masses") and Colossus Media, LLC ("Colossus Media"). Colossus Media operates our proprietary sell-side programmatic platform operating under the trademarked banner of Colossus SSP™ ("Colossus SSP"). In late September 2020, DDH LLC acquired Orange142, LLC ("Orange142") 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 on 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 8 – Related Party Transactions). In these financial statements, the "Company," "Direct Digital," "Direct Digital Holdings," "DDH," "we," "us" and "our" refer (i) following the completion of the Organizational Transactions, including the initial public offering, to Direct Digital Holdings, Inc., and, unless otherwise stated, all of its subsidiaries, including DDH LLC, and, unless otherwise stated, its subsidiaries, and (ii) on or prior to the completion of the Organizational Transactions, to DDH LLC and, unless otherwise stated, 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	Advertising Solution and Segment	Date of Formation	Date of Acquisition
Direct Digital Holdings, LLC	100.0 %	N/A	June 21, 2018	August 26, 2021
Huddled Masses, LLC	100.0 %	Buy-side	November 13, 2012	June 21, 2018
Colossus Media, LLC	100.0 %	Sell-side	September 8, 2017	June 21, 2018
Orange142, LLC	100.0 %	Buy-side	March 6, 2013	September 30, 2020

Both buy-side subsidiaries, Huddled Masses and Orange142, offer technology-enabled advertising solutions and consulting services to clients through multiple leading demand side platforms ("DSPs"). Colossus SSP is a stand-alone tech-enabled, data-driven platform that helps deliver targeted advertising to diverse and multicultural audiences, including African Americans, Latin Americans, Asian Americans and LGBTQIA+ customers, as well as other specific audiences.

Providing both the front-end, buy-side operations 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.

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

Basis of presentation

The Company's consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and reflect the financial position, results of operations and cash flows for all periods presented. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on April 17, 2023. In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the results for the periods presented.

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 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.

Basis of consolidation

The 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.

Business combinations

The Company analyzes acquisitions to determine if the acquisition should be recorded as an asset acquisition or a business combination. The Company accounts for acquired businesses using the acquisition method of accounting under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, *Business Combinations*, (“ASC 805”), which requires that assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The fair value of the consideration paid, including any contingent consideration as applicable, is assigned to the underlying net assets of the acquired business based on their respective fair values based on widely accepted valuation techniques in accordance with ASC Topic 820, *Fair Value Measurement*, as of the closing date. Any excess of the purchase price over the estimated fair values of the net tangible assets and identifiable intangible assets acquired is recorded as goodwill.

Significant judgments are used in determining the estimated fair values assigned to the assets acquired and liabilities assumed and in determining estimates of useful lives of long-lived assets. Fair value determinations and useful life estimates are based on, among other factors, estimates of expected future net cash flows, estimates of appropriate discount rates used to calculate the present value of expected future net cash flows, the assessment of each asset’s life cycle, and the impact of competitive trends on each asset’s life cycle and other factors. These judgments can materially impact the estimates used to allocate acquisition date fair values to assets acquired and liabilities assumed, and the resulting timing and amounts charged to, or recognized in, current and future operating results. For these and other reasons, actual results may vary significantly from estimated results.

Use of estimates

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 and 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. Significant estimates include the allocation of purchase price consideration in the business combination and the related valuation of acquired assets and liabilities, intangible assets, and goodwill impairment testing. 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.

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. As of June 30, 2023, $5,668,479 of the Company’s cash and cash equivalents exceeded the federally insured limits, none of which is held at Silicon Valley Bank (“SVB”). The Company has not experienced any losses in such amounts and believes it is not exposed to any significant credit risk to cash.

Accounts receivable

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 receivables are stated at net realizable value. The Company began insuring its accounts receivable with unrelated third-party insurance companies in an effort to mitigate any future write-offs and establishes an allowance for doubtful accounts as deemed necessary for accounts not covered by this insurance. As of June 30, 2023 and December 31, 2022, the Company’s allowance for doubtful accounts was $25,754 and $4,323, respectively. 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. Bad debt expense was $51,652 and $27,224 for the three months ended June 30, 2023 and 2022, respectively, and $51,532 and $24,799 for the six months ended June 30, 2023 and 2022, respectively.

Concentration of customers

There is an inherent concentration of credit risk associated with accounts receivable arising from revenue from major customers on both the buy-side and sell-side of the business. For the three months ended June 30, 2023 and 2022, one customer represented 63% and 56% of revenues, respectively, and a second customer represented 10% and 0% of revenues, respectively. For the six months ended June 30, 2023 and 2022, one customer represented 62% and 53% of revenues, respectively, and a second customer represented 1% and 11% of revenues, respectively. As of June 30, 2023 and December 31, 2023, one customer accounted for 75% and 80%, respectively, of accounts receivable.

Property and equipment, net

Property and equipment are recognized in the consolidated balance sheets at cost less accumulated depreciation and amortization. The Company capitalizes purchases and depreciates its property and equipment using the straight-line method of depreciation over the estimated useful lives of the respective assets, generally ranging from three to five years. Leasehold improvements are amortized over the shorter of their useful lives or the remaining terms of the related leases.

The cost of repairs and maintenance are expensed as incurred. Major renewals or improvements that extend the useful lives of the assets are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed, and any resulting gain or loss is recognized in the consolidated statements of operations.

Internal Use of Software Development Costs (Capitalized Software)

The Company capitalizes costs related to the development of internal-use software. Costs incurred during the application development phase are capitalized and amortized using the straight-line method over the estimated useful life.

Goodwill

Under the purchase method of accounting pursuant to ASC 805, goodwill is calculated as the excess of purchase price over the fair value of the net tangible and identifiable intangible assets acquired. In testing goodwill for impairment, we have the option to begin with a qualitative assessment, commonly referred to as “Step 0”, 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, which is referred to as “Step 1”. Depending upon the results of the Step 1 measurement, the recorded goodwill may be written down, and an impairment expense is recorded in the 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.

As of June 30, 2023, goodwill was $6,519,636, which includes $2,423,936 as a result of the acquisition of Huddled Masses and Colossus Media in 2018 and $4,095,700 of goodwill recognized from the acquisition of Orange142 in September 2020.

Intangible assets, net

Our intangible assets consist of customer relationships, trademarks and non-compete agreements. Our intangible assets are recorded at fair value at the time of their acquisition and are stated within our 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 our consolidated statements of operations.

Impairment of long-lived assets

The Company evaluates long-lived assets, including property and equipment, and acquired intangible assets consisting of customer relationships, trademarks and trade names, and non-compete agreements, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is assessed based on the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Any impairment loss, if indicated, is measured as the amount by which the carrying amount of the asset exceeds its estimated fair value and is recognized as a reduction in the carrying amount of the asset. As of June 30, 2023 and December 31, 2022, there were no events or changes in circumstances to indicate that the carrying amount of the assets may not be recoverable.

Fair value measurements

The Company follows ASC 820-10, *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and requires certain disclosures about fair value measurements. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the most advantageous market for the asset or liability in an orderly transaction. Fair value measurement is based on a hierarchy of observable or unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 — Inputs to the valuation methodology are quoted prices available in active markets for identical securities as of the reporting date;

Level 2 — Inputs to the valuation methodology are other significant observable inputs, including quoted prices for similar securities, interest rates, credit risk etc. as of the reporting date, and the fair value can be determined through the use of models or other valuation methodologies; and

Level 3 — Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity of the securities and the reporting entity makes estimates and assumptions relating to the pricing of the securities, including assumptions regarding risk.

We segregate all financial assets and liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

Deferred financing costs

The Company records costs related to its line of credit and the issuance of debt obligations as deferred financing costs. These costs are deferred and amortized to interest expense using the straight-line method over the life of the debt. In December 2021, the Company amended its line of credit with East West Bank (see Note 6 – Long-Term Debt) and incurred additional deferred financing costs of $4,613 during the six months ended June 30, 2022. On July 26, 2022, the Company repaid the line of credit and terminated the Revolving Credit Facility as of such date and the remaining deferred financing costs of $33,434 were amortized to interest expense during the year ended December 31, 2022. There were no unamortized deferred financing costs related to the line of credit as of June 30, 2023 and December 31, 2022.

In January 2023, the Company entered into a Loan and Security Agreement with Silicon Valley Bank (the "SVB Loan Agreement") and incurred $211,934 of deferred financing costs during the six months ended June 30, 2023. As the Company had not yet drawn any amounts on the agreement, on March 13, 2023 the Company issued a notice of termination and expensed the deferred financing costs which totaled $299,770 to contingent loss on early termination of line of credit during the six months ended June 30, 2023. Termination of the facility with Silicon Valley Bank ("SVB") became effective April 20, 2023.

In December 2021, the Company entered into an agreement with Lafayette Square Loan Servicing, LLC ("Lafayette Square") (see Note 5 – Long-Term Debt) and incurred additional deferred financing costs of $15,567 and $180,480 during the six months ended June 30, 2023 and 2022, respectively. Unamortized deferred financing costs for the note payable was $1,858,720 and $2,115,161 as of June 30, 2023 and December 31, 2022, respectively, and netted against the outstanding debt on the consolidated balance sheets.

Right-of-use assets

The Company adopted ASU 2016-02 ("ASU 2016-02"), *Leases (Topic 842)* as of January 1, 2022, and recognizes operating lease assets and lease liabilities on the balance sheets. The standard requires us to increase our assets and liabilities by equal amounts through the recognition of Right-of-Use ("ROU") assets and lease liabilities for our operating leases and to recognize the initial and the monthly payments as operating expenses when paid or accrued on our consolidated statements of operations and consolidated statements of cash flows.

Revenue recognition

The Company recognizes revenue using the following five steps: 1) identification of a contract(s) 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: buy-side advertising and sell-side advertising.

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 and a self-serve 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 for fully managed revenue and the delivery of media inventory for self-serve revenue. 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"). 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.

In instances where the Company contracts with third-party advertising agencies on behalf of their advertiser clients, a determination is made to recognize revenue on a gross or net basis based on an assessment of whether the Company is acting as the principal or an agent in the transaction. The Company is acting as the principal in these arrangements and therefore revenue earned and costs incurred are recognized on a gross basis as the Company has control and is responsible for fulfilling the advertisement delivery, establishing the selling prices and delivering the advertisements for fully managed revenue and providing updates and performing all billing and collection activities for the self-serve proprietary platform.

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 $950,831 and $546,710 as of June 30, 2023 and December 31, 2022, respectively.

Sell-side advertising

The Company partners with publishers to sell advertising inventory to the Company's existing buy-side clients, as well as its own 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 generates revenue through the monetization of publisher ad impressions on its platform. The Company's platform allows publishers to sell, in real time, ad impressions to buyers and provides automated inventory management and monetization tools to publishers across various device types and digital ad formats. The Company recognizes revenue when an ad is delivered in response to a winning bid request from ad buyers. The Company is acting as the principal in these arrangements and therefore revenue earned and costs incurred are recognized on a gross basis, as the Company has control and is responsible for fulfilling the advertisement delivery, establishing the selling prices and delivering the advertisements for fully managed revenue and providing updates and performing all billing and collection activities for its self-serve proprietary platform.

Overall

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. In an effort to reduce the risk of nonpayment, the Company has insurance with a third-party carrier for its accounts receivable as noted above.

Cost of revenues

Buy-side advertising

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.

Sell-side advertising

The Company pays publishers a fee, which is typically a percentage of the value of the ad impressions monetized through the Company's 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.

Advertising costs

The Company expenses advertising costs as incurred. Advertising expense incurred during the three months ended June 30, 2023 and 2022 was $533,825 and $220,236, respectively and $1,002,263 and $322,667 for the six months ended June 30, 2023 and 2022, respectively. These costs are included in general and administrative expenses in the consolidated statements of operations.

Stock-based compensation

The Company recognizes and measures compensation expense for all stock-based payment awards granted to employees, directors and non-employee directors, including stock options and restricted stock units ("RSUs") based on the fair value of the awards on the date of grant. The fair value of stock options is estimated using the Black Scholes option pricing model. The grant date fair value of RSUs is based on the prior day closing market price of the Company's Class A common stock. The Black Scholes option pricing model inputs 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.

For additional information regarding stock-based compensation and the assumptions used for determining the fair value of stock options, see Note 10 — Stockholders' Equity and Stock-Based Compensation Plans.

Income (loss) per share

Basic income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of shares outstanding for the period. Potentially dilutive securities include potential shares of common stock related to our stock options and RSUs. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of potential shares of common stock would have an anti-dilutive effect. Diluted income per share excludes the impact of potential shares of common stock related to our stock options in periods in which the options exercise price is greater than the average market price of our common stock for the period.

Income taxes

Effective February 15, 2022, concurrent with the closing of the Company's initial public offering, the Company entered into a tax receivable agreement ("Tax Receivable Agreement" or "TRA") with DDH LLC and Direct Digital Management, LLC ("DDM" or the

"Continuing LLC Owner"). The TRA provides for certain income (loss) allocations between the Company and DDH LLC under the agreement. DDH LLC is a limited liability company and will continue to be treated as a partnership for federal income tax purposes and, as such, generally will not be 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 will be 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 will be made. 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 plans to make an election under Section 754 of the Code for each taxable year in which a redemption or exchange of LLC interest occurs. During year ended December 31, 2022, a member of DDM exchanged 100,000 Class B shares into Class A shares.

The Company applies ASC 740-10, *Income Taxes*, in establishing standards for accounting for uncertain tax positions. The Company evaluates uncertain tax positions with the presumption of audit detection and applies a "more likely than not" standard to evaluate the recognition of tax benefits or provisions. ASC 740-10 applies a two-step process to determine the amount of tax benefits or provisions to record in the consolidated financial statements. First, the Company determines whether any amount may be recognized and then determines how much of a tax benefit or provision should be recognized. As of June 30, 2023 and December 31, 2022, the Company had no uncertain tax positions. Accordingly, the Company has not recognized any penalty, interest or tax impact related to uncertain tax positions. If the Company were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. The Company's conclusion regarding uncertain tax positions may be subject to review and adjustments at a later date based upon ongoing analyses of tax laws regulations and interpretations thereof as well as other factors. See Note 13 – Tax Receivable Agreement and Income Taxes.

Segment information

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and assessing performance. The Company's chief operating decision maker is its Chairman and Chief Executive Officer. The Company views its business as two reportable segments, buy-side advertising, which includes the results of Huddled Masses and Orange142, and sell-side advertising, which includes the results of Colossus Media.

Accounting pronouncements recently adopted

In June 2016, the FASB issued ASU No. 2016-13*, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, as amended, which requires, among other things, the use of a new current expected credit loss ("CECL") model in order to determine the Company's allowances for doubtful accounts with respect to accounts receivable. The CECL model requires that the Company estimate its lifetime expected credit loss with respect to its receivables and contract assets and record allowances that, when deducted from the balance of the receivables, represent the net amounts expected to be collected. The Company will also be required to disclose information about how it developed the allowances, including changes in the factors that influenced its estimate of expected credit losses and the reasons for those changes. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2022. The Company adopted the new guidance on January 1, 2023 on a modified retrospective basis and determined it did not have a material impact on its consolidated financial statements of financial position, results of operations, cash flows or net loss per share.

Liquidity and capital resources

As of June 30, 2023, the Company had cash and cash equivalents of $5,668,479. Based on projections of growth in revenue and operating results in the coming year and the available cash held by us, 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.

Note 3 — Property, Equipment and Software, net

Property, equipment and software, net consists of the following:

	June 30, 2023	December 31, 2022
Furniture and fixtures	$ 127,932	$ 118,601
Computer equipment	19,636	16,985
Leasehold Improvements	36,230	—
Capitalized software	660,616	571,850
Property, equipment and software, gross	844,414	707,436
Less: accumulated depreciation and amortization	(155,698)	(34,218)
Total property, equipment and software, net	$ 688,716	$ 673,218

The Company moved headquarters in 2022 and capitalized furniture and fixtures, computer equipment and leasehold improvements related to the move. The Company acquired the license to our proprietary Colossus SSP platform in November 2022 from its third-party developer. Depreciation and amortization expense related to property, equipment and software was $64,987 and $0 for the three months ended June 30, 2023 and 2022, respectively, and $121,480 and $0 for the six months ended June 30, 2023 and 2022, respectively.

The following table summarizes depreciation and amortization expense by line item for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		For the Six Months June 30,	
	2023	2022	2023	2022
Cost of revenue	$ 56,351	$ —	$ 104,005	$ —
General and administrative	8,636	—	17,475	—
Total depreciation and amortization	$ 64,987	$ —	$ 121,480	$ —

Note 4 — Intangible Assets

Effective September 30, 2020, the Company acquired 100% of the equity interests of Orange142 for a purchase price of $26,207,981. 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 $4,095,700 and intangible assets of $18,033,850. Intangible assets consist of $13,028,320 of 10-year amortizable customer relationships, $3,501,200 of 10-year amortizable trademarks and tradenames, and $1,504,330 of 5-year amortizable non-compete agreements. 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, 2023 and 2022, amortization expense of $488,455 and $488,455, respectively, and for the six months ended June 30, 2023 and 2022, amortization expense of $976,909 and $976,909, respectively, was recognized, and as of June 30, 2023 and December 31, 2022, intangible assets net of accumulated amortization was $12,660,850 and $13,637,759, respectively.

As of June 30, 2023, intangible assets and the related accumulated amortization, weighted-average remaining life and future amortization expense are as follows:

	Customer lists	Trademarks and tradenames	Non-compete agreements	Total
Fair value at acquisition date	$ 13,028,320	$ 3,501,200	$ 1,504,330	$ 18,033,850
Accumulated amortization	(3,582,788)	(962,830)	(827,382)	(5,373,000)
Intangible assets, net	$ 9,445,532	$ 2,538,370	$ 676,948	$ 12,660,850
Estimated life (years)	10.0	10.0	5.0	
Weighted-average remaining life (years)	7.3	7.3	2.2	

	Total
2023	$ 976,910
2024	1,953,818
2025	1,878,602
2026	1,652,952
2027	1,652,952
Thereafter	4,545,616
Total future amortization expense	$ 12,660,850

The Company expects to deduct goodwill for tax purposes in future years. The factors that make up goodwill include entry into new markets not previously accessible and generation of future growth opportunities.

Note 5 — Accrued Liabilities

Accrued liabilities consisted of the following:

	June 30, 2023	December 31, 2022
Accrued compensation and benefits	$ 2,274,060	$ 4,128,505
Accrued litigation settlement	300,096	429,096
Accrued expenses	663,206	206,639
Accrued severance	630,140	—
Accrued interest	11,918	13,524
Total accrued liabilities	$ 3,879,420	$ 4,777,764

On July 10, 2019, Huddled Masses was named as a defendant in a lawsuit related to a delinquent balance to a vendor. On July 28, 2022, the Company entered into a settlement agreement with the vendor and agreed to pay a total of $515,096 with monthly installment payments over 24 months beginning September 1, 2022.

Note 6 — Long-Term Debt

Lafayette Square

On December 3, 2021, DDH LLC entered into the Term Loan and Security Agreement (the “2021 Credit Facility”) with Lafayette Square as administrative agent, and the various lenders thereto. The term loan under the 2021 Credit Facility provides for a term loan in the principal amount of up to $32,000,000, consisting of a $22,000,000 closing date term loan and an up to $10,000,000 delayed draw term loan (“Delayed Draw Loan”). The loans under the 2021 Credit Facility bear interest at LIBOR plus the applicable margin minus any applicable impact discount. The applicable margin under the 2021 Credit Facility is 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 is greater than 4.00 to 1.00. The applicable impact discount under the 2021 Credit Facility is a discount of 0.05% per annum to the extent that DDH LLC adopts certain services intended to improve overall employee satisfaction and retention plus an additional discount of 0.05% per annum to the extent that DDH LLC maintains a B Corp certification by Standards Analysts at the non-profit B Lab (or a successor certification or administrator). On June 1, 2023 the Company entered into an agreement with Lafayette Square to convert the existing LIBOR based rate to a Term SOFR

Rate with a credit spread of 0.15% per annum for the interest periods of three months and provides 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 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 (the "Term Loan Amendment") and received proceeds of $4,260,000 borrowed under the Delayed Draw Loan to pay the balance owed on the common unit redemption as well as costs associated with the transaction.

Pursuant to the 2021 Credit Facility, as amended by the Term Loan Amendment, DDH LLC will indemnify the Company from and against any claims, losses, expenses and other liabilities incurred by the Company arising from the Company's guarantor obligations under the 2021 Credit Facility and related term loan documents. The Delayed Draw Loan is required to be repaid in quarterly installments payable on the last day of each fiscal quarter in an amount equal to (i) commencing with the fiscal quarter ending December 31, 2022 through and including the fiscal quarter ending December 31, 2023, $26,250, and (ii) commencing March 31, 2024 and continuing on the last day of each fiscal quarter thereafter, $52,500, with a final installment due December 3, 2026 in an amount equal to the remaining entire principal balance thereof. After giving effect to the Delayed Draw Loan on the effective date of the Term Loan Amendment, no additional delayed draw loans will be available under the 2021 Credit Facility.

The obligations under the 2021 Credit Facility are secured by senior, first-priority liens on all or substantially all assets of DDH LLC and its subsidiaries and are guaranteed by the subsidiaries of DDH LLC and include a pledge and guarantee by the Company. As of June 30, 2023, the Company owed a balance on the 2021 Credit Facility of $25,356,250. Additional deferred financing costs of $15,567 and $180,480 were incurred during the six months ended June 30, 2023 and 2022, respectively. Unamortized deferred financing costs as of June 30, 2023 and December 31, 2022 were $1,858,720 and $2,115,161 respectively. Accrued and unpaid interest was $0 as of June 30, 2023 and December 31, 2022. The 2021 Credit Facility contains affirmative and negative covenants that, among other things, require the Company to maintain a net leverage ratio of no more than 3.50 to 1.00 as of the last day of each fiscal quarter through December 31, 2023, as adjusted thereafter, and 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, 2023.

The components of interest expense and related fees for the 2021 Credit Facility are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Interest expense – Lafayette Square	$ 890,091	$ 489,330	$ 1,769,453	$ 976,830
Amortization of deferred financing costs – Lafayette Square	136,004	115,383	272,008	233,774
Total interest expense and amortization of deferred financing costs	$ 1,026,095	$ 604,713	$ 2,041,461	$ 1,210,604

2020 Revolving Line of Credit - East West Bank

On September 30, 2020, the Company entered into a credit agreement that provided for a revolving credit facility with East West Bank ("EWB") in the amount of $4,500,000 with an initial availability of $1,000,000 (the "2020 Revolving Credit Facility"). On December 17, 2021, the Company amended the 2020 Revolving Credit Facility, which increased the amount of the revolving loan to $5,000,000 with an initial availability of $2,500,000, and in connection with the amendment, the Company incurred additional deferred financing fees of $4,613 in January 2022. The loans under the 2020 Revolving Credit Facility bore interest at the LIBOR rate plus 3.5% per annum, and as of March 31, 2022, the rate was 7.0% with a 0.50% unused fee.

On July 26, 2022, the Company terminated the 2020 Revolving Credit Facility. As of June 30, 2023 and December 31, 2022, the Company did not have any outstanding borrowings or deferred financing costs under the Revolving Credit Facility.

The components of interest expense and related fees for the 2020 Revolving Credit Facility are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Interest expense – East West Bank	$ —	$ 10,213	$ —	$ 19,818
Amortization of deferred financing costs	—	33,434	—	67,331
Total interest expense and amortization of deferred financing costs	$ —	$ 43,647	$ —	$ 87,149

On July 7, 2023, the Company entered into a Credit Agreement (the "Credit Agreement") with EWB which provides for a new revolving credit facility as described in Note 15 – Subsequent Events.

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 Orange142, 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 as of the date of this report, has not experienced any adverse impact to its liquidity or to its current and projected business operations, financial condition or results of operations. During the six months ended June 30, 2023, the Company incurred $211,934 of deferred financing costs. After the Company issued the notice of termination, total deferred financing costs of $299,770 were expensed to contingent 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 $150,000 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 $731 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, 2023 and December 31, 2022 was $11,918 and $13,524, respectively, and is included in accrued expenses on the consolidated balance sheets.

Paycheck Protection Program

In 2020, the Company applied and was approved for a loan pursuant to the Paycheck Protection Program ("PPP"), administered by the SBA (the "PPP-1 Loan"). The PPP was authorized in the Coronavirus Aid, Relief, and Economic Security Act and was designed to provide a direct financial incentive for qualifying business to keep their workforce employees. The SBA made PPP loans available to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses, and loans were forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintained its payroll and utilities.

The forgiveness amount would be reduced if the borrower terminated employees or reduced salaries and wages more than 25% during the covered period. Any unforgiven portion was payable over two years if issued before, or five years if issued after, June 5, 2020 at an interest rate of 1.0% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or if the borrower did not apply for forgiveness, then six months after the end of the covered period.

In March 2021, DDH LLC applied for and received a PPP loan (the "PPP-2 Loan") for a principal amount of $287,143 and there were no collateral or guarantee requirements. On April 11, 2022, the balance on the PPP-2 Loan was forgiven.

Overall

As of June 30, 2023, future minimum payments related to long-term debt are as follows for the years ended December 31:

2023	$ 327,500
2024	1,310,000
2025	1,310,473
2026	22,411,965
2027	3,337
Thereafter	142,975
Total	25,506,250
Less current portion	(982,500)
Less deferred financing costs	(1,858,720)
Long-term debt, net	$ 22,665,030

Note 7 — Mandatorily Redeemable Preferred Units

In connection with the Orange142 acquisition, DDH LLC issued 7,076 non-voting Class B Preferred Units at a purchase price of $7,046,251, and a fair value of $6,455,562. Class B Preferred Units were mandatorily redeemable for $7,046,251 on September 30, 2024, with 7% preferred annual returns paid on a quarterly basis. Due to the mandatory redemption feature, the Class B Preferred Units were classified as a liability rather than as a component of equity, with the preferred annual returns being accrued and recorded as interest expense.

In February 2022, DDH LLC redeemed the Class B Preferred Units and recognized a loss on the redemption of $590,689 in connection with the write-off of the fair value associated with the units. The Company recorded interest expense relating to the Class B Preferred Units of $0 and $0, for the three months ended June 30, 2023 and 2022, respectively, and $0 and $62,162 for the six months ended June 30, 2023 and 2022, respectively.

Note 8 — Related Party Transactions

Related Party Transactions

Member Payable

As of June 30, 2023 and December 31, 2022, the Company had a net payable to members that totaled $1,197,175 and $1,448,333, respectively, which is included as a related party payable on the 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 the Continuing LLC Owner, 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. The Continuing LLC owner will hold economic nonvoting LLC Units in DDH LLC and will also hold noneconomic voting equity interests in the form of the Class B common stock in Direct Digital Holdings (See Note 10 – Stockholders' Equity and Stock-Based Compensation Plans). One of the tax benefits to the Continuing LLC Owner associated with this structure is that future taxable income of DDH LLC that is allocated to the Continuing LLC Owner will be taxed on a pass-through basis and therefore will not be subject to corporate taxes at the entity level. Additionally, the Continuing LLC Owner may, from time to time, redeem or exchange its LLC Units for shares of our Class A common stock on a one-for-one basis. The Up-C structure also provides the Continuing LLC Owner with potential liquidity that holders of non-publicly traded limited liability companies are not typically afforded. If we ever generate sufficient taxable income to utilize the tax benefits, Digital Direct Holdings expects to benefit from the Up-C structure because, in general, we expect cash tax savings in amounts equal to 15% of certain tax benefits arising from such redemptions or exchanges of the Continuing LLC Owner's LLC Units for Class A common stock or cash and certain other tax benefits covered by the TRA. (See Note 13 - Tax Receivable Agreement and Income Taxes).

The aggregate change in the balance of gross unrecognized tax benefits, which includes interest and penalties for 2023 and 2022, is as follows:

	As of June 30, 2023	As of December 31, 2022
Liability related to tax receivable agreement		
Short term	$ 40,112	$ 182,571
Long term	4,246,263	4,149,619
Total liability related to tax receivable agreement	$ 4,286,375	$ 4,332,190

Board Services and Consulting Agreement

On September 30, 2020, the Company entered into board services and consulting agreements with Walker, Smith and Leah Woolford ("Woolford"). Walker, Smith and Woolford were then all members of DDH LLC. Prior to the Organizational Transactions, Walker served as a Manager on the Board of Managers of DDH LLC, and now serves as Chairman of the Board of Directors and Chief Executive Officer of the Company. Prior to the Organizational Transactions, Smith served as a Manager on the Board of Managers of DDH LLC and now serves as a director on the Board of Directors and President of the Company. Woolford previously served as a Manager on the Board of Managers of DDH LLC and Senior Advisor of DDH LLC. In exchange for these services, the Company paid Walker and Smith annual fees of $450,000 each and employee benefits for their direct families. The Company paid Woolford $300 per hour for up to 50 hours per month and employee benefits for Woolford and her direct family. In connection with the Organizational Transactions, the consulting agreements were canceled, and for the three months ended June 30, 2023 and 2022 and the six months ended June 30, 2023, no fees were paid to Walker, Smith and Woolford. For the six months ended June 30, 2022, total fees paid to Walker, Smith, and Woolford were $56,250, $56,250, and $22,500, respectively.

Note 9 — Commitments and Contingencies

Litigation

The Company may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. In management's opinion, the outcome of any such currently pending litigation will not materially affect the Company's financial condition. Nevertheless, due to uncertainties in the settlement process, it is at least reasonably possible that management's view of the outcome could change materially in the near term.

Huddled Masses was named as a defendant in a lawsuit on July 10, 2019 related to a delinquent balance to a vendor. On July 28, 2022, the Company entered into a settlement agreement with the vendor and agreed to pay a total of $515,096 with monthly installment payments over 24 months beginning September 1, 2022. The liability has been recorded and included in accrued liabilities on the consolidated balance sheets as of June 30, 2023 and December 31, 2022 (See Note 5 – Accrued Liabilities).

Operating Leases

In June 2019, the Company entered into a sublease for its corporate office headquarters at 1233 West Loop South, Ste 1170 in Houston, TX. The lease term expired on July 1, 2022 and had a base monthly rent of approximately $3,600 per month.

In March 2022, the Company entered into a new lease to move its corporate headquarters to 1177 West Loop South, Ste 1310 in Houston, TX effective July 1, 2022, and paid a security deposit of approximately $29,000. The lease is for 7,397 square feet of office space that expires February 28, 2030. The base monthly rent varies annually over the term of the lease. The Company also leases office furniture for its corporate headquarters under a lease agreement effective April 2019 and expiring July 2023.

In March 2021, the Company extended its lease for office space at 716 Congress Ave, Ste 100 in Austin, Texas with an effective date of January 1, 2022. The lease expires on December 31, 2023 and has a base rent of approximately $6,700 per month.

For the three months ended June 30, 2023 and 2022, the Company incurred rent expense of $78,725 and $52,183, respectively, for the combined leases. For the six months ended June 30, 2023 and 2022, the Company incurred rent expense of $158,486 and $103,561, respectively, for the combined leases.

Supplemental balance sheet information related to operating leases is included in the table below as of June 30, 2023:

	2023
Operating lease right-of-use asset	$ 714,129
Operating lease liabilities - current	$ 47,668
Operating lease liabilities - long-term	741,771
Total operating lease liability	$ 789,439

The weighted-average remaining lease term for the Company's operating lease is 6.35 years as June 30, 2023, with a weighted-average discount rate of 8%.

Lease liability with enforceable contract terms that have greater than one-year terms are as follows:

2023	$ 74,502
2024	110,215
2025	156,077
2026	159,775
2027	163,474
Thereafter	366,830
Total lease payments	1,030,873
Less imputed interest	(241,434)
Total lease liability	$ 789,439

Note 10 — Stockholders' Equity 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, our Chairman and Chief Executive Officer and our President, and (ii) noneconomic voting units of DDH LLC, 100% of which are held by the Company. In August 2022, DDM tendered 100,000 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 this exchange, an equivalent number of the holder's shares of Class B common stock were cancelled. As of June 30, 2023, DDM held 11,278,000 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 are 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, 2023, 2,797,800 of these warrants are outstanding and the intrinsic value of these warrants is $0. 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, 2023, 420,000 of these warrants are outstanding. In connection with our initial public offering, we 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. The underwriters have not exercised this option as of June 30, 2023.

The Units were sold at a price of $5.50 per Unit, and the net proceeds from the offering were $10,167,043, after deducting underwriting discounts and commissions and offering expenses payable by the Company. The offering expenses recorded in accrued liabilities are approximately $1,000,000 as of June 30, 2023, and relate to executive performance bonuses which are payable upon a certain level of cash generated by warrant exercises. DDH LLC used the proceeds, together with pre-existing cash and cash equivalents, to purchase all of the remaining 5,637 common units and 7,046 Class B Preferred Units held indirectly by Woolford for an aggregate purchase price of approximately $14,246,251, of which $10,284,089 was paid on the closing date of the initial public offering. On July 28, 2022, DDH LLC entered into the Redemption Agreement Amendment with USDM Holdings, Inc. that amended the previously disclosed Redemption Agreement by and between DDH LLC and USDM Holdings, Inc. dated as of November 14, 2021 (the "Original Redemption Agreement"), as amended by the Amendment to Redemption Agreement dated as of February 15, 2022. The Redemption Agreement Amendment, among other things, amended the remainder of the principal and interest for the Common Units Redemption Price to be $3,998,635, which was paid in full on July 28, 2022.

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.

The following table summarizes warrant activity as of June 30, 2023:

	Warrants			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2023	3,220,000	$ 5.50	4.38	$ —
Granted	—	$ —	—	$ —
Exercised	(2,200)	$ 5.50	—	$ —
Canceled	—	$ —	—	$ —
Outstanding at June 30, 2023	3,217,800	$ 5.50	3.63	$ —
Exercisable at June 30, 2023	3,217,800			

Stock-Based Compensation Plans

In connection with our IPO, the Company adopted the 2022 Omnibus Incentive Plan ("2022 Omnibus Plan") to facilitate the grant of equity awards to our 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, 2023, the Company recognized $304,013 of total stock-based compensation expense in the 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, 2023:

	Stock Options			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	254,000	$ 1.69	8.76	$ 193,486
Granted	135,015	$ 3.96		
Exercised	—	—		
Forfeited	(26,215)	$ 2.22		
Outstanding at June 30, 2023	362,800	$ 2.49	9.23	$ 272,540
Vested and exercisable at June 30, 2023	73,364	$ 1.62	8.95	$ 90,238

As of June 30, 2023, unrecognized stock-based compensation of $435,403 related to 289,436 of unvested stock options will be recognized on a straight-line basis over a weighted-average vesting period of 2.45 years.

Restricted Stock Units

RSUs vest annually on the grant date anniversary over a period of three years. A summary of RSU activity and related information is as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value per Share
Unvested- December 31, 2022	352,764	$ 1.67
Granted	310,599	$ 3.77
Vested	(106,285)	$ 1.62
Forfeited	(26,215)	$ 2.22
Unvested- June 30, 2023	530,863	$ 2.58

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 was 19,568 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, 2023, unrecognized stock-based compensation of $1,355,297 related to unvested RSUs will be recognized on a straight- line basis over a weighted average period of 2.21 years.

Note 11 — Income (Loss) Per Share

The Company has two classes of common stock, Class A and Class B. Basic and diluted earnings per share ("EPS") attributable to common stockholders for Class A and Class B common stock were the same because they were entitled to the same liquidation and dividend rights. The following table sets forth the computation of the Company's basic and diluted loss per share:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ 1,194,956	$ 2,614,363	$ (138,978)	$ 1,942,740
Weighted average common shares outstanding - basic	14,772,624	14,257,827	14,676,096	10,701,715
Options to purchase common stock	61,427	—	—	—
Weighted average common shares outstanding - diluted	14,834,051	14,257,827	14,676,096	10,701,715
Net income (loss) per common share, basic and diluted	$ 0.08	$ 0.18	$ (0.01)	$ 0.18

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Warrants to purchase common stock	3,217,800	3,220,000	3,218,260	2,419,448
Options to purchase common stock	142,650	61,027	307,886	30,682
Total excludable from net income (loss) per share attributable to common stockholders - diluted	3,360,450	3,281,027	3,526,146	2,450,130

Note 12 — Employee Benefit Plans

The Company sponsors a safe harbor, defined contribution 401(k) and profit-sharing plan (the "Plan") that allows eligible employees to contribute a percentage of their compensation. The Company matches employee contributions up to a maximum of 100% of the participant's salary deferral, limited to 4% of the employee's salary. For the three and six months ended June 30, 2023 and 2022, the Company's matching contributions were $66,083 and $52,501, respectively and $130,954 and $103,062, respectively. Additionally, the Company may make a discretionary profit- sharing contribution to the Plan. During the three and six months ended June 30, 2023 and 2022, no profit-sharing contributions were made.

The Company has an Employee Benefit Plan Trust (the "Trust") to provide for the payment or reimbursement of all or a portion of covered medical, dental and prescription expenses for the employees of Orange 142. The Trust is funded with contributions made by the Company and participating employees at amounts sufficient to keep the Trust on an actuarially sound basis. The self-funded plan has an integrated stop loss insurance policy for the funding of the Trust benefits in excess of the full funding requirements. As of June 30, 2023 and December 31, 2022, the Company analyzed the incurred but not reported claims and recorded an estimated liability, as required.

Note 13 — Tax Receivable Agreement and Income Taxes

Tax Receivable Agreement

In connection with our initial public offering in February 2022, the Company entered into a tax receivable agreement ("TRA") with DDH LLC and DDM (together, the "TRA Holders") which 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. Direct Digital Holdings, Inc. will retain the benefit of the remaining 15% of these net cash savings, and as a result, the Company recorded $823,481 during 2022 as additional paid-in capital.

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, 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. The Company plans to make an election under Section 754 if the Code for each taxable year in which a redemption or exchange of LLC interest occurs. During the year ended December 31, 2022, a member of DDM exchanged 100,000 Class B shares into Class A shares.

As of June 30, 2023, the Company has recorded a deferred tax asset primarily from the outside basis difference in the partnership interest of $5,170,870, and a total TRA liability of $4,286,375, of which $40,112 is reflected as a current liability in which $752,686 was paid during the six months ended June 30, 2023. 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. We may elect to defer payments due under the TRA if we do not have available cash to satisfy our 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. We account for any amounts payable under the TRA in accordance with ASC Topic 450, Contingencies, and will recognize subsequent period changes to the measurement of the liability from the TRA in the statement of operations as a component of income before taxes.

The term of the TRA commenced upon completion of our IPO and will continue until all tax benefits that are subject to the TRA have been utilized or expired, unless we exercise our right to terminate the TRA. If we elect to terminate the TRA early (or it is terminated early due to changes in control), our obligations under the TRA would accelerate and we would be required to make an immediate payment equal to the present value of the anticipated future payments to be made by us 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 of 19.7% and 20.45% that occurred in the first and third quarters of 2022, respectively. As a result, the Company recorded a tax provision for federal and state income tax for the three months ended June 30, 2023 and 2022 and six months ended June 30, 2022 of $74,312, $86,676, and $86,676, respectively, and a tax benefit of $336 for the six months ended June 30, 2023.

Income tax expense (benefit) is based on the estimated annual effective rate for the year, which includes estimated federal and state income taxes on the Company's projected pre-tax income. The expense (benefit) for income taxes and the effective income tax rates were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Income tax expense (benefit)	$ 74,312	$ 86,676	$ (336)	$ 86,676
Effective income tax rate	5.9 %	3.2 %	0.2 %	4.2 %

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

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.

Note 14 — Segment Information

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and assess performance. The Company's chief operating decision maker is its Chairman and Chief Executive Officer. The Company views its business as two reportable segments, buy-side advertising, which includes the results of Huddled Masses and Orange142, and sell-side advertising, which includes the results of Colossus Media. All of the Company's revenues are attributed to the United States.

Revenue by business segment is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Buy-side advertising	$ 11,803,092	$ 9,321,267	$ 19,242,758	$ 15,152,308
Sell-side advertising	23,600,708	11,940,041	37,383,952	17,479,337
Total revenues	$ 35,403,800	$ 21,261,308	$ 56,626,710	$ 32,631,645

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Buy-side advertising	$ 3,924,079	$ 3,188,369	$ 5,428,939	$ 4,262,579
Sell-side advertising	2,171,957	1,583,091	3,450,289	2,234,134
Corporate office expenses	(3,841,588)	(1,707,313)	(6,766,119)	(2,847,695)
Total operating income	2,254,448	3,064,147	2,113,109	3,649,018
Corporate other expense	(985,180)	(363,108)	(2,252,423)	(1,619,602)
Income (loss) before taxes	$ 1,269,268	$ 2,701,039	$ (139,314)	$ 2,029,416

Total assets by business segment are as follows:

	June 30, 2023	December 31, 2022
Buy-side advertising	$ 24,977,722	$ 25,685,528
Sell-side advertising	27,507,120	25,512,367
Corporate office	9,665,604	6,928,144
Total assets	$ 62,150,446	$ 58,126,039

Note 15 — Subsequent Events

The Company has evaluated events and transactions occurring subsequent to June 30, 2023, through the date of this report and determined there were no events or transactions other than those described below that would require recognition or disclosure.

On July 7, 2023, the Company entered into a Credit Agreement (the “Credit Agreement”), by and among EWB, as lender, and DDH LLC, the Company, Huddled Masses, Colossus Media, and Orange142, as borrowers.

The Credit Agreement provides for a revolving credit facility (the “2023 Credit Facility”) in the original principal amount of up to $5 million, subject to a borrowing base determined based on eligible accounts, and an up to $5 million uncommitted incremental revolving facility. Loans under the 2023 Credit Facility mature on July 7, 2025 (the “Maturity Date”), unless the 2023 Credit Facility is otherwise terminated pursuant to the terms of the Credit Agreement.

Borrowings under the 2023 Credit Facility bear interest at a rate per annum equal to the one-month Term Secured Overnight Financing Rate, as administered by the CME Group Benchmark Administration Limited (“CBA”) (or a successor administrator of the secured overnight financing rate) and displayed by Bloomberg LP (or any successor thereto, or replacement thereof, as approved by EWB) 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 2023 Credit Facility 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 Company and the other borrowers are 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 3.50 to 1.00 as of the last day of each fiscal quarter from June 30, 2023 through December 31, 2023, 3.25 to 1.00 as of the last day of each fiscal quarter from March 31, 2024 through March 31, 2025 and 3.00 to 1.00 as of the last day of each fiscal quarter from June 30, 2025 and thereafter; and (iii) a liquidity covenant requiring the Company and the other borrowers to maintain minimum liquid assets at all times (calculated using unencumbered cash and cash equivalents and marketable securities), in one or more accounts held with EWB plus Revolving Credit Availability in the amount of $1,000,000. 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 obligations under the 2023 Credit Facility are secured by all or substantially all of the borrowers' assets.

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.

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

You should read the following discussion together with our unaudited 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, 2022. 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, 2022.

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:

- our dependence on the overall demand for advertising, which could be influenced by economic downturns;
- any slow-down or unanticipated development in the market for programmatic advertising campaigns;
- the effects of health epidemics;
- 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;
- 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;
- any unavailability or non-performance of the non-proprietary technology, software, products and services that we use;
- 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;
- restrictions on the use of third-party "cookies," mobile device IDs or other tracking technologies, which could diminish our platform's effectiveness;
- any inability to compete in our intensely competitive market;
- any significant fluctuations caused by our high customer concentration;
- our limited operating history, which could result in our past results not being indicative of future operating performance;
- any violation of legal and regulatory requirements or any misconduct by our employees, subcontractors, agents or business partners;
- any strain on our resources, diversion of our management's attention or impact on our ability to attract and retain qualified board members as a result of being a public company;
- 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 dividends;

- DDH LLC may make distributions of cash to us substantially in excess of the amounts we use to make distributions to our stockholders and pay our expenses (including our taxes and payments under the Tax Receivable Agreement), which, to the extent not distributed as dividends on our Class A common stock, would benefit Direct Digital Management, LLC, the entity indirectly owned by our Chairman and Chief Executive Officer and President, as a result of its ownership of Class A common stock upon an exchange or redemption of its LLC Units; 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, 2022.

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 to underserved and less efficient markets on both the buy- and sell-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 Huddled Masses, LLC ("Huddled Masses™" or, "Huddled Masses"), a buy-side marketing platform, and Colossus Media, LLC ("Colossus Media"), a sell-side marketing platform.

On September 30, 2020, DDH LLC acquired Orange142, LLC ("Orange142") to further bolster its overall programmatic buy-side advertising platform and enhance its offerings across multiple industry verticals such as travel, healthcare, education, 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	Advertising Solution and Segment	Date of Formation	Date of Acquisition
Direct Digital Holdings, LLC	100 %	N/A	June 21, 2018	August 26, 2021
Huddled Masses, LLC	100 %	Buy-side	November 13, 2012	June 21, 2018
Colossus Media, LLC	100 %	Sell-side	September 8, 2017	June 21, 2018
Orange142, LLC	100 %	Buy-side	March 6, 2013	September 30, 2020

Both buy-side advertising businesses, Huddled Masses and Orange142, offer technology-enabled advertising solutions and consulting services to clients through multiple leading demand side platforms ("DSPs"). Colossus Media is our proprietary sell-side programmatic platform operating under the trademarked banner of Colossus SSP™ ("Colossus SSP"). Colossus SSP is a stand-alone tech-enabled, data-driven sell-side platform ("SSP") that helps deliver targeted advertising to diverse and multicultural audiences, including African Americans, Latin Americans, Asian Americans and LGBTQIA+ customers, as well as other specific audiences.

Providing both the front-end, buy-side advertising businesses coupled with our proprietary sell-side business, 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 is evaluated regularly by our chief operating decision maker in deciding how to allocate resources and assessing performance. Our chief operating decision maker is our Chairman and Chief Executive Officer. We view our business as two reportable segments, buy-side advertising, which includes the results of Huddled Masses and Orange142, and sell-side advertising, which includes the results of Colossus Media.

Key Factors Affecting Our Performance

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

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 approximately 227 small and mid-sized clients annually, 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”)), energy, consumer packaged goods, healthcare, education, 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 our 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 on an annual basis during the six months ended June 30, 2023. In addition, we cultivate client relationships through our pipeline of managed and moderate/self-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, as well as the needs necessitated by the COVID-19 pandemic, 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 general, the advertising industry experiences seasonal trends that affect the vast majority of participants in the digital marketing ecosystem. Our buy-side advertising revenue is weighted to DMOs and historically, marketing spend is higher in the second and third quarters of our fiscal year with the increase in marketing spend taking place over the summer months. As a result, the fourth and first quarters tend to reflect lower activity levels and lower revenue. We generally expect these seasonality trends to continue and our ability to effectively manage our resources in anticipation of these trends may affect our operating results.

Sell-side advertising business

Increasing revenue from publishers and advertising spend from buyers

Colossus Media operates our proprietary sell-side programmatic platform operating under the trademarked banner of Colossus SSP. The buyers on our platform include DSPs, agencies and individual advertisers. We have broad exposure to the ecosystem of buyers, reaching on average approximately 136,000 advertisers per month in the six months ended June 30, 2023, an increase of 72% over the 79,000 advertisers per month in the six months ended June 30, 2022. 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 buyers. 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 have broad exposure to the ecosystem of buyers, which has generally increased since the formation of Colossus Media in September 2017. Our growing sales team seeks to increase our business with the addition of new and existing publishers as well as by increasing our universe of buyers. In addition, 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 to publisher customers including our header bidding management, identity, and audience solutions. Our business 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 clients, including our large clients.

Monetizing ad impressions for publishers and buyers

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. As a result of our platform design and proactive IVT mitigation efforts, in the six months ended June 30, 2023, we determined that approximately 1% of inventory was invalid, resulting in minimal financial impact to our customers. We address 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.

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 quarter 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 general, the advertising industry experiences seasonal trends that affect the vast majority of participants in the digital marketing ecosystem. 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. As a result, the first quarter tends to reflect lower activity levels and lower revenue. We generally expect these seasonality trends to continue and our ability to effectively manage our resources in anticipation of these trends may affect our operating results.

Components of Our Results of Operations

Revenue

On the buy-side advertising segment, we generate revenue from clients that enter into agreements with us to provide digital marketing and media services to purchase digital advertising space, data, and other add-on features. On the sell-side advertising segment, we generate revenue from publishing clients by selling their advertising inventory to national and local advertisers.

We report revenue on a gross basis inclusive of all supplier costs because we bear the full obligation of any costs to provide our services. 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 Policies and Estimates."*

Cost of revenues

Cost of revenues for our buy-side advertising segment consists primarily of digital media fees, third-party platform access fees, and other third-party fees associated with providing services to our customers. For the 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.

Operating expenses

Operating expenses consist of compensation expenses related to our executive, sales, finance, and administrative personnel (including salaries, commissions, bonuses, stock-based compensation, benefits, and taxes), general and administrative expenses for rent expense, professional fees, independent contractor costs, selling and marketing fees, and administrative and operating system subscription costs, insurance, as well as amortization expense related to our intangible assets.

Other income (expense)

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*." In connection with the acquisition of Orange142, we issued mandatorily redeemable non-participating preferred A and B units, and the value of these units was classified as a liability, and the corresponding distributions were recognized as interest expense for the six months ended June 30, 2022. The preferred A and B units were fully redeemed as of March 31, 2022.

Contingent 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.

Loss on early redemption of non-participating preferred units. In February 2022, we redeemed the non-participating Class B Preferred Units and recognized a loss on the redemption of $590,689 in connection with the write-off of the fair value associated with the units.

Table of Contents

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2023 and 2022

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

	For the Three Months Ended June 30, 2023	For the Three Months Ended June 30, 2022	Change Amount	Change %	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022	Change Amount	Change %
Revenues								
Buy-side advertising	$ 11,803,092	$ 9,321,267	$ 2,481,825	27 %	$ 19,242,758	$ 15,152,308	$ 4,090,450	27 %
Sell-side advertising	23,600,708	11,940,041	11,660,667	98 %	37,383,952	17,479,337	19,904,615	114 %
Total Revenues	35,403,800	21,261,308	14,142,492	67 %	56,626,710	32,631,645	23,995,065	74 %
Cost of revenues								
Buy-side advertising	4,587,897	3,154,471	1,433,426	45 %	7,537,050	5,223,817	2,313,233	44 %
Sell-side advertising	20,743,266	9,771,017	10,972,249	112 %	32,583,972	14,291,209	18,292,763	128 %
Total cost of revenues	25,331,163	12,925,488	12,405,675	96 %	40,121,022	19,515,026	20,605,996	106 %
Gross profit	10,072,637	8,335,820	1,736,817	21 %	16,505,688	13,116,619	3,389,069	26 %
Operating expenses	7,818,189	5,271,673	2,546,516	48 %	14,392,579	9,467,601	4,924,978	52 %
Income from operations	2,254,448	3,064,147	(809,699)	(26)%	2,113,109	3,649,018	(1,535,909)	(42)%
Other expense	(985,180)	(363,108)	(622,072)	(171)%	(2,252,423)	(1,619,602)	(632,821)	(39)%
Income (loss) before taxes	1,269,268	2,701,039	(1,431,771)	(53)%	(139,314)	2,029,416	(2,168,730)	(107)%
Tax expense (benefit)	74,312	86,676	(12,364)	(14)%	(336)	86,676	(87,012)	100 %
Net income (loss)	$ 1,194,956	$ 2,614,363	$ (1,419,407)	(54)%	$ (138,978)	$ 1,942,740	$ (2,081,718)	(107)%
Adjusted EBITDA (1)	$ 3,059,679	$ 3,568,009	$ (508,330)	(14)%	$ 3,607,653	$ 4,689,316	$ (1,081,663)	(23)%

(1) Adjusted EBITDA is a non-GAAP financial measure. 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 (loss) see " – *Non-GAAP Financial Measures*."

Revenues

Our revenues increased from $21.3 million for the three months ended June 30, 2022 to $35.4 million for the three months ended June 30, 2023, an increase of $14.1 million or 67%. Buy-side advertising revenue increased $2.5 million, or 27%, primarily due to expanded spending from our existing customer base as well as new middle market client spending. Sell-side advertising revenue increased $11.7 million, or 98% over the 2022 three-month results, due to a continued increase in impression inventory, as well as increased publisher engagement across general market and underrepresented publisher communities.

Our revenues increased from $32.6 million for the six months ended June 30, 2022 to $56.6 million for the six months ended June 30, 2023, an increase of $24.0 million or 74%. Buy-side advertising revenue increased $4.1 million, or 27%, primarily due to expanded spending from our existing customer base as well as new middle market client spending. Sell-side advertising revenue increased $19.9 million, or 114% over the 2022 six-month results, due to a continued increase in impression inventory, as well as increased publisher engagement across general market and underrepresented publisher communities.

Cost of revenues

Along with the increase in revenues across both segments, we correspondingly experienced an increase in cost of revenues from $12.9 million for the three months ended June 30, 2022 to $25.3 million for the three months ended June 30, 2023, an increase of

$12.4 million, or 96%. Buy-side advertising cost of revenues increased $1.4 million to $4.6 million, or 39% of revenue, for the three months ended June 30, 2023, compared to $3.2 million, or 34% of revenue, for the three months ended June 30, 2022. Sell-side advertising cost of revenues increased $11.0 million, to $20.7 million, or 88% of revenue for the three months ended June 30, 2023, compared to $9.8 million, or 82% of revenue, for the same period in 2022. The increase in sell-side advertising costs was primarily due to the related increase in revenue, while the 6% 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 to support the growth as well as the mix and concentration of publishers and the related costs.

Cost of revenues increased from $19.5 million for the six months ended June 30, 2022 to $40.1 million for the six months ended June 30, 2023, an increase of $20.6 million, or 106%. Buy-side advertising cost of revenues increased $2.3 million to $7.5 million, or 39% of revenue, for the six months ended June 30, 2023, compared to $5.2 million, or 34% of revenue, for the six months ended June 30, 2022. Sell-side advertising cost of revenues increased $18.3 million, to $32.6 million, or 87% of revenue for the six months ended June 30, 2023, compared to $14.3 million, or 82% of revenue, for the same period in 2022. The increase in costs was primarily due to the related increase in revenue, while the 5% 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 to support the growth as well as the mix and concentration of publishers and the related costs. We expect these higher costs to continue in future fiscal periods.

Gross profit

Gross profit also increased in the three months ended June 30, 2023 to $10.1 million, or 28% of revenue, compared to $8.3 million, or 39% of revenue, for the three months ended June 30, 2022, an increase of $1.7 million or 21%. Gross profit increased in the six months ended June 30, 2023 to $16.5 million, or 29% of revenue, compared to $13.1 million, or 40% of revenue, for the six months ended June 30, 2022, an increase of $3.4 million or 26%. The change in margin for the three and six months ended June 30, 2023 is attributable to the mix in revenue between our business segments as well as the additional fixed costs related to an increase in server capacity. Our sell-side segment, whose revenues grew as a percentage of our overall revenue, has a lower gross margin than our buy-side segment.

Buy-side advertising gross profit increased $1.0 million and $1.8 million for the three and six months ended June 30, 2023, respectively, as compared to the same period in the prior year, primarily due to higher revenue. Buy-side advertising gross margin was 61% for the three and six months ended June 30, 2023 compared to gross margin of 66% for the three and six months ended June 30, 2022. Buy-side gross margin decreased in 2023 to a level the Company believes is sustainable reflecting strategic efforts by the Company to ensure customer retention and increase revenue per customer. Sell-side advertising gross profit increased $0.7 million and $1.6 million for the three and six months ended June 30, 2023, respectively, as compared to prior year, primarily due to the increase in revenue. Sell-side advertising gross margin was 12% and 13% for the three and six months ended June 30, 2023 compared to gross margin of 18% for the three and six months ended June 30, 2022. Sell-side gross margin in 2023 was negatively impacted by additional fixed costs of approximately $0.6 million incurred in the three months ended June 30, 2023 related to an increase in server capacity to support our growth. About half of these incremental costs are expected to continue each quarter through March 2024.

Operating expenses

The following table sets forth the components of operating expenses for the periods presented.

	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
Compensation, tax and benefits	$ 4,553,029	$ 3,494,692	$ 1,058,337	30 %	$ 8,187,325	$ 6,049,728	$ 2,137,597	35 %
General and administrative	3,265,160	1,776,981	1,488,179	84 %	6,205,254	3,417,873	2,787,381	82 %
Total operating expenses	$ 7,818,189	$ 5,271,673	$ 2,546,516	48 %	$ 14,392,579	$ 9,467,601	$ 4,924,978	52 %

Compensation, taxes and benefits

Compensation, taxes and benefits increased from $3.5 million for the three months ended June 30, 2022 to $4.6 million in for the three months ended June 30, 2023, an increase of $1.1 million, or 30%. The increase is due to headcount additions primarily in shared services to support our public company infrastructure and growth as well as $0.3 million for severance.

Compensation, taxes and benefits increased from $6.0 million for the six months ended June 30, 2022 to $8.2 million in for the six months ended June 30, 2023, an increase of $2.1 million, or 35%. The increase is due to headcount additions primarily in our operations area to support our growth as well as in our shared services to support our public company infrastructure, bonus expense and severance of $0.3 million. In connection with our IPO, the Company adopted the 2022 Omnibus Incentive Plan ("2022 Omnibus Plan") to facilitate the grant of equity awards to our employees, consultants and non-employee directors. On June 10, 2022, March 20, 2023 and June 10, 2023, our board of directors granted stock options and restricted stock units ("RSUs") to certain of our employees and non-employee directors. The increase in compensation, taxes and benefits expense related to stock options and RSUs granted was $0.2 million and $0.3 million for the three and six months ended June 30, 2023, respectively. We expect to continue to invest in corporate infrastructure and incur additional expenses associated with our transition to and operation as a public company, including increased compensation associated with additional headcount to support our sales initiatives.

General and administrative expenses

General and administrative ("G&A") expenses increased from $1.8 million for the three months ended June 30, 2022 to $3.3 million for the three months ended June 30, 2023. G&A expenses as a percentage of revenue was 9% and 8%, respectively, for the three months ended June 30, 2023 and 2022.

The increase in G&A costs during the three months ended June 30, 2023 was primarily due to costs associated with supporting our growth and ongoing marketing initiatives. During the three months ended June 30, 2023, we incurred higher professional fees, sales and marketing expenses including investor and public relations costs and travel expenses. We expect to continue to invest in and incur additional expenses as we grow, including increased professional fees, investment in automation, and compliance costs associated with developing the requisite infrastructure required for internal controls.

G&A expenses increased from $3.4 million for the six months ended June 30, 2022 to $6.2 million for the six months ended June 30, 2023. G&A expenses as a percentage of revenue was 11% and 10%, respectively, for the six months ended June 30, 2023 and 2022.

The increase in G&A costs during the six months ended June 30, 2023 was primarily due to costs associated with our transition to and operation as a public company as of February 2022. During the six months ended June 30, 2023, we incurred higher professional fees, sales and marketing expenses including investor and public relations costs, travel expenses and insurance. We also completed the transition of our servers for Colossus Media to HPE Greenlake and incurred higher consulting and transition costs for this one-time project. We expect to continue to invest in and incur additional expenses associated with our transition to operating as a public company, including increased professional fees, investment in automation and compliance costs associated with developing the requisite infrastructure required for internal controls.

Other income (expense)

The following table sets forth the components of other income (expense) for the periods presented.

	For the Three Months Ended June 30,		Change		For the Six Months Ended June 30,		Change	
	2023	2022	Amount	%	2023	2022	Amount	%
Interest expense	(1,027,493)	(650,251)	(377,242)	58 %	(2,044,794)	(1,364,038)	(680,756)	50 %
Contingent loss on early termination of line of credit	—	—	—	nm	(299,770)	—	(299,770)	nm
Loss on early redemption of non-participating preferred units	—	—	—	nm	—	(590,689)	590,689	(100)%
Forgiveness of Paycheck Protection Program loan	$ —	$ 287,143	$ (287,143)	(100)%	$ —	$ 287,143	$ (287,143)	(100)%
Other income	42,313	—	42,313	nm	$ 92,141	$ 47,982	$ 44,159	92 %
Total other expense	$ (985,180)	$ (363,108)	$ (622,072)	171 %	$ (2,252,423)	$ (1,619,602)	$ (632,821)	39 %

nm – not meaningful

Other expense for the three months ended June 30, 2023 primarily consists of $1.0 million of interest expense. Other expense for the three months ended June 30, 2022 is comprised of $0.7 million of interest expense, partially offset by forgiveness of the PPP loan.

Other expense for the six months ended June 30, 2023 primarily consists of $2.0 million of interest expense and $0.3 million related to the contingent loss on early termination of the line of credit with SVB. Other expense for the six months ended June 30, 2022 is comprised of $1.4 million of interest expense and $0.6 million associated with the loss on the early redemption of DDH LLC's previously outstanding Class B Preferred Units partially offset by other income and forgiveness of the PPP loan.

Interest expense increased for the three months ended June 30, 2023 to $1.0 million compared to $0.7 million for the three months ended June 30, 2022. Interest expense increased for the six months ended June 30, 2023 to $2.0 million compared to $1.4 million for the six months ended June 30, 2022. The increase in interest expense in the three and six months period is due to an additional $4.3 million in borrowings in July 2022 under the 2021 Credit Facility, as amended by the Term Loan Amendment, as well as higher interest rates.

Liquidity and Capital Resources

The following table summarizes our cash and cash equivalents, working capital, and availability under our Revolving Credit Facility (as defined below) on June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Cash and cash equivalents	$ 5,668,479	$ 4,047,453
Working capital	$ 5,871,607	$ 5,712,680

We anticipate funding our operations for the next twelve months using available cash and cash flow generated from operations and borrowings under the 2023 Credit Facility, as defined below. As of June 30, 2023 and December 31, 2022, we had cash and cash equivalents of approximately $5.7 million and $4.0 million, respectively. On July 7, 2023, the Company entered into a Credit Agreement (the "Credit Agreement"), by and among East West Bank ("EWB"), as lender, and the Company and its subsidiaries, as borrowers.

Based on our expectations of continued growth in revenue and cash generated from operations in the coming year, the available cash held by us, and the amounts we may borrow under the Credit Agreement executed in July 2023, we believe that we will have sufficient cash resources to finance our operations and service any maturing debt for at least the next twelve months following the issuance of this Quarterly Report on Form 10-Q. To fund our operations and service our debt thereafter, depending on our growth and results of operations, we may have to raise additional capital through the issuance of additional equity and/or debt, which could have the effect of diluting our stockholders. Any equity or debt financings, if available at all, may be on terms which are not favorable to us. As our debt or 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 Agreement entered into on July 7, 2023

On July 7, 2023, the Company entered into the Credit Agreement which provides for a revolving 2023 Credit Facility (the "2023 Credit Facility") in the original principal amount of up to $5 million, subject to a borrowing base determined based on eligible accounts, and an up to $5 million uncommitted incremental revolving facility. Loans under the 2023 Credit Facility mature on July 7, 2025 (the "Maturity Date"), unless the 2023 Credit Facility is otherwise terminated pursuant to the terms of the Credit Agreement.

Borrowings under the 2023 Credit Facility bear interest at a rate per annum equal to the one-month Term Secured Overnight Financing Rate, as administered by the CME Group Benchmark Administration Limited ("CBA") (or a successor administrator of the secured overnight financing rate) and displayed by Bloomberg LP (or any successor thereto, or replacement thereof, as approved by EWB) 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 2023 Credit Facility in whole or in part, without fee, penalty or premium. All accrued but unpaid interest on outstanding advances under the Credit Agreement is 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 Company and the other borrowers are 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 3.50 to 1.00 as of the last day of each fiscal quarter from June 30, 2023 through December 31, 2023, 3.25 to 1.00 as of the last day of each fiscal quarter from March 31, 2024 through March 31, 2025 and 3.00 to 1.00 as of the last day of each fiscal quarter from June 30, 2025 and thereafter; and (iii) a liquidity covenant requiring the Company and the other borrowers to maintain minimum liquid assets at all times (calculated using unencumbered cash and cash equivalents and marketable securities), in one or more accounts held with EWB plus Revolving Credit Availability in the amount of $1,000,000. 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 obligations under the 2023 Credit Facility are secured by all or substantially all of the borrowers' assets.

The Credit Agreement contains customary representations and warranties and includes affirmative and negative covenants applicable to the borrowers thereto 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.

Credit Facilities as of June 30, 2023

On December 3, 2021, DDH LLC entered into the Term Loan and Security Agreement (the "2021 Credit Facility") with Lafayette Square Loan Servicing, LLC ("Lafayette Square"), as administrative agent, and the various lenders thereto. The term loan under the 2021 Credit Facility provides for a term loan in the principal amount of up to $32.0 million, consisting of a $22.0 million closing date term loan and an up to $10.0 million delayed draw term loan (the "Delayed Draw Loan"). The loans under the 2021 Credit Facility bear interest at a rate per annum equal to LIBOR plus the applicable margin minus any applicable impact discount. The applicable margin under the 2021 Credit Facility as amended by the Term Loan Amendment (as defined below) is determined based on the consolidated total net leverage ratio of the Company and its consolidated subsidiaries, at a rate of 7.00% per annum if the consolidated total net leverage ratio is less than 1.00 to 1.00 and up to 10.00% per annum if the consolidated total net leverage ratio is greater than 3.50 to 1.00. The applicable impact discount under the 2021 Credit Facility is a discount of 0.05% per annum based upon DDH LLC's participation in each of certain services intended to improve overall employee satisfaction and retention plus an additional discount of 0.05% per annum to the extent that DDH LLC maintains a B Corp certification by Standards Analysts at the non-profit B Lab (or a successor certification or administrator). On June 1, 2023, the Company entered into an agreement with Lafayette Square to convert the existing LIBOR-based rate to a Term SOFR Rate with a credit spread of 0.15% per annum for the interest periods of three months and provides 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 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 (the "Term Loan Amendment") and received proceeds of $4,260,000 borrowed under the Delayed Draw Loan to pay the balance owed on the common unit redemption as well as costs associated with the transaction.

Pursuant to the Term Loan Amendment, DDH LLC will indemnify the Company from and against any claims, losses, expenses and other liabilities incurred by the Company arising from the Company's guarantor obligations under the 2021 Credit Facility and related term loan documents. The Delayed Draw Loan is required to be repaid in quarterly installments payable on the last day of each fiscal quarter in an amount equal to (i) commencing with the fiscal quarter ending December 31, 2022 through and including the fiscal quarter ending December 31, 2023, $26,250, and (ii) commencing March 31, 2024 and continuing on the last day of each fiscal quarter thereafter, $52,500, with a final installment due December 3, 2026 in an amount equal to the remaining entire principal balance thereof. After giving effect to the Delayed Draw Loan on the effective date of the Term Loan Amendment, no additional delayed draw loans will be available under the 2021 Credit Facility.

The obligations under the 2021 Credit Facility are secured by senior, first-priority liens on all or substantially all assets of DDH LLC and its subsidiaries and are guaranteed by the subsidiaries of DDH LLC and include a pledge and guarantee by the Company. As of June 30, 2023, the Company owed a balance on the 2021 Credit Facility of $25,356,250. The 2021 Credit Facility contains affirmative and negative covenants that, among other things, require the Company to maintain a net leverage ratio of no more than 3.50 to 1.00 as of the last day of each fiscal quarter through December 31, 2023, as adjusted thereafter, and 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, 2023.

Consolidated Statement of Cash Flow Data:

	For the Six Months Ended June 30,	
	2023	2022
Net cash provided by operating activities	$ 3,182,591	$ 73,514
Net cash used in investing activities	(136,978)	—
Net cash provided by (used in) financing activities	(1,424,587)	157,870
Net increase in cash and cash equivalents	$ 1,621,026	$ 231,384

Cash Flows Provided by Operating Activities

Our cash flows from operating activities are primarily influenced by growth in our operations, increases or decreases in collections from our customers and related payments to our buyers and suppliers of advertising media and data. Cash flows from operating activities have been affected by changes in our working capital, particularly changes in accounts receivable, accounts payable and accrued liabilities. The timing of cash receipts from customers and payments to suppliers can significantly impact our cash flows from operating activities. We typically pay suppliers in advance of collections from our customers, but our collection and payment cycles can vary from period to period. In addition, we expect seasonality to impact cash flows from operating activities on a quarterly basis.

For the Six Months Ended June 30, 2023 and 2022

Cash flows from operating activities increased from $0.1 million for the six months ended June 30, 2022 to $3.2 million for the six months ended June 30, 2023. The period-over-period increase in cash from operations of $3.1 million was primarily due to a $3.7 million increase for changes in accounts receivable, a $2.3 million increase related to changes in accounts payable, and a $1.3 million increase for changes in deferred revenue related to the increase in revenue and timing of payments received and made. This is partially offset by a $2.1 million decrease in net income and a $1.4 million decrease related to changes in accrued liabilities.

Cash Flows from Investing Activities

For the Six Months Ended June 30, 2023 and 2022

During the six months ended June 30, 2023, the Company acquired property, equipment and software for $136,979.

Cash Flows Provided by (Used in) Financing Activities

For the Six Months Ended June 30, 2023 and 2022

Our financing activities consist primarily of distributions to DDH LLC members, payments under our notes payable, and during 2022, net proceeds from our IPO as well as the redemption payments for DDH LLC's common units and Class B Units held by USDM Holdings, Inc. Net cash provided by financing activities has been and will be used to finance our operations, including our investment in people and infrastructure, to support our growth.

During the six months ended June 30, 2023, net cash used in financing activities increased by $1.6 million, from $0.2 million provided by financing activities for the six months ended June 30, 2022 to $1.4 million used in financing activities for the six months ended June 30, 2023. During the six months ended June 30, 2023, we made distributions to members of $0.8 million, payments on the Revolving Credit Facility of $0.3 million, and payments of $0.2 million in deferred financing costs.

During the six months ended June 30, 2022, we received net proceeds of $11.2 million related to our issuance of Class A common stock in our initial public offering and used a portion of the proceeds to redeem the common units and Preferred B units held by USDM Holdings, Inc. for approximately $10.3 million. Also, during the six months ended June 30, 2022, we made payments of $0.3 million on the 2021 Credit Facility, distributions to members of $0.3 million and payments of $0.2 million in deferred financing costs.

Contractual Obligations and Future Cash Requirements

As of June 30, 2023, our principal contractual obligations expected to give rise to material cash requirements consist of non-cancelable leases for our various facilities and the 2021 Credit Facility. We lease furniture and office space in Houston and Austin from an unrelated party under non-cancelable operating leases dating through February 2030. These leases will require minimum payments of $74,502 in 2023, $110,215 in 2024, $156,077 in 2025, $159,755 in 2026, $163,474 in 2027 and $366,830 thereafter. We anticipate that the future minimum payments related to our current indebtedness over the next five years will be $327,500 in 2023, $1.3 million in 2024, $1.3 million in 2025, $22.4 million in 2026, $3,337 in 2027 and $142,975 thereafter, assuming we do not refinance our indebtedness. We believe our cash on hand in addition to our cash generated by operations will be sufficient to cover these obligations as well as the future cash requirements of being a public company.

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 contingent loss on early termination of line of credit, loss on early redemption of non-participating preferred units, stock-based compensation and forgiveness of PPP loan (“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 income for each of the periods presented:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	$ 1,194,956	$ 2,614,363	$ (138,978)	$ 1,942,740
Add back (deduct):				
Interest expense	1,027,493	650,251	2,044,794	1,364,038
Stock-based compensation	209,475	15,407	304,014	15,407
Amortization of intangible assets	488,455	488,455	976,909	976,909
Depreciation and amortization of property and equipment	64,988	—	121,480	—
Contingent loss on early termination of line of credit	—	—	299,770	—
Tax expense (benefit)	74,312	86,676	(336)	86,676
Forgiveness of PPP loan	—	(287,143)	—	(287,143)
Loss on early redemption of non-participating preferred units	—	—	—	590,689
Adjusted EBITDA	$ 3,059,679	$ 3,568,009	$ 3,607,653	$ 4,689,316

In addition to operating income and net income (loss), 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, and certain one-time items such as acquisition transaction costs 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 Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2023, as compared to the critical accounting policies and estimates referred in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the "Annual Report").

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements for recently adopted accounting pronouncements and recently issued 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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Interim Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, our management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of June 30, 2023. Based upon that evaluation, the CEO and CFO have concluded that, as of such date, based on the identification of the material weakness described below, our disclosure controls and procedures were not effective.

Management's Annual Report on Internal Control Over Financial Reporting

Direct Digital's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed 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. This includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (2) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) 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 our financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2023. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO) in Internal Control-Integrated Framework. Based on this assessment and those criteria, management concluded that our internal control over financial reporting was not effective as of June 30, 2023.

We identified a material weakness in our controls over completeness of revenue as of December 31, 2022 that still existed as of June 30, 2023. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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 weakness is a result of our processes and related controls not operating effectively to properly recognize revenue on a timely basis. As further detailed in the 2022 Annual Report in Note 16 – Revision of Previously Issued Financial Information (Unaudited), the Company identified digital advertising transactions performed by its sell-side advertising business for which invoices were not sent to a particular, individual customer during the period from August 1, 2022 through December 31, 2022. Billing procedures related to that particular customer were modified effective August 1, 2022, and, as a result, these transactions were not captured in our standard invoicing and revenue recognition procedures.

There were no material misstatements as a result of this material weakness; however, it could have resulted in understated revenue that 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 weakness, we have concluded that our internal control over financial reporting was not effective as of June 30, 2023.

Management's Plan to Remediate the Material Weakness

Management has implemented remediation steps to address the material weakness and to improve our internal control over revenue recognition. Specifically, we have improved our review process including the reconciliation and documentation of the demand-side platform reports to our sell-side platform data, as well as improved contract management and review processes. In addition, the Company has engaged outside consultants to review business process analysis and flow of data to the accounting software platform and financial reporting.

While the Company has implemented remediation steps, the material weakness 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 weakness in our internal control 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.

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, we are not a party to any material legal or administrative proceedings. There are no 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.

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

None.

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	
10.1	Early Opt-in Election, dated June 1, 2023, by and among Direct Digital Holdings, Inc., Direct Digital Holdings, LLC, Huddled Masses LLC, Colossus Media, LLC, Orange142, LLC, Lafayette Square Loan Servicing, LLC and Lafayette Square USA, Inc.	8-K	001-41261	June 6, 2023	10.1	
10.2	Credit Agreement, dated July 7, 2023, by and among Direct Digital Holdings, Inc., Direct Digital Holdings, LLC, Huddled Masses LLC, Colossus Media, LLC, and Orange142, LLC, as borrowers, and East West Bank, as lender.	8-K	001-41261	July 12, 2023	10.1	
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: August 11, 2023	**DIRECT DIGITAL HOLDINGS, INC.**
	By: /s/ Diana P. Diaz
	DIANA P. DIAZ
	Interim Chief Financial Officer
	(Duly Authorized Signatory, Principal Financial and Accounting Officer)

Exhibit 31.1

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: August 11, 2023

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

Exhibit 31.2

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: August 11, 2023	/s/ Diana P. Diaz
	Diana P. Diaz,
	Interim Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 32.1

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, 2023, 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: August 11, 2023

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

Exhibit 32.2

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, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Diana P. Diaz, Interim 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: August 11, 2023

/s/ Diana P. Diaz
Diana P. Diaz,
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)