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

FORM 10-Q

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2022
OR

- ☐ **TRANSITION REPORT PURSUANT 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)

1177 West Loop South, Suite 1310
Houston, Texas
(Address of principal executive offices)

83-0662116
(I.R.S. Employer
Identification No.)

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

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

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

As of November 11, 2022, there were 3,260,364 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.

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PART 1. FINANCIAL INFORMATION

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,010,796	\$ 4,684,431
Accounts receivable, net	21,388,531	7,871,181
Prepaid expenses and other current assets	696,486	1,225,447
Total current assets	<u>29,095,813</u>	<u>13,781,059</u>
Goodwill	6,519,636	6,519,636
Intangible assets, net (Note 3)	14,126,214	15,591,578
Deferred tax asset, net (Note 12)	3,160,054	—
Deferred financing costs, net	—	96,152
Operating lease right-of-use assets	840,505	—
Other long-term assets	58,279	11,508
Total assets	<u>\$ 53,800,501</u>	<u>\$ 35,999,933</u>
LIABILITIES AND STOCKHOLDERS' / MEMBERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,718,342	\$ 6,710,015
Accrued liabilities	3,599,944	1,044,907
Current portion of liability related to tax receivable agreement	183,260	—
Notes payable, current portion	655,000	550,000
Deferred revenues	1,146,186	1,348,093
Operating lease liabilities, current portion	92,473	—
Income taxes payable	94,440	—
Related party payables (Note 7)	—	70,801
Total current liabilities	<u>22,489,645</u>	<u>9,723,816</u>
Notes payable, net of short-term portion and deferred financing cost of \$2,250,171 and \$2,091,732, respectively	22,942,329	19,358,268
Mandatorily redeemable non-participating preferred units	—	6,455,562
Line of credit	—	400,000
Paycheck Protection Program loan	—	287,143
Economic Injury Disaster Loan	150,000	150,000
Liability related to tax receivable agreement, net of current portion	2,451,103	—
Operating lease liabilities, net of current portion	767,610	—
Total liabilities	<u>48,800,687</u>	<u>36,374,789</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' / MEMBERS' EQUITY (DEFICIT)		
Units, 1,000,000 units authorized at December 31, 2021; 34,182 units issued and outstanding as of December 31, 2021	—	4,294,241
Class A common stock, \$0.001 par value per share, 160,000,000 shares authorized, 3,260,364 shares issued and outstanding as of September 30, 2022	3,260	—
Class B common stock, \$0.001 par value per share, 20,000,000 shares authorized, 11,278,000 shares issued and outstanding as of September 30, 2022	11,278	—
Additional paid-in capital	7,817,283	—
Accumulated deficit	(2,832,007)	(4,669,097)
Total stockholders' / members' equity (deficit)	<u>4,999,814</u>	<u>(374,856)</u>
Total liabilities and stockholders' / members' equity (deficit)	<u>\$ 53,800,501</u>	<u>\$ 35,999,933</u>

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 September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues				
Buy-side advertising	\$ 7,130,736	\$ 6,033,883	\$ 22,283,044	\$ 19,975,235
Sell-side advertising	18,854,639	2,326,862	36,333,976	5,261,135
Total revenues	25,985,375	8,360,745	58,617,020	25,236,370
Cost of revenues				
Buy-side advertising	2,471,170	2,174,432	7,694,987	7,480,727
Sell-side advertising	16,053,461	1,951,350	30,344,670	4,348,756
Total cost of revenues	18,524,631	4,125,782	38,039,657	11,829,483
Gross profit	7,460,744	4,234,963	20,577,363	13,406,887
Operating expenses				
Compensation, taxes and benefits	3,845,918	2,235,066	9,895,646	6,131,930
General and administrative	1,770,002	1,432,985	5,187,875	4,214,229
Total operating expenses	5,615,920	3,668,051	15,083,521	10,346,159
Income from operations	1,844,824	566,912	5,493,842	3,060,728
Other income (expense)				
Other income	—	—	47,982	19,186
Forgiveness of Paycheck Protection Program loan	—	—	287,143	10,000
Gain from revaluation and settlement of seller notes and earnout liability	—	—	—	21,232
Loss on redemption of non-participating preferred units	—	—	(590,689)	—
Interest expense	(905,605)	(792,400)	(2,269,643)	(2,432,567)
Total other expense	(905,605)	(792,400)	(2,525,207)	(2,382,149)
Income before taxes	939,219	(225,488)	2,968,635	678,579
Tax expense	128,436	878	215,112	54,878
Net income (loss)	\$ 810,783	\$ (226,366)	\$ 2,753,523	\$ 623,701
Net income (loss) per common share / unit:				
Basic and Diluted	\$ 0.06	\$ (6.62)	\$ 0.23	\$ 18.25
Weighted-average number of shares of common stock / units outstanding:				
Basic and Diluted	14,545,241	34,182	11,996,969	34,182

See accompanying notes to the unaudited consolidated financial statements.

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

Nine Months Ended September 30, 2022

	Common Stock						APIC	Accumulated equity (deficit)	Members' / Stockholders' equity (deficit)
	Common Units		Class A		Class B				
	Units	Amount	Units	Amount	Units	Amount			
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)	—	—
Conversion of Class B shares to Class A common stock	—	—	100,000	100	(100,000)	(100)	—	—	—
Redemption of common units	(5,637)	(4,294,041)	—	—	—	—	(2,905,959)	—	(7,200,000)
Stock-based compensation	—	—	—	—	—	—	85,437	—	85,437
Issuance of restricted stock	—	—	374,914	375	—	—	(375)	—	—
Restricted stock forfeitures	—	—	(14,550)	(15)	—	—	15	—	—
Distributions to members	—	—	—	—	—	—	—	(916,433)	(916,433)
Additional paid-in capital related to tax receivable agreement	—	—	—	—	—	—	485,100	—	485,100
Net income	—	—	—	—	—	—	—	2,753,523	2,753,523
Balance, September 30, 2022	—	\$ —	3,260,364	\$ 3,260	11,278,000	\$ 11,278	\$ 7,817,283	\$ (2,832,007)	\$ 4,999,814

Three Months Ended September 30, 2022

	Common Stock						APIC	Accumulated equity (deficit)	Members' / Stockholders' equity (deficit)
	Common Units		Class A		Class B				
	Units	Amount	Units	Amount	Units	Amount			
Balance, June 30, 2022	—	\$ —	3,163,214	\$ 3,163	11,378,000	\$ 11,378	\$ 7,747,250	\$ (3,036,348)	\$ 4,725,443
Conversion of Class B shares to Class A common stock	—	—	100,000	100	(100,000)	(100)	—	—	—
Stock-based compensation	—	—	—	—	—	—	70,030	—	70,030
Issuance of restricted stock	—	—	11,700	12	—	—	(12)	—	—
Restricted stock forfeitures	—	—	(14,550)	(15)	—	—	15	—	—
Distributions to members	—	—	—	—	—	—	—	(606,442)	(606,442)
Net income	—	—	—	—	—	—	—	810,783	810,783
Balance, September 30, 2022	—	\$ —	3,260,364	\$ 3,260	11,278,000	\$ 11,278	\$ 7,817,283	\$ (2,832,007)	\$ 4,999,814

See accompanying notes to the unaudited consolidated financial statements.

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

Nine Months Ended September 30, 2021

	Common Units		Common Stock				APIC	Accumulated equity (deficit)	Members' / equity (deficit)
			Class A		Class B				
	Units	Amount	Units	Amount	Units	Amount			
Balance, December 31, 2020	34,182	\$ 4,294,241	—	\$ —	—	\$ —	\$ —	\$ (1,925,951)	\$ 2,368,290
Distributions to members	—	—	—	—	—	—	—	(924,695)	(924,695)
Net income	—	—	—	—	—	—	—	623,701	623,701
Balance, September 30, 2021	34,182	\$ 4,294,241	—	\$ —	—	\$ —	\$ —	\$ (2,226,945)	\$ 2,067,296

Three Months Ended September 30, 2021

	Common Units				APIC	Accumulated equity (deficit)	Members' / Stockholders' equity (deficit)
	Common Stock		Class A	Class B			
	Units	Amount	Units	Amount			
Balance, June 30, 2021	34,182	\$ 4,294,241	—	—	—	\$ (1,728,453)	\$ 2,565,788
Distributions to members	—	—	—	—	—	(272,126)	(272,126)
Net loss	—	—	—	—	—	(226,366)	(226,366)
Balance, September 30, 2021	34,182	\$ 4,294,241	—	\$ —	\$ —	\$ (2,226,945)	\$ 2,067,296

See accompanying notes to the unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2022	2021
Cash Flows Provided By Operating Activities:		
Net income	\$ 2,753,523	\$ 623,701
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	463,008	253,887
Amortization of intangible assets	1,465,364	1,465,364
Amortization of right-of-use assets	94,974	—
Stock-based compensation	85,437	—
Forgiveness of Paycheck Protection Program loan	(287,143)	(10,000)
Paid-in-kind interest	—	269,260
Deferred income taxes	(40,591)	—
Gain from revaluation and settlement of earnout liability	—	(21,232)
Loss on redemption of non-participating preferred units	590,689	—
Bad debt expense	2,717	67,541
Changes in operating assets and liabilities:		
Accounts receivable	(13,520,067)	708,025
Prepaid expenses and other assets	482,190	(491,560)
Accounts payable	10,008,327	(153,045)
Accrued liabilities	1,555,037	118,043
Income taxes payable	94,440	—
Deferred revenues	(201,907)	375,621
Operating lease liability	(75,396)	—
Related party payable	(70,801)	(964)
Net cash provided by operating activities	3,399,801	3,204,641
Cash Flows Used In Financing Activities:		
Proceeds from note payable	4,260,000	—
Payments on term loan	(412,500)	(1,206,750)
Payments on lines of credit	(400,000)	—
Payment of deferred financing costs	(525,295)	—
Proceeds from Paycheck Protection Program loan	—	287,143
Proceeds from Issuance of Class A common stock, net of transaction costs	11,167,043	—
Redemption of common units	(7,200,000)	—
Redemption of non-participating preferred units	(7,046,251)	—
Payments on seller notes and earnouts payable	—	(369,185)
Distributions to members	(916,433)	(924,695)
Net cash used in financing activities	(1,073,436)	(2,213,487)
Net increase in cash and cash equivalents	2,326,365	991,154
Cash and cash equivalents, beginning of the period	4,684,431	1,611,998
Cash and cash equivalents, end of the period	\$ 7,010,796	\$ 2,603,152
Supplemental Disclosure of Cash Flow Information:		
Cash paid for taxes	\$ 133,401	\$ 14,878
Cash paid for interest	\$ 1,744,365	\$ 3,111,628
Non-cash Financing Activities:		
Transaction costs related to issuances of Class A shares included in accrued liabilities	\$ 1,000,000	\$ —
Outside basis difference in partnership	\$ 3,234,000	\$ —
Tax receivable agreement payable to Direct Digital Management, LLC	\$ 278,900	\$ —
Tax benefit on tax receivable agreement	\$ 485,100	\$ —

See accompanying notes to the unaudited consolidated financial statements.

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

Note 1 — Organization and Description of Business

Direct Digital Holdings, Inc. and its subsidiaries, incorporated as a Delaware corporation on August 23, 2021 and 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 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 MassesTM” 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 SSPTM (“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 7 – 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, 2018
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 LGBTQ+ 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, 2021, which was filed with the SEC on March 29, 2022. In the opinion of management, the unaudited interim condensed 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 September 30, 2022, \$5,487,110 of the Company’s cash and cash equivalents exceeded the federally insured limits. 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 September 30, 2022 and December 31, 2021, the Company’s allowance for doubtful

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accounts was \$3,489 and \$40,856, 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. For the three months ended September 30, 2022, we recovered \$22,082 on receivables previously written off. Bad debt expense was \$35,724 for the three months ended September 30, 2021. Bad debt expense was \$2,717 and \$67,541 for the nine months ended September 30, 2022 and 2021, respectively.

Concentrations of credit risk

The Company has customers on both the buy-and sell-side of its business. The following table sets forth our consolidated concentration of accounts receivable:

	September 30, 2022	December 31, 2021
Customer A	85.0 %	62.9 %
Customer B	0.2 %	5.2 %

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. As of September 30, 2022 and December 31, 2021, the Company has fully depreciated all property and equipment.

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.

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 September 30, 2022, 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 September 30, 2022 and December 31, 2021, 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*, (“ASC 820-10”), 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 5 – Long-Term Debt) and incurred additional deferred financing costs of \$4,613 during the nine months ended September 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 three months ended September 30, 2022. Unamortized deferred financing costs related to the line of credit was \$0 and \$96,152 as of September 30, 2022 and December 31, 2021, respectively, and due to the revolving nature of this debt, was classified as an asset on the consolidated balance sheets.

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 \$520,682 during the nine months ended September 30, 2022. Unamortized deferred financing costs was \$2,250,171 and \$2,091,732 as of September 30, 2022 and December 31, 2021, respectively, and netted against the outstanding debt on the consolidated balance sheets.

Right-of-use assets

The Company adopted Accounting Standards Update (“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 adopted FASB ASU 2014-09, *Revenue from Contracts with Customers*, (“Topic 606”), as of January 1, 2019, for all contracts not completed as of the date of adoption and this has had no impact on the financial position or results of operations using the modified retrospective method. The Company recognizes revenue using the following five steps:

- Identification of a contract(s) with a customer;
- Identification of the performance obligation(s) in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligation(s) in the contract; and
- 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 prepayments, of \$1,146,186 and \$1,348,093 as of September 30, 2022 and December 31, 2021, 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

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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.

The Company maintains agreements with each DSP 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.

The following table sets forth our concentration of revenue sources as a percentage of total revenues on a consolidated basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Customer A	69.8 %	23.2 %	60.2 %	16.7 %
Customer I	3.9 %	12.2 %	7.7 %	4.1 %
Customer E	4.0 %	11.1 %	6.4 %	15.4 %
Customer H	3.3 %	7.5 %	2.5 %	4.3 %
Customer F	— %	— %	— %	12.7 %

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 September 30, 2022 and 2021 was \$295,794 and \$37,065, respectively and \$618,461 and \$145,609 for the nine months ended September 30, 2022 and 2021, 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 9 — Stockholders' / Members' Equity (Deficit) and Stock-Based Compensation Plans.

Income Per Share / Unit

Basic income per share / unit is calculated by dividing net income available to common stockholders by the weighted average number of shares / units 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/ unit 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 TRA, 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 TRA. 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 interests 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 the three months ended September 30, 2022, a member of DDM exchanged 100,000 Class B shares into Class A shares.

The Company applies ASC 740-10, Income Taxes ("ASC 740-10"), 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 September 30, 2022 and December 31, 2021, 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 12 – 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.

Risks and uncertainties

Management continues to evaluate the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Company's financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Liquidity and capital resources

As of September 30, 2022, the Company had cash and cash equivalents of \$7,010,796. 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 — 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 September 30, 2022 and 2021, amortization expense of \$488,455 and \$488,455, respectively, and for the nine months ended September 30, 2022 and 2021, amortization expense of \$1,465,364 and \$1,465,364, respectively, was recognized, and as of September 30, 2022 and December 31, 2021, intangible assets net of accumulated amortization was \$14,126,214 and \$15,591,578, respectively.

As of September 30, 2022, 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	(2,605,664)	(700,240)	(601,732)	(3,907,636)
Intangible assets, net	<u>\$ 10,422,656</u>	<u>\$ 2,800,960</u>	<u>\$ 902,598</u>	<u>\$ 14,126,214</u>
Estimated life (years)	10.0	10.0	5.0	
Weighted-average remaining life (years)	8.0	8.0	3.0	

	Total
2022	488,455
2023	1,953,818
2024	1,953,818
2025	1,878,602
2026	1,652,952
Thereafter	6,198,569
Total	<u>\$ 14,126,214</u>

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 4 — Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2022	December 31, 2021
Accrued compensation and benefits	\$ 2,892,783	\$ 406,510
Accrued litigation fees	493,596	501,078
Accrued expenses	200,723	123,118
Accrued interest	12,842	14,201
Total accrued liabilities	<u>\$ 3,599,944</u>	<u>\$ 1,044,907</u>

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 5 — Long-Term Debt

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 in the amount of \$4,500,000 with an initial availability of \$1,000,000 (the “Revolving Credit Facility”). On December 17, 2021, the Company amended the Revolving Credit Facility, which increased the amount of the revolving loan to \$5,000,000 with an initial availability of \$2,500,000. The loans under the Revolving Credit Facility bore interest at the LIBOR rate plus 3.5% per annum, and at December 31, 2021, the rate was 7.0% with a 0.50% unused line fee.

In connection with the amendment on December 17, 2021, the Company incurred additional deferred financing fees of \$4,613 during the nine months ended September 30, 2022. As of September 30, 2022 and December 31, 2021, the Company had outstanding borrowings under the Revolving Credit Facility of \$0 and \$400,000, respectively. On July 26, 2022, the Company repaid the outstanding balance of \$400,000 plus accrued interest and terminated the Revolving Credit Facility as of such date. During the three months ended September 30, 2022, the Company amortized the remaining deferred financing costs of \$33,434. Deferred financing costs were \$0 and \$96,152 as of September 30, 2022 and December 31, 2021, respectively, which are classified as an asset on the consolidated balance sheets.

The components of interest expense and related fees for the lines of credit are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest expense – East West Bank	\$ 3,573	\$ 9,965	\$ 23,391	\$ 28,368
Amortization of deferred financing costs	33,434	12,944	100,765	38,832
Total interest expense and amortization of deferred financing costs	<u>\$ 37,007</u>	<u>\$ 22,909</u>	<u>\$ 124,156</u>	<u>\$ 67,200</u>

Accrued and unpaid interest as of September 30, 2022 and December 31, 2021 for the Revolving Credit Facility was \$0 and \$5,553, respectively, related to the unused line fee.

2020 Term Loan Facility and 2021 Credit Facility

In conjunction with the acquisition of Orange142 on September 30, 2020, the Company entered into a loan and security agreement (the “2020 Term Loan Facility”) with SilverPeak Credit Partners, LP (“Silverpeak”) in the amount of \$12,825,000, maturing on September 15, 2023. Interest in year one was 15%, of which 12% was payable monthly and 3% was paid-in-kind (“PIK”). All accrued but unpaid interest under the 2020 Term Loan Facility was payable in monthly installments on each interest payment date, and the Company was required to repay the outstanding principal balance on January 15 and July 15 of each calendar year in an amount equal to 37.5% of excess cash flow over the preceding six calendar months until the term loan was paid in full. The remaining principal balance, and all accrued but unpaid interest was to be due on the maturity date.

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The obligations under the 2020 Term Loan Facility were secured by first-priority liens on all or substantially all assets of DDH LLC and its subsidiaries. The 2020 Term Loan Facility contained a number of financial covenants and customary affirmative covenants. In addition, the 2020 Term Loan Facility included a number of negative covenants, including (subject to certain exceptions) limitations on (among other things): indebtedness, liens, investments, acquisitions, dispositions, and restricted payments. Each of Mark Walker (“Walker”), Chairman of the Board and Chief Executive Officer, and Keith Smith (“Smith”), President, provided limited guarantees of the obligations under the 2020 Term Loan Facility.

The maturity date of the 2020 Term Loan Facility was September 15, 2023; however, 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”) and used the proceeds to repay and terminate the 2020 Term Loan Facility.

Lafayette Square

On December 3, 2021, DDH LLC entered into the 2021 Credit Facility with Lafayette Square as administrative agent, and the various lenders party 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). We expect that interest rates applicable to the 2021 Credit Facility will be modified upon the implementation of a LIBOR replacement rate that will apply to our current and future borrowings. 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 (See Note 4 – Accrued Liabilities) 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. In connection with the entry into the 2021 Credit Facility, we paid off in full and terminated the 2020 Term Loan Facility. As of September 30, 2022, the Company owed a balance on the 2021 Credit Facility of \$25,847,500. Financing costs incurred in the transaction were initially \$2,127,185 in 2021 and additional fees of \$520,682 were incurred during the nine months ended September 30, 2022. Unamortized deferred financing costs as of September 30, 2022 and December 31, 2021 were \$2,250,171 and \$2,091,732, respectively. Accrued and unpaid interest was \$0 as of September 30, 2022 and December 31, 2021.

The components of interest expense and related fees for the 2020 Term Loan Facility and 2021 Credit Facility are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest expense – SilverPeak	\$ —	\$ 483,796	\$ —	\$ 1,509,752
Interest expense – Lafayette Square	696,818	—	1,673,648	—
Amortization of deferred financing costs – Silverpeak	—	71,685	—	215,055
Amortization of deferred financing costs – Lafayette Square	128,064	—	362,243	—
Total interest expense and amortization of deferred financing costs	<u>\$ 824,882</u>	<u>\$ 555,481</u>	<u>\$ 2,035,891</u>	<u>\$ 1,724,807</u>

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 will be payable monthly beginning June 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 September 30, 2022 and December 31, 2021 was \$12,842 and \$8,647, 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 (“CARES”) 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 are forgivable after a “covered period” (eight or twenty-four weeks) as long as the borrower maintains its payroll and utilities.

The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is 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 does not apply for forgiveness, then months after the end of the covered period.

DDH LLC received the PPP-1 Loan proceeds of \$287,100 on May 8, 2020. On February 16, 2021, the remaining \$10,000 balance of the PPP-1 Loan was forgiven. In March 2021, DDH LLC applied for and received another PPP loan (the “PPP-2 Loan”) for a principal amount of \$287,143 and there are no collateral or guarantee requirements. On April 11, 2022, the balance on the PPP-2 Loan was forgiven.

As of September 30, 2022, future minimum payments related to long-term debt are as follows for the years ended December 31:

2022	\$ 163,750
2023	655,000
2024	1,310,000
2025	1,310,473
2026	1,310,473
Thereafter	21,247,804
Total	<u>25,997,500</u>
Less current portion	(655,000)
Less deferred financing costs	<u>(2,250,171)</u>
Long-term debt, net	<u>\$ 23,092,329</u>

Note 6 — Mandatorily Redeemable Preferred Units

ASC 480, *Distinguishing Liabilities from Equity*, (“ASC 480”), defines mandatorily redeemable financial instruments as any financial instruments issued in the form of shares that have an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur. A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity. Under ASC 480, mandatorily redeemable financial instruments shall be measured initially at fair value.

In connection with the acquisition of Orange142, DDH LLC issued mandatorily redeemable preferred units that are only redeemable for a fixed amount of cash at a date specific to each class. Due to the mandatory redemption feature, ASC 480 requires that these preferred units be classified as a liability rather than as a component of equity, with preferred annual returns being accrued and recorded as interest expense.

Class A Preferred Units

In connection with the Orange142 acquisition, DDH LLC issued 3,500 non-voting Class A Preferred Units at a purchase price of \$3,500,000, and a fair value of \$3,458,378. Class A Preferred Units were entitled to certain approval rights and were mandatorily redeemable for \$3,500,000 on September 30, 2022, with 10% preferred annual returns paid on a quarterly basis. Due to the mandatory redemption feature, ASC 480, requires that the Class A Preferred Units be classified as a liability rather than as a component of equity, with the preferred annual returns being accrued and recorded as interest expense.

In December 2021, DDH LLC redeemed the Class A Preferred Units and recognized a loss on the redemption of \$41,622 in connection with the write-off of the fair value associated with the units. For the nine months ended September 30, 2021, the Company recorded interest expense relating to the Class A Preferred Units of \$261,781.

Class B 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, ASC 480 requires that the Class B Preferred Units be 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 \$124,323, for the three months ended September 30, 2022 and 2021, respectively and \$62,162 and \$368,915 for the nine months ended September 30, 2022 and 2021, respectively.

Note 7 — Related Party Transactions

Related Party Transactions

Member Payable

As of December 31, 2021, the Company had a net payable to members that totaled \$70,801 pertaining to loans made to the Company by its founding members Walker and Smith during the fiscal year ending December 31, 2020. This remaining balance owed was paid to the members as of September 30, 2022.

Up-C Structure

In February 2022, the Company completed an initial public offering of its securities, and through the Organizational Transaction, formed an Up-C structure, which is often used by partnership and limited liability companies and allows DDH, the Continuing LLC Owner, a Delaware limited liability company indirectly owned by Walker and 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 “passthrough” 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 9 – Stockholders’/Members’ Equity (Deficit) 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 12 - Tax Receivable Agreement and Income Taxes).

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 September 30, 2022 and 2021, total fees paid to Walker, Smith and Woolford were \$0, \$0 and \$0, and \$103,846, \$103,846, and \$45,000, respectively. For the nine months ended September 30, 2022 and 2021, total fees paid to Walker, Smith and Woolford were \$56,250, \$56,250 and \$22,500 and \$328,846, \$328,846, and \$135,000, respectively.

Note 8 — 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 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 September 30, 2022 and December 31, 2021 (See Note 4 – Accrued Liabilities).

Office Lease

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 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

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furniture for its corporate headquarters under a lease agreement effective April 2019 and expiring July 2023. The monthly rent expense is approximately \$1,223.

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 December 31, 2023 and has a base rent of approximately \$6,700 per month.

For the three months ended September 30, 2022 and 2021, the Company incurred rent expense of \$89,452 and \$52,288, respectively, for the combined leases. For the nine months ended September 30, 2022 and 2021, the Company incurred rent expense of \$193,013 and \$165,731, respectively, for the combined leases.

Supplemental balance sheet information related to operating leases is included in the table below for the year ended September 30, 2022:

	2022
Operating lease - right-of-use asset	\$ 840,505
Operating lease liabilities - current	\$ 92,473
Operating lease liabilities - long-term	767,610
Total lease liability	\$ 860,083

The weighted-average remaining lease term for the Company's operating lease is seven years as of ended September 30, 2022, with a weighted-average discount rate of 8%.

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

2022	\$ 39,394
2023	154,490
2024	110,215
2025	156,077
2026	159,755
Thereafter	530,324
Total lease payments	1,150,255
Less imputed interest	290,172
Total lease liability	\$ 860,083

Note 9 — Stockholders' / Members' Equity (Deficit) and Stock-Based Compensation Plans

Members' Equity

Prior to the Organizational Transactions, DDH LLC was authorized to issue common units, Class A Preferred Units and Class B Preferred Units. In connection with the acquisition of Orange142, DDH LLC issued 5,637 common units, 3,500 Class A Preferred Units and 7,046 Class B Preferred Units. The common units were valued at \$4,294,041 and Class A and Class B Preferred Units were valued at a total of \$9,913,940. In December 2021, DDH LLC redeemed all of the Class A Preferred Units.

As of December 31, 2021, the total number of outstanding common units of DDH LLC was 34,182 units. The common units have voting rights, as well as certain redemption features at the option of the Company. In accordance with ASC 480, as of December 31, 2021, the Company classified the preferred units as a liability in the consolidated balance sheets.

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, a Class B common stockholder 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 September 30, 2022, 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 our Class A common stock and (ii) one warrant entitling the holder to purchase one share of our 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 may be transferred separately immediately upon issuance. At September 30, 2022, 2,800,000 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 September 30, 2022, 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 September 30, 2022.

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 September 30, 2022, and the Company intends to pay these amounts throughout the remainder of 2022. 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 amends 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 September 30, 2022:

	Warrants			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	—	\$ —	—	\$ —
Granted	3,220,000	\$ 5.50	4.38	\$ —
Exercised	—	\$ —	—	\$ —
Canceled	—	\$ —	—	\$ —
Outstanding at September 30, 2022	3,220,000	\$ 5.50	4.38	\$ —
Exercisable at September 30, 2022	3,220,000			

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 2022 Omnibus Plan reserved 1,500,000 shares of Class A common stock for issuance in equity awards. On June 10, 2022, our board of directors initially granted 264,850 stock options and 363,614 RSUs to employees and non-employee directors. Information on activity for both the stock options and RSUs is detailed below.

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As of September 30, 2022, the Company recognized \$85,437 of stock-based compensation expense in the consolidated statement of operations.

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 September 30, 2022:

	Stock Options			
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2021	—	\$ —		\$ —
Granted	276,150	\$ 1.68		\$ 280
Exercised	—	\$ —		\$ —
Forfeited	(14,550)	\$ 1.62		\$ 8,399
Outstanding at September 30, 2022	261,600	\$ —	9.7	\$ 156,178
Exercisable at September 30, 2022	—			

As of September 30, 2022, all stock options remain unvested with related unamortized stock-based compensation expense totaling \$238,527 and the weighted-average period over which such stock-based compensation expense will be recognized is 2.71 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, 2021		
Granted	374,914	\$ 1.66
Exercised	—	—
Forfeited	(14,550)	\$ 1.62
Canceled	—	—
Unvested- September 30, 2022	360,364	\$ 1.66

As of September 30, 2022, unrecognized stock-based compensation of \$539,812 related to unvested RSUs will be recognized on a straight- line basis over a period of 2.7 years.

Note 10 — Income (Loss) Per Share / Unit

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 income (loss) per share.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss) per unit attributable to stockholders/members	\$ 810,783	\$ (226,366)	\$ 2,753,523	\$ 623,701
Weighted average common shares outstanding - basic	14,545,241	34,182	11,996,969	34,182
Options to purchase common stock	—	—	—	—
Restricted stock	—	—	—	—
Weighted average common shares outstanding - diluted	14,545,241	34,182	11,996,969	34,182
Net income (loss) per share / unit, basic and diluted	\$ 0.06	\$ (6.62)	\$ 0.23	\$ 18.25

Note 11 — 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 nine months ended September 30, 2022 and 2021, the Company matching contributions were \$56,158 and \$45,400, respectively and \$159,219 and \$122,792, respectively. Additionally, the Company may make a discretionary profit-sharing contribution to the Plan. During the three and nine months ended September, 2022 and 2021, 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. 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 September 30, 2022 and December 31, 2021, the Company analyzed the incurred but not reported claims and recorded an estimated liability, as required.

Note 12 — 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 (“TRA Holders”) which provides for payment by Direct Digital Holdings, Inc. 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 Direct Digital Holdings, Inc. 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, Direct Digital Holdings, Inc. recorded \$485,100 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 three months ended September 30, 2022, a member of DDM exchanged 100,000 Class B shares into Class A shares.

As of September 30, 2022, Direct Digital Holdings, Inc. recognized a deferred tax asset from the outside basis difference in the partnership interest of \$3,234,000, and recognized the total TRA liability of \$2,748,900, with \$183,260 reflected in current liabilities based on the expected timing of our payments. The payments under the TRA will not be conditional on holder of rights under the TRA

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having a continued ownership interest in either DDH LLC or Direct Digital Holdings, Inc. 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 TRA, the Company is subject to corporation income tax on 19.7% of the taxable income, and as a result, recorded a provision for federal income tax of \$81,710 and \$168,386 for the three and nine months ended September 30, 2022, respectively. In the fiscal year ending December 31, 2021, the Company was treated as a partnership, and therefore no income tax expense was recognized.

Provision for income taxes consisted of:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Current	\$ 46,730	\$ —	\$ 94,440	\$ —
Deferred	34,980	—	73,946	—
Total provision for income taxes	<u>\$ 81,710</u>	<u>\$ —</u>	<u>\$ 168,386</u>	<u>\$ —</u>

The Company is also subject to Texas franchise taxes. Including the franchise tax, total provision for income taxes for the three months ended September 30, 2022 and 2021 was \$128,436 and \$878, respectively. For the nine months ended September 30, 2022 and 2021, the total provision for income taxes including franchise tax was \$215,112 and \$54,878, respectively.

The components of deferred tax assets are as follows:

	As of September 30, 2022	As of December 31, 2021
Outside basis difference in partnership interests in DDH, LLC	\$ 3,153,150	\$ —
Other	6,904	—
Total deferred income taxes	<u>\$ 3,160,054</u>	<u>\$ —</u>

The effective tax rate for the three and nine months ended September 30, 2022, was approximately 22%. Under the Up-C ownership structure, the Company calculates taxable income as 19.7% of consolidated net income, adjusted for temporary and permanent tax differences. The Company has recorded deferred tax assets for the outside basis difference in the partnership interest acquired in DDH, LLC and the accumulated amortization related to intangibles.

Note 13 — 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.

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Revenue by business segment is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Buy-side advertising	\$ 7,130,736	\$ 6,033,883	\$ 22,283,044	\$ 19,975,235
Sell-side advertising	18,854,639	2,326,862	36,333,976	5,261,135
Total revenues	<u>\$ 25,985,375</u>	<u>\$ 8,360,745</u>	<u>\$ 58,617,020</u>	<u>\$ 25,236,370</u>

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Buy-side advertising	\$ 1,357,635	\$ 1,096,764	\$ 5,620,194	\$ 4,705,408
Sell-side advertising	2,365,495	115,453	4,599,629	277,293
Corporate office expenses	(1,878,306)	(645,305)	(4,725,981)	(1,921,973)
Total operating income	1,844,824	566,912	5,493,842	3,060,728
Corporate other expense	(905,605)	(792,400)	(2,525,207)	(2,382,149)
Income before taxes	<u>\$ 939,219</u>	<u>\$ (225,488)</u>	<u>\$ 2,968,635</u>	<u>\$ 678,579</u>

Total assets by business segment are as follows:

	As of September 30, 2022	As of December 31, 2021
Buy-side advertising	\$ 26,454,069	\$ 25,648,105
Sell-side advertising	22,597,857	8,277,575
Corporate office expenses	4,748,575	2,074,253
Total assets	<u>\$ 53,800,501</u>	<u>\$ 35,999,933</u>

Note 14 — Subsequent Events

On November 9, 2022 the Company entered into a definitive agreement to acquire the software development rights to its proprietary supply-side platform supporting Colossus Media, LLC for a purchase price of \$500,000.

No other events occurred subsequent to the balance sheet date through the date of this report that would require recognition or disclosure.

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, 2021. 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, 2021.

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, such as the ongoing global COVID-19 pandemic;
- 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, 2021.

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. (“Holdings”) 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 LGBTQ+ 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 200 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 for 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 year ended December 31, 2021 and the nine months ended September 30, 2022. As our clients expand their usage of our technology platform, they often transition to our managed services delivery model, which in turn drives higher profitability for us, as well as increased client loyalty. 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 items:

- 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 54,000 advertisers per month in the nine months ended September 30, 2021, which increased to an average of approximately 95,000 advertisers per month in the nine months ended September 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 are providing 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 consistently 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 (or 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 MediaMath's quarterly survey, Colossus Media has consistently ranked in the top 10 among the industry's approximately 80 supply-side companies in terms of key quality measures such as transparency, fraud detection, and accountability. 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 nine months ended September 30, 2022, we determined that less than 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. For the nine months ended September 30, 2022, we processed approximately 2.6 trillion bid requests and had connections to approximately 19 DSPs.

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 expect to transition our server platform to HPE Greenlake, which we expect will provide 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.

Forgiveness of Paycheck Protection Program Loan. From time to time, we obtain loans pursuant to the Paycheck Protection Program (“PPP”), administered by the U.S. Small Business Administration (“SBA”). Forgiveness of PPP loans is recognized as a gain in the period it is granted. We received the PPP-1 Loan proceeds of \$287,100 on May 8, 2020. On February 16, 2021, the remaining \$10,000 balance of the PPP-1 Loan was forgiven. In March 2021, DDH LLC received the PPP-2 Loan proceeds of \$287,143. On April 11, 2022, the balance on the PPP-2 Loan was forgiven.

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 in accordance with Accounting Standards Codification (“ASC”) 480, *Distinguishing Liabilities from Equity*, the value of these units are classified as a liability, and the corresponding distributions are recognized as interest expense.

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.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2022 and 2021

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 September 30,		Change		For the Nine Months Ended September 30,		Change	
	2022	2021	Amount	%	2022	2021	Amount	%
Revenues								
Buy-side advertising	\$ 7,130,736	\$ 6,033,883	\$ 1,096,853	18 %	\$ 22,283,044	\$ 19,975,235	\$ 2,307,809	12 %
Sell-side advertising	18,854,639	2,326,862	16,527,777	710 %	36,333,976	5,261,135	31,072,841	591 %
Total Revenues	25,985,375	8,360,745	17,624,630	211 %	58,617,020	25,236,370	33,380,650	132 %
Cost of revenues								
Buy-side advertising	2,471,170	2,174,432	296,738	14 %	7,694,987	7,480,727	214,260	3 %
Sell-side advertising	16,053,461	1,951,350	14,102,111	723 %	30,344,670	4,348,756	25,995,914	598 %
Total cost of revenues	18,524,631	4,125,782	14,398,849	349 %	38,039,657	11,829,483	26,210,174	222 %
Gross profit	7,460,744	4,234,963	3,225,781	76 %	20,577,363	13,406,887	7,170,476	53 %
Operating expenses	5,615,920	3,668,051	1,947,869	53 %	15,083,521	10,346,159	4,737,362	46 %
Income from operations	1,844,824	566,912	1,277,912	225 %	5,493,842	3,060,728	2,433,114	79 %
Other expense	(905,605)	(792,400)	(113,205)	(14)%	(2,525,207)	(2,382,149)	(143,058)	6 %
Income before taxes	939,219	(225,488)	1,164,707	517 %	2,968,635	678,579	2,290,056	337 %
Tax expense	128,436	878	127,558	14,528 %	215,112	54,878	160,234	292 %
Net income (loss)	\$ 810,783	\$ (226,366)	\$ 1,037,149	458 %	\$ 2,753,523	\$ 623,701	\$ 2,129,822	341 %
Adjusted EBITDA (1)	\$ 2,403,309	\$ 1,055,367	\$ 1,347,942	128 %	\$ 7,092,606	\$ 4,545,278	\$ 2,547,328	56 %

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

Revenues

Our revenues increased from \$8.4 million for the three months ended September 30, 2021 to \$26.0 million for the three months ended September 30, 2022, an increase of \$17.6 million or 211%. Buy-side advertising revenue increased \$1.1 million, or 18%, primarily due to expanded spending from our existing customer base as well as new middle market client spending. Sell-side advertising revenue increased \$16.6 million, or 710% over the 2021 three-month results, due to continued revenue growth momentum from enhanced publisher partner engagement and monetization strategies, an increase in impression inventory, as well as the extension of our reach into the underserved and underrepresented publisher communities. For the three months ended September 30, 2022, the Company processed approximately 125 billion average monthly impressions through its sell-side advertising segment, an increase of 248% from the prior year.

Our revenues increased from \$25.2 million in for the nine months ended September 30, 2021 to \$58.6 million for the nine months ended September 30, 2022, an increase of \$33.4 million, or 132%. Buy-side advertising revenue increased \$2.3 million, or 12%, primarily due to expanded spending from our existing customer base as well as new middle market client spending. Sell-side advertising revenue increased \$31.1 million, or 591% over the 2021 nine-month results due to continued revenue growth momentum from enhanced publisher partner engagement and monetization strategies, an increase in impression inventory, as well as the extension of our reach into the underserved and underrepresented publisher communities. For the nine months ended September 30, 2022, the Company processed approximately 104 billion average monthly impressions, through its sell-side advertising segment, an increase of 165% from the prior year.

Cost of revenues

Along with the increase in revenues across both segments, we correspondingly experienced an increase in cost of revenues from \$4.1 million for the three months ended September 30, 2021 to \$18.5 million for the three months ended September 30, 2022, an increase of \$14.4 million or 349%. Buy-side advertising cost of revenues increased \$0.3 million to \$2.5 million, or 35% of revenue, for the three months ended September 30, 2022 due to the increase in revenue partially offset by lower media costs, compared to \$2.2 million or 36% of revenue for the three months ended September 30, 2021. Sell-side advertising cost of revenues increased \$14.1 million, to \$16.0 million, or 85% of revenue for the three months ended September 30, 2022, compared to \$2.0 million, or 84% of revenue, for the same period in 2021.

Cost of revenues increased from \$11.8 million for the nine months ended September 30, 2021 to \$38.0 million for the nine months ended September 30, 2022, an increase of \$26.2 million, or 222%. Buy-side advertising cost of revenues increased \$0.2 million to \$7.7 million, or 35% of revenue for the nine months ended September 30, 2022, compared to \$7.5 million, or 37% of revenue for the nine months ended September 30, 2021. The increase in the buy-side of cost of revenues is due to the increase in revenues partially offset by a decrease in the cost of digital media in the nine months ended September 30, 2022. Sell-side advertising cost of revenues increased \$26.0 million, to \$30.3 million, or 84% of revenue for the nine months ended September 30, 2022, compared to \$4.3 million, or 83% of revenue, for the same period in 2021.

Gross profit

Gross profit also increased in the three months ended September 30, 2022 to \$7.5 million, or 29% of revenue, compared to \$4.2 million, or 49% of revenue, for the three months ended September 30, 2021, an increase of \$3.2 million or 76%. Gross profit also increased in the nine months ended September 30, 2022 to \$20.6 million, or 35% of revenue, compared to \$13.4 million, or 53% of revenue, for the nine months ended September 30, 2021, an increase of \$7.2 million or 53%. The change in margin for the three and nine months ended September 30, 2022 is attributable to the mix in revenue between our business segments, as 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 \$0.8 million and \$2.1 million for three and nine months ended September 30, 2022, respectively, as compared to prior the same periods in the prior year. This increase is primarily due to a lower cost of media advertising, as well as higher revenue. Sell-side advertising gross profit increased \$2.5 million and \$5.1 million for the three and nine months ended September 30, 2022, respectively, as compared to prior year. This increase primarily is a result of the increase in revenue since the gross margins are relatively flat period over period.

Operating expenses

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

	For the Three Months Ended September 30,		Change		For the Nine Months Ended September 30,		Change	
	2022	2021	Amount	%	2022	2021	Amount	%
Compensation, tax and benefits	\$ 3,845,918	\$ 2,235,066	\$ 1,610,852	72 %	\$ 9,895,646	\$ 6,131,930	\$ 3,763,716	61 %
General and administrative	1,770,002	1,432,985	337,017	24 %	5,187,875	4,214,229	973,646	23 %
Total operating expenses	<u>\$ 5,615,920</u>	<u>\$ 3,668,051</u>	<u>\$ 1,947,869</u>	<u>53 %</u>	<u>\$ 15,083,521</u>	<u>\$ 10,346,159</u>	<u>\$ 4,737,362</u>	<u>46 %</u>

Compensation, taxes and benefits

Compensation, taxes and benefits increased from \$2.2 million for the three months ended September 30, 2021 to \$3.8 million in for the three months ended September 30, 2022, an increase of \$1.6 million, or 72%. The increase is due to a one-time severance charge of \$0.5 million, as well as headcount additions primarily in our operations area to support our growth, and higher commission expense and bonus expense, partially offset by lower consulting expenses as a result of these consultants being converted to full-time employees.

Compensation, taxes and benefits increased from \$6.1 million for the nine months ended September 30, 2021 to \$9.9 million in for the nine months ended September 30, 2022, an increase of \$3.8 million, or 61%. The increase is due to a one-time severance charge of \$0.5 million, as well as headcount additions primarily in our operations area to support our growth, and higher commission expense and bonus expense, partially offset by lower consulting expenses as a result of these consultants being converted to full-time employees.

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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 also increased from \$1.4 million for the three months ended September 30, 2021 to \$1.8 million for the three months ended September 30, 2022. G&A expenses as a percentage of revenue was 7% for the three months ended September 30, 2022, compared to 17% for the three months ended September 30, 2021.

G&A expenses increased from \$4.2 million for the nine months ended September 30, 2021 to \$5.2 million for the nine months ended September 30, 2022. G&A expenses as a percentage of revenue was 9% for the nine months ended September 30, 2022, compared to 17% for the nine months ended September 30, 2021.

The increase in G&A costs during the three and nine months ended September 30, 2022 was primarily due to costs associated with our transition to and operation as a public company. During the three and nine months ended September 30, 2022, we invested in systems, increased insurance, incurred additional software fees, and professional fees. 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.

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, our board of directors granted stock options and restricted stock units (“RSUs”) to our employees and non-employee directors. The stock options and RSUs granted did not have a material impact to G&A expense for the three and nine months ended, September 30, 2022.

Other income (expense)

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

	For the Three Months Ended September 30,		Change		For the Nine Months Ended September 30,		Change	
	2022	2021	Amount	%	2022	2021	Amount	%
Forgiveness of Paycheck Protection Program loan	\$ —	\$ —	\$ —	nm	\$ 287,143	\$ 10,000	\$ 277,143	2,771 %
Other income	—	—	—	nm	47,982	19,186	28,796	150 %
Loss on redemption of non-participating preferred units	—	—	—	nm	(590,689)	—	(590,689)	nm
Gain from revaluation and settlement of seller notes and earnout liability	—	—	—	nm	—	21,232	(21,232)	(100)%
Interest expense	(905,605)	(792,400)	(113,205)	14 %	(2,269,643)	(2,432,567)	162,924	(7)%
Total other expense	<u>\$ (905,605)</u>	<u>\$ (792,400)</u>	<u>\$ (113,205)</u>	14 %	<u>\$ (2,525,207)</u>	<u>\$ (2,382,149)</u>	<u>\$ (143,058)</u>	6 %

nm – not meaningful

Other expense for the three months ended September 30, 2022 primarily consists of \$0.9 million of interest expense. Other expense for the three months ended September 30, 2021 is comprised of approximately \$0.8 million of interest expense.

Other expense for the nine months ended September 30, 2022 primarily consists of \$0.6 million associated with the loss on the early redemption of DDH LLC’s previously outstanding Class B Preferred Units and \$2.3 million of interest expense, partially offset by \$0.3 forgiveness of the PPP loan and other income. Other expense for the nine months ended September 30, 2021 is comprised of approximately \$2.4 million of interest expense partially offset by other income and the forgiveness of the PPP loan.

Interest expense

Interest expense increased for the three months ended September 30, 2022 to \$0.9 million compared to \$0.8 million for the three months ended September 30, 2021. The increase in interest expense in the three months period is due to the additional borrowings under

the Term Loan Amendment in July 2022. Interest expense decreased for the nine months ended September 30, 2022 to \$2.3 million compared to \$2.4 million for the nine months ended September 30, 2021. The decrease in year over year interest expense was the result of the refinancing of our debt to a lower interest rate, as well as the redemption of DDH LLC's Class A Preferred Units in December 2021 and DDH LLC's Class B Preferred Units in February 2022. This was partially offset by higher interest on the additional borrowings on the Term Loan in 2022.

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 September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 7,010,796	\$ 4,684,431
Working capital	\$ 6,606,168	\$ 4,057,243
Availability under Revolving Credit Facility	\$ —	\$ 1,798,145

We anticipate funding our operations for the next twelve months using available cash, cash flow generated from operations, and proceeds from our public offering in 2022. As of September 30, 2022 and December 31, 2021, we had cash and cash equivalents of approximately \$7.0 million and \$4.7 million, respectively, and as of December 31, 2021 we had \$1.8 million available under our Revolving Credit Facility. On July 26, 2022 we repaid the outstanding balance of \$400,000 plus accrued interest and terminated the Revolving Credit Facility as of such date. We are working with a lender on a line of credit, and expect to finalize the agreement in the fourth quarter of 2022, but there can be no assurance that we will close on such new facility in a timely basis, or at all.

Based on our expectations of continued growth in revenue and cash generated from operations in the coming year and the available cash held by us, 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. We are also seeking to secure a new source of revolving indebtedness, but there can be no assurance that we will close on such new facility in a timely basis, or at all. 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.

In conjunction with the acquisition of Orange142 on September 30, 2020, DDH LLC and each of its subsidiaries as co-borrowers entered into a loan and security agreement (the "2020 Term Loan Facility") with SilverPeak Credit Partners, LP in the amount of \$12.825 million, maturing on September 15, 2023. Interest in year one was 15%, of which 12% was payable monthly and 3% was paid-in-kind ("PIK"). All accrued but unpaid interest under the 2020 Term Loan Facility was payable in monthly installments on each interest payment date, and we were required to repay the outstanding principal balance on January 15 and July 15 of each calendar year in an amount equal to 37.5% of excess cash flow over the preceding six calendar months until the term loan was paid in full. The remaining principal balance, and all accrued but unpaid interest was to be due on the maturity date. The obligations under the 2020 Term Loan Facility were secured by first-priority liens on all or substantially all assets of DDH LLC and its subsidiaries. The 2020 Term Loan Facility contained a number of financial covenants and customary affirmative covenants. In addition, the 2020 Term Loan Facility included a number of negative covenants, including (subject to certain exceptions) limitations on (among other things): indebtedness, liens, investments, acquisitions, dispositions, and restricted payments. Each of Mark Walker ("Walker"), Chairman of the Board and Chief Executive Officer, and Keith Smith ("Smith"), President, provided limited guarantees of the obligations under the 2020 Term Loan Facility. The maturity date of the 2020 Term Loan Facility was September 15, 2023; however, 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") and used the proceeds to repay and terminate the 2020 Term Loan Facility.

Also in conjunction with the acquisition of Orange142 on September 30, 2020, DDH LLC and each of its subsidiaries as co-borrowers entered into the Revolving Credit Facility that provides for a revolving credit facility with East West Bank in the amount of \$4.5 million with an initial availability of \$1.0 million. On December 17, 2021, we amended the Revolving Credit Facility, which increased the availability to \$5.0 million with an initial availability of \$2.5 million. The loans under the Revolving Credit Facility bore interest at the LIBOR rate plus 3.5% per annum, and at September 30, 2022 and December 31, 2021, the rate was 0.0% and 7.0%, respectively, with a 0.50% unused line fee. The maturity date of the Revolving Credit Facility is September 30, 2022, however, on July 26, 2022, the Company repaid the \$400,000 that was outstanding pursuant to the Revolving Credit Facility and terminated the Revolving

Credit Facility as of such date. The Revolving Credit Facility was secured by the trade accounts receivable of DDH LLC and guaranteed by Holdings. The Revolving Credit Facility includes financial covenants, including that the Company have (i) a minimum fixed charge coverage ratio of not less than 1.25 to 1.00 as of the end of each fiscal quarter, commencing with the fiscal quarter ending September 30, 2020, (ii) a maximum total net leverage ratio of 2.50 to 1.00 for the fiscal quarters ending December 31, 2021 and September 30, 2022, and 2.25 to 1.00 for the fiscal quarters ending thereafter and (iii) a minimum liquidity amount of at least \$1.3 million for the period of December 31, 2021 to June 29, 2022 and \$1.4 million thereafter. As of each of September 30, 2022 and December 31, 2021, the Revolving Credit Facility had borrowings outstanding in the amount of \$0.0 million, and \$1.9 million of unused capacity. The Revolving Credit Facility contained customary events of default, including with respect to a failure to make payments when due, cross-default and cross-judgment default and certain bankruptcy and insolvency events. DDH LLC was in compliance with all of its financial covenants under the Revolving Credit Facility and the 2020 Term Loan Facility as of December 31, 2021, and such financial covenants were no longer binding on the Company as of September 30, 2022.

On December 3, 2021, DDH LLC entered into 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 \$32.0 million, consisting of a \$22.0 million closing date term loan and an up to \$10.0 million delayed draw term 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). We expect that interest rates applicable to the 2021 Credit Facility will be modified upon the implementation of a LIBOR replacement rate that will apply to our current and future borrowings. The maturity date of the 2021 Credit Facility is December 3, 2026.

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. The 2021 Credit Facility contains customary events of default, including with respect to a failure to make payments when due, cross-default and cross-judgment default and certain bankruptcy and insolvency events. The 2021 Credit Facility is subject to an intercreditor agreement pursuant to which the lenders under the Revolving Credit Facility have a priority lien on the trade accounts receivable of DDH LLC and its subsidiaries that constitute eligible accounts under the Revolving Credit Facility and related proceeds, and the lenders under the 2021 Credit Facility have a priority lien on all other collateral. In connection with the entry into the 2021 Credit Facility, we paid off in full and terminated the 2020 Term Loan Facility.

On July 28, 2022, the Company entered into the Second Amendment and Joinder to Term Loan and Security Agreement (the “Term Loan Amendment”) with DDH LLC, Colossus Media, Huddled Masses, Orange142, USDM, LLC, Lafayette Square, and the Lenders party thereto, pursuant to which the Company was joined as a guarantor of the obligations under the 2021 Credit Facility.

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. Additionally, under the Term Loan Amendment, DDH LLC borrowed \$4,260,000 under the Delayed Draw Loan. 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.

On July 28, 2022, DDH LLC entered into the Redemption Agreement Amendment with USDM Holdings, Inc. that amends 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, amends the remainder of the principal and interest for the Common Units Redemption Price (as defined in the Original Redemption Agreement) to be \$3,998,635.

Pursuant to the terms of the Redemption Agreement Amendment, proceeds of the Delayed Draw Loan were used to repay the outstanding balance and related expenses of the Original Redemption Agreement, as well as other transaction costs.

Consolidated Statement of Cash Flow Data:

	For the Nine Months Ended September 30,	
	2022	2021
Net cash provided by operating activities	\$ 3,399,801	\$ 3,204,641
Net cash used in financing activities	(1,073,436)	(2,213,487)
Net increase in cash and cash equivalents	\$ 2,326,365	\$ 991,154

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 Nine Months Ended September 30, 2022 and 2021

Cash flows from operating activities increased from \$3.2 million provided by operating activities for the nine months ended September 30, 2021 to \$3.4 million used in operating activities for the nine months ended September 30, 2022. The period-over-period increase of \$0.2 million was primarily due to a \$2.1 million increase in net income and \$10.0 million increase related to changes in accounts payable and \$1.6 million increase related to changes in accrued liabilities, partially offset by \$(13.5) million increase in accounts receivable related to the increase in revenue billings.

Cash Flows Used in Financing Activities*For the Nine Months Ended September 30, 2022 and 2021*

Our financing activities consist primarily of proceeds and payments under our notes payable and line of credit, proceeds from government loans, distributions to DDH LLC members, 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 nine months ended September 30, 2022, net cash used in financing activities decreased by \$1.1 million, from \$(2.2) million used in financing activities for the nine months ended September 30, 2021 to \$(1.1) million used in financing activities for the nine months ended September 30, 2022. During the nine months ended September 30, 2022, we received net proceeds of \$11.2 million related to our issuance of Class A common units and used a portion of the proceeds to redeem the common units and Preferred B units held by USDM Holdings, Inc. for approximately \$14.2 million. We also borrowed \$4.3 million under the Delayed Draw Loan during the nine months ended September 20, 2022. Also, during the nine months ended September 30, 2022, we paid \$0.4 million related to the Revolving Credit Facility, paid our quarterly debt obligation on the 2021 Credit Facility of \$0.4 million, paid additional deferred financing costs related to 2021 Credit Facility and the Revolving Credit Facility amended in late 2021 of \$0.5 million, and members of DDH LLC received tax distributions of \$0.9 million.

During the nine months ended September 30, 2021, we paid our scheduled debt obligation on the 2020 Term Loan Facility for \$(1.2) million, received \$0.3 million from the Paycheck Protection Program loan, and paid \$(0.4) million on seller notes and earnouts as well as \$(0.9) million to the members for tax distributions.

Contractual Obligations and Future Cash Requirements

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 \$39,394 in 2022, \$154,490 in 2023, \$110,215 in 2024, \$156,077 in 2025, \$159,755 in 2026 and \$530,324 thereafter. We anticipate that the future minimum payments related to our current indebtedness over the next five years will be \$163,750 in 2022, \$655,000 in 2023, \$1.3 million in 2024, \$1.3 million in 2025, \$1.3 million in 2026 and \$21.2 million thereafter, assuming we do not refinance our indebtedness or enter

into a new revolving credit facility. 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 acquisition transaction costs, forgiveness of PPP loans, gain from revaluation and settlement of seller notes and earnout liability, loss on early extinguishment of debt, loss on early redemption of non-participating preferred units, and stock-based compensation, (“Adjusted EBITDA”), a non-GAAP measure, is useful in evaluating our operating performance. The most directly comparable GAAP measure to Adjusted EBITDA is net income.

The following table presents a reconciliation of Adjusted EBITDA to net income for each of the periods presented:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Income (Loss) ^[1]	\$ 810,783	\$ (226,366)	\$ 2,753,523	\$ 623,701
Add back (deduct):				
Amortization of intangible assets	488,455	488,455	1,465,364	1,465,364
Interest expense	905,605	792,400	2,269,643	2,432,567
Tax expense	128,436	878	215,112	54,878
Stock-based compensation	70,030	—	85,438	—
Forgiveness of PPP loan	—	—	(287,163)	(10,000)
Gain on seller earnout revaluation	—	—	—	(21,232)
Loss on early redemption of non-participating preferred units	—	—	590,689	—
Adjusted EBITDA	<u>\$ 2,403,309</u>	<u>\$ 1,055,367</u>	<u>\$ 7,092,606</u>	<u>\$ 4,545,278</u>

^[1] During the three months ended September 30, 2022, we recorded a one-time severance charge of approximately \$502,000.

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

- Adjusted EBITDA is widely used by investors and securities analysts to measure a company’s operating performance without regard to items such as depreciation and amortization, interest expense, provision for income taxes, stock-based compensation, 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 three months ended September 30, 2022, 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, 2021.

Recent Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board (“FASB”). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's Consolidated Financial Statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by the transition away from reference rates expected to be discontinued to alternative reference rates. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848): Scope, to expand the scope of this guidance to include derivatives. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into on or before December 31, 2022. Management is currently evaluating the impact of this update but does not expect it to have a material impact on the Company's financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers. This ASU should be applied prospectively to acquisitions occurring on or after the effective date of December 15, 2022, and early adoption is permitted. This update is not expected to have a material impact on the Company's financial statements.

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 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 September 30, 2022. Based upon that evaluation, the CEO and CFO have concluded that our disclosure controls and procedures, as of September 30, 2022, were effective.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2022, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

ITEM 1. Legal Proceedings

We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. As of the date hereof, 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+	Second Amendment and Joinder to Term Loan and Security Agreement, dated effective as of July 28, 2022, by and among Direct Digital Holdings, LLC, as borrower, Colossus Media, LLC, Huddled Masses LLC, Orange142, LLC, Universal Standards for Digital Marketing, LLC and Direct Digital Holdings, Inc., as guarantors, Lafayette Square Loan Servicing, LLC as administrative agent, and the various financial institutions signatory to the Term Loan and Security Agreement as lenders.					X
10.2+	Second Redemption Agreement, dated as of July 28, 2022, by and between Direct Digital Holdings, LLC and USDM Holdings, Inc.					X
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

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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.

+ Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and attachments have been omitted. A copy of any omitted schedule or attachment will be furnished supplementally to the Securities and Exchange Commission upon request. Pursuant to Item 601(a)(6) of Regulation S-K, certain personally identifiable information contained in this document, marked by brackets as [***] has been omitted.

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: November 14, 2022

DIRECT DIGITAL HOLDINGS, INC.

By: /s/ Susan Echard

SUSAN ECHARD

Chief Financial Officer

(Duly Authorized Signatory, Principal Financial and Accounting Officer)

SECOND AMENDMENT AND JOINDER TO TERM LOAN AND SECURITY AGREEMENT

This Second Amendment and Joinder to Term Loan and Security Agreement ("Amendment"), dated effective as of July 28, 2022 (the "Effective Date"), is entered into by and between Direct Digital Holdings, LLC, a Texas limited liability company ("Borrower"), Colossus Media, LLC, a Delaware limited liability company ("Colossus"), Huddled Masses LLC, a Delaware limited liability company ("HM"), Orange142, LLC, a Delaware limited liability company ("Orange") and Universal Standards for Digital Marketing, LLC, a Delaware limited liability company ("USDM") and together with Colossus, HM, and Orange, "Existing Guarantors" and each individually an "Existing Guarantor", Direct Digital Holdings, Inc., a Delaware corporation ("Joining Guarantor" and together with the Existing Guarantors, collectively, the "Guarantors", and each a "Guarantor" and together with Borrower, collectively, the "Credit Parties", and each a "Credit Party"), Lafayette Square Loan Servicing, LLC, as agent for the Lenders ("Agent"), and the Lenders party hereto.

RECITALS:

WHEREAS, the Borrower, the Existing Guarantors, the Lenders and Agent entered into that certain Term Loan and Security Agreement dated as of December 3, 2021 (as amended, supplemented, or otherwise modified up to the date hereof, the "Existing Loan Agreement"; the Existing Loan Agreement as may be further amended, supplemented or otherwise modified from time to time, including by this Amendment, the "Loan Agreement");

WHEREAS, the Borrower, each Existing Guarantor, Agent, and the Lenders agree to join Joining Guarantor as a Guarantor under the Loan Agreement and amend the Existing Loan Agreement as set forth herein; and

WHEREAS, Agent and the Lenders are willing to join Joining Guarantor as a Guarantor under the Loan Agreement and amend the Existing Loan Agreement under the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Credit Parties, Agent, and the Lenders hereby agree as follows:

1. **Same Terms.** The capitalized terms used in this Amendment and not defined herein shall have the same meanings as provided therefor in the Loan Agreement, unless the context hereof otherwise requires or provides.

2. **Joinder of Joining Guarantor.**

(a) Upon the effectiveness of this Amendment, (i) Joining Guarantor joins in as, assumes the duties, obligations, indebtedness, liabilities, covenants and undertakings of, adopts the role of and adopts and agrees to be bound by the obligations, liabilities of, and becomes a Guarantor and a Credit Party under the Loan Agreement and the Other Documents, and (ii) all references to any "Guarantor", the "Guarantors", and/or to any "Credit Party" or the "Credit Parties" (or similar words) contained in the Loan Agreement and the Other Documents are hereby deemed for all purposes to also refer to and include Joining Guarantor as a Guarantor or a Credit Party, as the case may be, in each case under the foregoing clauses (i) and (ii) as if Joining Guarantor was an original signatory to the Loan Agreement and the Other Documents in such capacities, and the Loan Agreement and the Other Documents are hereby deemed amended, as appropriate, to so provide.

(b) Without limiting the generality of subsection (a) above, to secure the prompt payment and performance to Agent and each Lender (and each other holder of any Obligations) of the Obligations, (i) Joining Guarantor (x) hereby assigns, pledges and grants to Agent, for its benefit and for the ratable benefit of Agent and each Lender, a continuing security interest in and Lien upon all of its Collateral, whether now owned or existing or hereafter created, acquired or arising and wheresoever located, and (y) joins in as, assumes the duties, obligations, indebtedness, liabilities, covenants and undertakings of, adopts the role of and adopts and agrees to be bound by the obligations, liabilities of, and becomes a “grantor” under the Loan Agreement (including, without limitation, Section 4.1 thereof), and (ii) all references to any “grantor” or “grantors” contained in the Loan Agreement (including without limitation Section 4.1 thereof) and the Other Documents are hereby deemed for all purposes to also refer to and include Joining Guarantor as a grantor, in each case under clauses (i) and (ii) as if Joining Guarantor was an original signatory to the Loan Agreement and the Other Documents in such capacity, and the Loan Agreement (including without limitation Section 4.1 thereof) and the Other Documents are hereby deemed amended, as appropriate, to so provide.

(c) Without limiting the generality of subsection (a) above, Joining Guarantor hereby unconditionally guarantees, as a primary obligor and not merely as a surety, jointly and severally with each other Guarantor when and as due, whether at maturity, by acceleration, by notice of prepayment or otherwise, the due and punctual performance of all Obligations (the “Joining Guarantor Obligations”), and Joining Guarantor acknowledges and agrees and accepts that its obligations and liabilities under the Loan Agreement are joint and several with those of the other Credit Parties and that such joint and several liabilities of Joining Guarantor and the other Credit Parties shall be primary and direct liabilities, constituting a guaranty of payment and not of collection, and not secondary liabilities. In connection with the foregoing, Borrower hereby indemnifies Joining Guarantor from and against any claims, demands, liabilities, obligations, losses, damages, penalties, fines, actions, judgements, suits, costs, charges, expenses and disbursements of any kind or nature whatsoever arising from or relating to any Joining Guarantor Obligations that are payable or paid by Joining Guarantor in connection with the Loan Agreement or any Other Document, and any reasonable expenses arising therefrom or with respect thereto (the “Joining Guarantor Indemnity Rights”), provided that, without the consent of the Lenders, Joining Guarantor shall not exercise or enforce the Joining Guarantor Indemnity Rights until the Obligations (other than Inchoate Obligations) have been paid in full in cash in accordance with the terms of the Loan Agreement, all of the commitments of the Lenders under the Loan Agreement have been terminated, and the Loan Agreement has been terminated.

(d) Joining Guarantor hereby reaffirms all of the covenants applicable to the Credit Parties contained in the Loan Agreement and the Other Documents and covenants to abide thereby until satisfaction in full of the Obligations.

(e) For the avoidance of doubt, each reference to “DDH and its Subsidiaries (or DDH Holdings and its Subsidiaries if applicable) on a Consolidated Basis” or substantially similar provisions set forth in the definitions of “Consolidated Excess Cash Flow”, “Consolidated Fixed Charge Coverage Ratio”, “Consolidated Taxes”, Section 1.1(c) of the Loan Agreement or any other provision of the Loan Agreement shall be deemed to refer to “DDH Holdings and its Subsidiaries on a Consolidated Basis”.

3. Delayed Draw Term Loan

(a) On the Effective Date, each Lender party hereto shall, severally and not jointly, make a Delayed Draw Term Loan equal to such Lender’s Delayed Draw Term Loan Commitment Percentage of \$4,260,000.00. The Effective Date shall be the Delayed Draw Term Loan Funding Date with respect to such Delayed Draw Term Loan. This Amendment shall be deemed to be the Delayed Draw Term Loan Request required pursuant to Section 2.1(b)(ii) of the Loan Agreement and Agent and Lenders hereby agree that (i) this Amendment satisfies the notice requirements set forth in Section 2.1(b)(ii) of the Loan Agreement, (ii) notwithstanding anything set forth in Section 2.1(b)(ii) of the Loan Agreement, the proceeds of the Delayed Draw Term Loan advanced pursuant hereto shall be used to repay in full all obligations and liabilities owing by the Credit Parties to USDM Holdings, Inc. (other than the “Surviving Covenants and Obligations” as defined therein), including without limitation, all obligations with respect to the Common Units Redemption, the Preferred A Redemption, the Preferred B Redemption and all obligations owing pursuant to the Redemption Agreement, and (iii) on the Effective Date and after giving effect to the waiver of the Existing Defaults set forth in Section 6 hereof, each of the conditions precedent set forth in Sections 8.2(a), (b), (g) and (h) of the Loan Agreement are deemed to have been satisfied.

(b) In accordance with Section 2.1(b)(iv) of the Loan Agreement, the Delayed Draw Term Loan advanced pursuant to this Amendment shall be payable, subject to acceleration upon the occurrence and during the continuance of an Event of Default under the Loan Agreement or termination of the Loan Agreement, and subject to the application of any prepayments in accordance with the terms of the Loan Agreement, in quarterly installments payable on the last day of each fiscal quarter in an amount equal to (x) commencing with the fiscal quarter ending December 31, 2022 through and including the fiscal quarter ending December 31, 2023, \$26,250.00, and (y) commencing March 31, 2024 and continuing on the last day of each fiscal quarter thereafter, \$52,500.00, with a final installment due at the end of the Term in an amount equal to the entire principal balance thereof.

(c) Notwithstanding anything to the contrary contained in the Loan Agreement, after giving effect to the Delayed Draw Term Loan made on the Effective Date, the Delayed Draw Term Loan Maximum Amount shall be equal to \$0 and Borrower shall not be permitted to request, and no Lender shall be obligated to make, any additional Delayed Draw Term Loan.

(d) The Delayed Draw Term Loan advanced on the Effective Date shall be evidenced by a Delayed Draw Term Loan Note.

4. Amendments to Existing Loan Agreement.

(a) The first paragraph and chart (but for the avoidance of doubt, not the last two paragraphs) set forth in the definition of “Applicable Margin” in Section 1.2 of the Existing Loan Agreement are hereby amended and restated to read in their entirety as follows:

“Applicable Margin” shall mean (a) as of the Second Amendment Date and through and including the date on which the quarterly financial statements of the Credit Parties on a Consolidated Basis required under Section 9.8 hereof for the fiscal quarter ending June 30, 2022 are delivered, the margin corresponding to Level V below (the date of such delivery, the “Initial Adjustment Date”), and (b) effective on the first day of the month following receipt by Agent of the quarterly financial statements of the Credit Parties on a Consolidated Basis and related Compliance Certificate required under Section 9.8 hereof for the fiscal quarter ending subsequent to the Initial Adjustment Date (such first day of the applicable month, an “Adjustment Date”), the Applicable Margin for the Term Loans shall be adjusted, if necessary, to the applicable percent per annum set forth in the pricing table below corresponding to the Consolidated Total Net Leverage Ratio for the trailing four quarter period ending on the last day of the most recently completed fiscal quarter prior to the applicable Adjustment Date:

Level	Consolidated Total Net Leverage Ratio	Applicable Margin
I	Less than or equal to 1.00 to 1.00	7.00%
II	Greater than 1.00 to 1.00 and less than or equal to 1.50 to 1.00	7.50%
III	Greater than 1.50 to 1.00 and less than or equal to 2.00 to 1.00	8.00%
IV	Greater than 2.00 to 1.00 and less than or equal to 2.50 to 1.00	8.50%
V	Greater than 2.50 to 1.00 and less than or equal to 3.00 to 1.00	9.00%
VI	Greater than 3.00 to 1.00 and less than or equal to 3.50 to 1.00	9.50%
VII	Greater than 3.50 to 1.00	10.00%

(b) The definition of “Consolidated EBITDA” in Section 1.2 of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

“Consolidated EBITDA” shall mean, for any period, for DDH Holdings and its Subsidiaries on a Consolidated Basis, an amount equal to (a) Consolidated Net Income for such period plus, (b) to the extent deducted in determining such Consolidated Net Income, the sum, without duplication, of (i) Consolidated Interest Charges during such period, (ii) all federal, state, local and/or foreign income taxes payable by DDH Holdings and its Subsidiaries during such period, (iii) depreciation expenses of DDH Holdings and its Subsidiaries during such period, (iv) amortization expenses of DDH Holdings and its Subsidiaries during such period, (v) any non-cash loss or expense resulting from any impairment charge or asset write-off or write-down related to intangible assets, long-lived assets and other assets that occurs during such period, (vi) one-time loss associated with debt refinancing, (vii) without duplication, non-recurring actual, documented legal, consulting expenses in an amount up to \$500,000 during any 12 month period, and (viii) any cash payments (including all premiums) made with respect to the Key Executive Policies required pursuant to Section 4.21, and minus (c) any extraordinary, non-recurring and/or non-cash gains or income during such period as reported in the monthly, quarterly, and annual financials of DDH Holdings and its Subsidiaries. Notwithstanding the foregoing, Consolidated EBITDA for the calendar months set forth below shall be the amount corresponding to such calendar month set forth below:

<u>Calendar Month Ended</u>	<u>Consolidated EBITDA</u>
September 30, 2020	\$597,790.00
October 31, 2020	\$255,910.00
November 30, 2020	\$209,005.00
December 31, 2020	\$430,656.00
January 31, 2021	(\$93,458.00)
February 28, 2021	\$69,508.00
March 31, 2021	\$569,059.00
April 30, 2021	\$853,598.00
May 31, 2021	\$1,088,805.00
June 30, 2021	\$1,247,474.00
July 31, 2021	\$370,733.00
August 30, 2021	\$421,366.00

(c) The following sentence shall be added to the end of the definition of “Consolidated Excess Cash Flow” in Section 1.2 of the Existing Loan Agreement:

“For the avoidance of doubt, payments with respect to Preferred Equity and obligations owing pursuant to the Redemption Agreement, in each case, made with proceeds of the Delayed Draw Term Loan advanced on the Second Amendment Date shall not be deducted in calculating Consolidated Excess Cash Flow; provided, that it is understood that the principal with respect to the Delayed Draw Term Loan shall constitute Funded Debt and the interest with respect to the Delayed Draw Term Loan shall constitute Consolidated Interest Charges.”

(d) The definition of “Fee Letter” in Section 1.2 of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

“Fee Letter” shall mean, collectively, (a) the fee letter dated the date hereof among the Borrowers and Agent, as the same may be amended, restated, supplemented or otherwise modified from time to time, and (b) the fee letter dated as of the Second Amendment Date among the Borrowers and Agent, as the same may be amended, restated, supplemented or otherwise modified from time to time.

(e) The definition of “Qualified IPO” in Section 1.2 of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

“Qualified IPO” shall mean the issuance of Equity Interests by DDH Holdings in an underwritten primary public offering which had an effective date of February 10, 2022 and closed on February 15, 2022 pursuant to a registration statement filed with the Securities and Exchange Commission in accordance with the Securities Act and pursuant to which the Reorganization Transactions occurred.

(f) The definition of “Redemption Agreement” in Section 1.2 of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

“Redemption Agreement” shall mean that certain redemption agreement dated as of November 14, 2021, by and between DDH and USDM Holdings, Inc., as amended by that certain Amendment to Redemption Agreement dated as of February 15, 2022, as further amended by that certain Second Amendment to Redemption Agreement dated as of July 28, 2022.

(g) Section 1.2 of the Existing Loan Agreement shall be amended by adding the following defined term in the appropriate alphabetical order:

“Second Amendment Date” shall mean July 28, 2022.

(h) Section 6.5(a) of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

(a) Consolidated Total Net Leverage Ratio. Cause to be maintained, when measured as of each date set forth below, a Consolidated Total Net Leverage Ratio of not more than the amount set forth opposite thereto:

<u>Measurement Dates</u>	<u>Maximum Consolidated Total Net Leverage</u>
December 31, 2021 and the last day of each Fiscal Quarter through and including December 31, 2023	3.50 to 1.00
March 31, 2024 and the last day of each Fiscal Quarter through and including March 31, 2025	3.25 to 1.00
June 30, 2025 and September 30, 2025	3.00 to 1.00
December 31, 2025 and March 31, 2026	2.75 to 1.00
June 30, 2026 and the last day of each fiscal quarter thereafter	2.50 to 1.00

(i) Clause (j) of Section 7.7 of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

(j) cash payments to the holders of DDH's Preferred Equity and cash payments with respect to obligations owing under the Redemption Agreement subsequent to a Qualified IPO to the extent made with proceeds of the Delayed Draw Term Loan made on the Second Amendment Date;

(j) Section 4.5(c) of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

(c) Notwithstanding anything contained herein to the contrary and without limiting anything contained herein, Borrower shall use commercially reasonable efforts to deliver or cause to be delivered to Agent duly executed Lien Waiver Agreements in form and substance reasonably satisfactory to Agent with respect to (w) 1177 West Loop South, Suite 1170, Houston, Texas 77027, (x) 716 Congress Avenue, Suite 100, Austin, Texas 78701, (y) each other Real Property that has Collateral with a book or fair market value (whichever is greater) in excess of \$250,000 stored or located therein and (z) upon the reasonable request of Agent, any other leased locations where corporate records are maintained.

(k) Section 4.21 of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

4.21 Promptly, but in any event within one hundred twenty (120) days after the Second Amendment Date, as further security for the payment of the Obligations and the satisfaction by Borrower of all covenants and undertakings contained in this Agreement and the Other Documents, the Borrower shall use commercially reasonable efforts to deliver, for the benefit of Agent and Lenders, a collateral assignment of a key executive life insurance policy owned by Borrower insuring the life of Keith Smith and Mark Walker in the amount of not less than \$5,000,000 for each such Person (and an aggregate amount of not less than \$10,000,000) issued by an insurer acceptable to Agent in its sole discretion (such policy, the "Key Executive Policy"), and in connection therewith, within such period, Borrower shall deliver to Agent all forms and agreements required by the insurer issuing the Key Executive Policy in order to have such assignment of the Key Executive Policy in favor of Agent, for itself and for the benefit of Lenders, acknowledged and reflected on the records of such insurer (all of which such forms shall have been executed by Borrower and any other party necessary thereto); provided, that no Default or Event of Default shall occur if the Borrower is unable to obtain coverage in the amounts or on the terms described herein or if premiums on any such policy exceed a commercially reasonable amount. Nothing contained in the foregoing or in any such forms and agreements required by the insurer shall be construed in any way to contradict or limit (but only to expand and extend) the grant of a security interest and Lien by Borrower in all now existing and hereafter arising General Intangibles and insurance policies provided for in Section 4.1 above.

(l) Section 6.16(a) of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

(a) Promptly, but in any event, not later than the Second Amendment Date, deliver or cause to be delivered to Agent (i) a joinder agreement to this Agreement fully executed by DDH Holdings, the Credit Parties and the Agent pursuant to which DDH Holdings shall become a Guarantor hereunder and become jointly and severally liable for the Obligations of the Guarantors hereunder and grant a lien and security interest in its property (to the extent such property would be included in the definition of Collateral), together with amended and restated and schedules to this Agreement, (ii) a fully executed Pledge Agreement by DDH Holdings and any Permitted Holders (other than Leah Woolford or any Person owned by Leah Woolford) owning Equity Interests of DDH, pursuant to which DDH Holdings and such Permitted Holders shall pledge all of the Equity Interests owned by such Person in DDH, (iii) such other documents (including without limitation, Control Agreements) as Agent deems necessary to grant to Agent a security interest in any property of DDH Holdings (to the extent such property would be included in the definition of Collateral), and (iv) any other documents Agent may reasonably require in connection with the forgoing, including without limitation, legal opinions, certificates, and any documentation and other information requested in connection with applicable “know your customer” and anti-money laundering rules and regulations, including the USA Patriot Act.

(m) Section 6.16(d) of the Existing Loan Agreement is hereby amended and restated to read in its entirety as follows:

(d) Deliver to Agent the Landlord Waiver Agreements as required under and in accordance with Section 4.5(c).

(n) Schedule 1.2(b) to the Existing Loan Agreement is hereby amended and restated with Schedule 1.2(b) attached to this Amendment.

5. Fees and Expenses. The Credit Parties agree to pay or reimburse Agent for all fees owing to Agent and all fees and expenses (including, without limitation, reasonable attorneys’ fees and legal expenses) incurred by Agent in connection with the preparation, negotiation and execution of this Amendment. In consideration of the agreements set forth herein, the Credit Parties agree to pay to Agent the fees set forth in the Second Amendment Fee Letter (as defined below).

6. Waiver. Certain Events of Default have occurred and are continuing under: (a) Section 10.3(a) of the Loan Agreement as a result of Borrower’s failure to satisfy the post-closing conditions set forth in Section 6.16(a) of the Loan Agreement on or prior to thirty (30) days after the Qualified IPO and (b) Article X of the Loan Agreement arising out of the failure of the issuance of Equity Interests by DDH Holdings in the primary public offering that occurred on February 10, 2022 and closed on February 15, 2022 to constitute a Qualified IPO (as defined in the Loan Agreement prior to the date hereof) (such Events of Default, the “Existing Defaults”). Subject to the terms and conditions set forth herein, Agent hereby waives the Existing Defaults. The waiver pursuant to this Section 6 is limited to its express terms. The execution, delivery and effectiveness of the waiver set forth herein shall not operate as a waiver of any other right, power or remedy of the parties to the Loan Agreement or any other document, instrument, or agreement executed in connection therewith, nor constitute a waiver of any provision contained therein. The execution, delivery and effectiveness of this waiver shall not imply in any manner that a similar waiver would be agreed to by Agent with respect to any future Default, Event of Default, breach or default under the Loan Agreement, and Agent expressly reserves the right to exercise all of its rights, powers, privileges and remedies authorized or permitted under the Loan Agreement or any Other Document, or available at law, equity or otherwise, in connection with any such future Default, Event of Default, breach or default.

7. Post Closing. No later than sixty (60) days after the Second Amendment Date (or such later date agreed to by Agent in its sole discretion), Borrowers shall (a) close a working capital revolving credit facility (and deliver to Agent fully executed copies of all definitive financing documents with respect to such working capital facility) with commitments by the lenders thereunder in an amount not less than \$5,000,000 and on such other terms substantially similar (or terms which are not more adverse in any material respect) to those set forth in the term sheet dated July 18, 2022 by and among DDH Holdings and Silicon Valley Bank, and (b) cause the agent and/or lenders, as applicable, of such working capital revolving credit facility to enter into an intercreditor agreement with Agent on terms substantially similar to those set forth in the Intercreditor Agreement.

8. Ratification. Except as expressly provided herein, each Credit Party hereby (a) ratifies the Obligations and each of the Loan Agreement and the Other Documents to which it is a party, and agrees and acknowledges that the Loan Agreement and each of the Other Documents to which it is a party shall continue in full force and effect after giving effect to this Amendment; (b) ratifies and confirms that the security instruments executed by each Credit Party, as amended hereby, are not released, diminished, impaired, reduced, or otherwise adversely affected by the Loan Agreement and continue to secure the full payment and performance of the Obligations pursuant to their terms; (c) acknowledges the continuing existence and priority of the Liens granted, conveyed, and assigned to Agent for its benefit and for the ratable benefit of each Lender, under the security instruments; and (d) agrees that the Obligations include, without limitation, the Obligations (as amended by this Amendment). Except as expressly provided herein, nothing in this Amendment extinguishes, novates or releases any right, claim, Lien, security interest or entitlement of Agent or the Lenders created by or contained in any of such documents nor is any Credit Party released from any covenant, warranty or obligation created by or contained therein.

9. Representations and Warranties. Each Credit Party hereby represents and warrants to Agent that (a) this Amendment has been duly authorized, executed, and delivered by each Credit Party; (b) no action of, or filing with, any Governmental Body is required to authorize, or is otherwise required in connection with, the execution, delivery, and performance by each Credit Party of this Amendment; (c) the Loan Agreement and the Other Documents, as amended by this Amendment, are valid and binding upon each Credit Party and are enforceable against each such Credit Party, in accordance with their respective terms, except as limited by Debtor Relief Laws; (d) the execution, delivery, and performance by each Credit Party of this Amendment does not require the consent of any other Person and do not and will not constitute a violation of any laws, agreements, or understandings to which each such Credit Party is a party or by which each such Credit Party is bound; (e) after giving effect to this Amendment, all representations and warranties in the Loan Agreement and the Other Documents are true and correct in all material respects except (i) to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respect as of such earlier date or (ii) the facts on which any of them were based have been changed by transactions contemplated or permitted by the Loan Agreement; and (f) after giving effect to this Amendment, no Default or Event of Default exists.

10. **Release.** In consideration of the Agent and Lenders' agreements herein, each Credit Party hereby (a) releases, acquits and forever discharges the Agent, each Lender and each of their respective agents, employees, officers, directors, partners, servants, representatives, attorneys, affiliates, successors and assigns (collectively, the "Released Parties") from any and all liabilities, claims, suits, debts, liens, losses, causes of action, demands, rights, damages, costs and expenses of any kind, character or nature whatsoever, known or unknown, fixed or contingent, that such Credit Party may have or claim to have now against any Released Party or which might arise out of or be connected with any act of commission or omission of any Released Party existing or occurring on or prior to the date of this Agreement, including, without limitation, any claims, liabilities or obligations relating to or arising out of or in connection with the Advances, the Loan Agreement or the Other Documents (including, without limitation, arising out of or in connection with the initiation, negotiation, closing or administration of the transactions contemplated thereby or related thereto), from the beginning of time until the execution and delivery of this release and the effectiveness of this Agreement (the "Released Claims") and (b) agrees forever to refrain from commencing, instituting or prosecuting any lawsuit, action or other proceeding against the Released Parties with respect to any and all Released Claims.

11. **Conditions to Effectiveness.** The transactions contemplated by this Amendment shall be deemed to be effective as of the Effective Date, when the following have been satisfied in a manner satisfactory to Agent:

(a) Amendment; Disbursement Agreement; Delayed Draw Term Loan Note. Agent receives a fully executed copy of (i) this Amendment; (ii) the disbursement agreement; and (iii) the Delayed Draw Term Loan Note.

(b) Redemption Agreement. Agent receives a fully executed copy of that certain second amendment to redemption agreement by and between USDM Holdings, Inc. and Borrower;

(c) Second Amendment Fee Letter. Agent receives a fully executed fee letter (the "Second Amendment Fee Letter") by Borrower in form and substance satisfactory to Agent;

(d) Pledge Agreement. Agent receives the Amendment and Joinder to Collateral Pledge Agreement executed by each pledgor party thereto;

(e) Company Proceedings of Credit Parties. Agent receives a certificate from an Authorized Officer of Joining Guarantor: (i) attesting to the resolutions of Joining Guarantor's Board of Directors or similar governing body authorizing its execution, delivery, and performance of the Loan Agreement and the Other Documents to which it is a party, (ii) authorizing specific officers of Joining Guarantor to execute the same, and (iii) attesting to the incumbency and signatures of such specific officers of Joining Guarantor;

(f) Certificates. Agent receives, with respect to Joining Guarantor, a copy of the Certificate of Incorporation of Joining Guarantor, and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation together with copies of the bylaws of Joining Guarantor and all agreements of Joining Guarantor's Equity Interest holders certified as accurate and complete by an Authorized Officer of Joining Guarantor;

(g) Good Standing Certificates. Agent receives good standing certificates for Joining Guarantor, dated a recent date, issued by the Secretary of State or other appropriate official of Joining Guarantor's jurisdiction of incorporation;

(h) Legal Opinion. Agent receives the executed legal opinion of counsel to Joining Guarantor, which shall cover such matters incident to the transactions contemplated by the Loan Agreement, and certain material Other Documents and related agreements as Agent may reasonably require;

(i) Fees and Expenses. Agent receives all fees payable to Agent and Lenders on or prior to the Effective Date, including under **Section 5** hereof;

(j) Insurance. Agent receives copies of the Credit Parties' casualty insurance policies, together with lender loss payable endorsements naming Agent as lender loss payee, and copies of the Credit Parties' liability insurance and cybersecurity insurance policies, together with endorsements naming Agent as a co-insured;

(k) ABL Credit Agreement. Agent receives a copy the payoff letter executed by the ABL Lender and/or other evidence of payoff of the ABL Obligations under the ABL Loan Documents;

(l) Background Checks. Agent and each Lender receive all documentation and other information requested in connection with applicable "know your customer" and anti-money laundering rules and regulations, including the USA Patriot Act; and

(m) Representations and Warranties. All representations and warranties set forth in this Amendment are true and correct in all material respects as set forth in **Section 7** above.

12. Counterparts. For the convenience of the parties, this Amendment may be executed in multiple counterparts, each of which for all purposes shall be deemed to be an original, and all such counterparts shall together constitute but one and the same agreement. Delivery of an executed counterpart of a signature page of this Amendment by telecopy, e-mail, facsimile transmission, electronic mail in "*portable document format*" ("*.pdf*") form or other electronic means intended to preserve the original graphic and pictorial appearance of the item being sent shall be effective as a delivery of a manually executed counterpart of this Amendment.

13. References to the Loan Agreement. Upon the effectiveness of this Amendment, (a) each reference in the Loan Agreement to "*this Agreement*", "*hereunder*", "*hereof*", "*herein*", or words of like import shall mean and be a reference to the Existing Loan Agreement as amended hereby, and (b) each reference to the Loan Agreement in any other document, instrument or agreement executed and/or delivered in connection with the Loan Agreement shall mean and be a reference to the Existing Loan Agreement as amended hereby.

14. **Effect.** This Amendment is one of the Other Documents. The modifications set forth herein are limited precisely as written and shall not be deemed (a) to be a consent under or a waiver of or an amendment to any other term or condition in the Loan Agreement, or (b) to prejudice any right or rights which Agent or any Lender now has or may have in the future under or in connection with the Loan Agreement, as amended hereby, or any of the other documents referred to herein or therein.

15. **ENTIRE AGREEMENT.** THIS AMENDMENT CONSTITUTES THE ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO WITH RESPECT TO THE SUBJECT HEREOF. FURTHERMORE, IN THIS REGARD, THIS AMENDMENT, THE LOAN AGREEMENT AND THE OTHER DOCUMENTS REPRESENT, COLLECTIVELY, THE FINAL AGREEMENT AMONG THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF SUCH PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG SUCH PARTIES.

16. **Governing Law.** This Amendment, and all matters relating hereto or arising herefrom (whether arising under contract law, tort law or otherwise) shall, in accordance with Section 5-1401 of the General Obligations Law of the State of New York, be governed by and construed in accordance with the laws of the State of New York.

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IN WITNESS WHEREOF, this Amendment is deemed executed effective as of the Effective Date.

BORROWER:

DIRECT DIGITAL HOLDINGS, LLC

By: /s/ Keith W. Smith

Name: Keith W. Smith

Title: President

EXISTING GUARANTORS:

COLOSSUS MEDIA, LLC

By: /s/ Keith W. Smith

Name: Keith W. Smith

Title: President

HUDDLE MASSES LLC

By: /s/ Keith W. Smith

Name: Keith W. Smith

Title: President

ORANGE142, LLC

By: /s/ Keith W. Smith

Name: Keith W. Smith

Title: President

UNIVERSAL STANDARDS FOR DIGITAL MARKETING, LLC

By: /s/ Keith W. Smith

Name: Keith W. Smith

Title: President

[Signatures continue on following page]

Signature Page to
Second Amendment and Joinder to Term Loan and Security Agreement

**JOINING GUARANTOR:
DIRECT DIGITAL HOLDINGS, INC.**

By: /s/ Keith W. Smith

Name: Keith W. Smith

Title: President

Signature Page to
Second Amendment and Joinder to Term Loan and Security Agreement

AGENT:
LAFAYETTE SQUARE LOAN SERVICING, LLC

By: /s/ Damien Dwin

Name: Damien Dwin

Title: Chief Executive Officer

Signature Page to
Second Amendment and Joinder to Term Loan and Security Agreement

LENDERS:
LAFAYETTE SQUARE USA, INC., as a Lender

By: /s/ Damien Dwin

Name: Damien Dwin

Title: Chief Executive Officer

Signature Page to
Second Amendment and Joinder to Term Loan and Security Agreement

Schedule 1.2(b).
Term Loan Commitment Percentage and Delayed Draw Term Loan Commitment Percentage

<u>Lender</u>	<u>Term Loan Commitment Percentage</u>	<u>Delayed Draw Term Loan Commitment Percentage</u>
LAFAYETTE SQUARE USA, INC.	100%	100%
TOTAL	100%	100%

Signature Page to
Second Amendment and Joinder to Term Loan and Security Agreement

Second Amendment to Redemption Agreement

THIS SECOND AMENDMENT TO REDEMPTION AGREEMENT (this “Amendment”) is made and entered into as of July 28, 2022 by and between Direct Digital Holdings, LLC, a Delaware limited liability company (the “Company”), and USDM Holdings, Inc., a Texas corporation (“Seller”), and is an amendment to the Redemption Agreement entered into by such parties as of November 14, 2021, as amended by that certain Amendment to Redemption Agreement dated as of February 15, 2022 (the “First Amendment”) (as so amended, the “Original Redemption Agreement”, and the Original Redemption Agreement, as amended by this Amendment, is referred to herein as the “Redemption Agreement”). The Company and Seller are referred to herein each as a “Party” and collectively as the “Parties.” Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Redemption Agreement.

1. **Amendment Regarding Payment of the Remainder of the Common Units Redemption Price.** The Parties agree that notwithstanding any of the terms of the Original Redemption Agreement, the remainder of the Common Units Redemption Price (such remainder, the “Remaining Redemption Balance”) is \$3,998,635.24. The calculation of the Remaining Redemption Balance, including any interest, is set forth in Annex A attached hereto. Effective as of the Final Closing (as defined below), the Company shall pay the Remaining Redemption Balance to Seller via wire transfer pursuant to the wire transfer instructions set forth in Annex B. Upon receipt by Seller of the Remaining Redemption Balance, Seller shall execute and deliver to the Company the receipt in the form attached hereto as Annex C.

2. **Final Closing.** The closing of the payment of the Remaining Redemption Balance (the “Final Closing”) shall take place by the electronic or physical exchange of documents and other deliverables and the Remaining Redemption Balance upon the satisfaction or waiver of each of the conditions set forth in Section 3(a) and Section 3(b). The date upon which the Final Closing occurs is referred to herein as the “Final Closing Date.” The Final Closing need not be in person.

3. **Conditions to Closing; Closing Deliverables.**

(a) **Company Closing Conditions.** The Company’s obligation to close at the Final Closing is contingent upon the following: (i) the representations and warranties of the Seller contained in Section 4 shall be true and correct in all respects as of the Final Closing Date with the same effect as though made at and as of the Final Closing Date; (ii) the Seller shall have duly performed and complied in all material respects with all agreements, covenants, and conditions required by this Amendment to be performed or complied with by it prior to or on the Final Closing Date; and (iii) the Company shall have received a certificate, dated the Final Closing Date and signed by the manager or a duly authorized officer of the Seller, that each of the conditions set forth in Section 3(a)(i) and Section 3(a)(ii) has been satisfied, in the form attached hereto as Annex D.

(b) **Seller Closing Conditions.** Seller’s obligation to close at the Final Closing is contingent upon the following: (i) the representations and warranties of the Company contained in Section 5 shall be true and correct in all respects as of the Final Closing Date with the same effect as though made at and as of the Final Closing Date; (ii) the Company shall have duly performed and complied in all material respects with all agreements, covenants, and conditions required by this Amendment to be performed or complied with by it prior to or on the Final Closing Date; and (iii) Seller shall have received a certificate, dated the Final Closing Date and signed by the manager or a duly authorized officer of the Company, that each of the conditions set forth in Section 3(b)(i) and Section 3(b)(ii) has been satisfied, in the form attached hereto as Annex E.

4. **Seller Representations and Warranties.** Seller hereby represents and warrants to the Company, as of the date of this Amendment and as of the Final Closing Date, as follows:

(a) **Existence and Power.** Seller is a corporation duly organized, validly existing and in good standing under the Laws of the State of Texas.

(b) **Organizational Authorization.** The execution, delivery and performance by Seller of this Amendment and the Redemption Agreement and the consummation of the transactions contemplated hereby and thereby are within Seller's organizational powers as a corporation and have been duly authorized by all necessary actions on the part of the shareholders and directors of Seller, as applicable. This Amendment and the Redemption Agreement constitute a valid and binding agreement of Seller, enforceable against Seller in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(c) **Noncontravention.** The execution, delivery and performance by Seller of this Amendment and the Redemption Agreement do not and will not (i) violate the certificate of incorporation, bylaws or other equivalent governing documents of Seller, (ii) violate any law, judgment, injunction, order or decree, or (iii) require any consent or other action by any person or entity under, result in a breach of, constitute a default under, accelerate any obligation under, or give rise to a right of termination, cancellation or acceleration of any right or obligation of Seller under any provisions of any agreement, contract, instrument, permit, authorization, order, writ, judgment, injunction, decree or arbitration award, whether written or oral, to which Seller is a party.

(d) **Actions and Proceedings.** There are no (i) outstanding judgments, orders, writs, injunctions or decrees of any court, governmental authority or arbitration tribunal against Seller which have or would reasonably be expected to have an adverse effect on the ability of Seller to consummate the transactions contemplated hereby or pursuant to the Redemption Agreement or (ii) actions, suits, claims or legal, administrative or arbitration proceedings pending or, to the knowledge of Seller, threatened against Seller, which have or would reasonably be expected to have an adverse effect on the ability of Seller to consummate the transactions contemplated hereby or pursuant to the Redemption Agreement.

(e) **No Other Representations and Warranties.** EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS SECTION 4, SELLER MAKES NO EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY OF ANY KIND, AND SELLER HEREBY DISCLAIMS ANY SUCH REPRESENTATION OR WARRANTY IN CONNECTION WITH THE EXECUTION AND DELIVERY OF THIS AMENDMENT AND THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AMENDMENT.

5. **Company Representations and Warranties**. The Company hereby represents and warrants to Seller, as of the date of this Amendment and as of the Final Closing Date, as follows:

(a) **Existence and Power**. The Company is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Texas.

(b) **Organizational Authorization**. The Company has the full right and limited liability company power and authority to enter into this Amendment and the Redemption Agreement and to carry out the transactions contemplated hereby and thereby. The execution and delivery of this Amendment and the Redemption Agreement and the performance of the Company's obligations hereunder and thereunder have been duly authorized by all necessary actions on the part of the members and managers of the Company, as applicable. This Amendment and the Redemption Agreement constitute, or will when executed and delivered constitute, a valid and binding obligation of the Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(c) **Noncontravention**. The execution, delivery and performance by the Company of this Amendment and the Redemption Agreement and each agreement, document and instrument to be executed and delivered by it pursuant to or as contemplated by this Amendment and the consummation of the transactions contemplated hereby and thereby do not and will not (i) violate the certificate of formation, limited liability company agreement or other equivalent governing documents of the Company, (ii) violate any law, judgment, injunction, order or decree, or (iii) require any consent or other action by any person or entity under, result in a breach of, constitute a default under, accelerate any obligation under, or give rise to a right of termination, cancellation or acceleration of any right or obligation of the Company under any provisions of any agreement, contract, instrument, permit, authorization, order, writ, judgment, injunction, decree or arbitration award, whether written or oral, to which the Company is a party.

(d) **Actions and Proceedings**. There are no (i) outstanding judgments, orders, writs, injunctions or decrees of any court, governmental authority or arbitration tribunal against the Company which have or would reasonably be expected to have an adverse effect on the ability of the Company to consummate the transactions contemplated hereby or (ii) actions, suits, claims or legal, administrative or arbitration proceedings pending or, to the knowledge of the Company, threatened against the Company, which have or would reasonably be expected to have an adverse effect on the ability of the Company to consummate the transactions contemplated hereby.

(e) **No Other Representations and Warranties**. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS SECTION 5, THE COMPANY MAKES NO EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY OF ANY KIND, AND THE COMPANY HEREBY DISCLAIMS ANY SUCH REPRESENTATION OR WARRANTY IN CONNECTION WITH THE EXECUTION AND DELIVERY OF THIS AMENDMENT AND THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AMENDMENT.

6. **Release by Seller.** Subject to Seller's rights under this Amendment, effective as of the Final Closing Date, Seller, to the fullest extent legally possible, hereby completely and forever releases, waives and discharges, and shall be forever precluded from asserting, any and all claims, obligations (other than contractual, statutory, or other obligations to indemnify Seller, Leah Woolford, Jeff Woolford, or their respective affiliates, which are not hereby released, waived or discharged), suits, judgments, damages, demands, debts, rights, causes of action and liabilities, of any kind or nature, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, whether or not hidden or concealed, then existing in law, equity or otherwise, that Seller, including without limitation derivatively, to the fullest extent legally possible, has, had or may have against the Company or any of its subsidiaries, if applicable, and its respective present or former managers, officers, employees, predecessors, successors and members acting in such capacity, that are based in whole or in part on any act, omission, transaction or other occurrence taking place on or prior to the Final Closing Date, other than any claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities arising from or relating to the Surviving Covenants and Obligations (collectively, "**Seller Claims**"), and other than, as applicable, any rights under this Amendment to which Seller is entitled. In making this waiver, Seller acknowledges that it may hereafter discover facts in addition to or different from those which Seller now believes to be true with respect to the subject matter released herein, but agrees that it has taken that possibility into account in reaching this Amendment and as to which Seller expressly assumes the risk. THE PROVISIONS IN THIS **SECTION 6** SHALL BE ENFORCEABLE REGARDLESS OF WHETHER THE LIABILITY IS BASED UPON PAST, PRESENT, OR FUTURE ACTS, CLAIMS, OR LAWS (INCLUDING ANY PAST, PRESENT, OR FUTURE ENVIRONMENTAL LAW (INCLUDING, BUT NOT LIMITED TO CERCLA), OCCUPATIONAL SAFETY AND HEALTH LAW, OR PRODUCTS LIABILITY, SECURITIES, OR OTHER LAW).

7. **Release by the Company.** Subject to the Company's rights under this Amendment, effective as of the Final Closing Date, the Company, to the fullest extent legally possible, hereby completely and forever releases, waives and discharges, and shall be forever precluded from asserting, any and all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities, of any kind or nature, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, whether or not hidden or concealed, then existing in law, equity or otherwise, that the Company, including without limitation derivatively, to the fullest extent legally possible, has, had or may have against Seller, and Seller's respective present or former shareholders, directors, managers, officers, employees, predecessors, successors and members acting in such capacity, that are based in whole or in part on any act, omission, transaction or other occurrence taking place on or prior to the Final Closing Date, other than any claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities arising from or relating to the Surviving Covenants and Obligations (collectively, "**Company Claims**"), and other than, as applicable, any rights under this Amendment to which the Company is entitled. In making this waiver, the Company acknowledges that it may hereafter discover facts in addition to or different from those which the Company now believes to be true with respect to the subject matter released herein, but agree that it has taken that possibility into account in reaching this Amendment and as to which the Company expressly assumes the risk. THE PROVISIONS IN THIS **SECTION 7** SHALL BE ENFORCEABLE REGARDLESS OF WHETHER THE LIABILITY IS BASED UPON PAST, PRESENT, OR FUTURE ACTS, CLAIMS, OR LAWS (INCLUDING ANY PAST, PRESENT, OR FUTURE ENVIRONMENTAL LAW (INCLUDING, BUT NOT LIMITED TO CERCLA), OCCUPATIONAL SAFETY AND HEALTH LAW, OR PRODUCTS LIABILITY, SECURITIES, OR OTHER LAW).

8. **Acknowledgment Regarding LLC Agreement.** In furtherance of and not in diminution of the terms of Section 6 and Section 7 hereof, the Parties acknowledge and agree that: (a) the terms of Section 2.8 (Non-Competition and Non-Solicitation) and Section 12.16 (Dispute Resolution) of the LLC Agreement constitute the only Surviving Covenants and Obligations for purposes of Section 6 and Section 7 hereof, and (b) upon receipt of payment in cash of the Remaining Redemption Balance by Seller, (i) all obligations and liabilities of the Company owing to Seller with respect to the Class A Units, the Class B Preferred Units, Common Units and any other membership units of the Company (other than Surviving Covenants and Obligations as defined in this Section 8) are satisfied and paid in full, and (ii) Seller does not own any Class A Units, Class B Preferred Units, Common Units or any other membership units or interests of the Company.

9. **Confidentiality.** Seller acknowledges that it has or may have access to Confidential Information (as defined below) and that such Confidential Information does and will constitute valuable, special and unique property of the Company. Seller agrees that, from and after the date hereof, Seller will not, directly or indirectly, disclose, reveal, divulge or communicate to any person or entity, or use or otherwise exploit for Seller's own benefit, or to the Company's detriment, any Confidential Information. Seller shall not have any obligation to keep confidential any Confidential Information if and to the extent disclosure thereof is specifically required by law; *provided, however*, that in the event disclosure is required by applicable law, Seller shall, to the extent reasonably possible, provide the Company with prompt notice of such requirement prior to making any disclosure so that the Company may seek an appropriate protective order. For purposes of this Section 9, "Confidential Information" shall mean any confidential information with respect to the business of the Company and its subsidiaries, including, without limitation, methods of operation, customers, and customer lists, products, proposed products, former products, proposed, pending or completed acquisitions of any company, division, product line or other business unit, prices, fees, costs, plans, designs, technology, inventions, trade secrets, know-how, software, marketing methods, policies, plans, personnel, suppliers, competitors, markets or other specialized information or proprietary matters. The term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that (i) is generally available to the public on the date of this Amendment, or (ii) becomes generally available to the public other than as a result of a disclosure by Seller not otherwise permissible thereunder. Seller acknowledges that the Company or its parent company may disclose the terms of this Amendment in order to comply with applicable legal or regulatory requirements, including those imposed by federal securities laws and regulations.

10. **No Other Amendments.** Except as set forth herein, there are no other amendments to the Original Redemption Agreement. This Amendment and the rights and obligations hereunder shall be binding upon and inure solely to the benefit of the Parties, their respective successors and permitted assigns, but this Amendment shall not be assignable by either Party hereto without the express written consent of the other Party, and any attempted assignment without consent shall be void, except that the Company may (i) assign any or all of its rights and obligations under this Amendment to any affiliate of the Company or any buyer of all or substantially all of the assets of the Company, and (ii) assign any or all of its rights under this Amendment to any lender to the Company for indebtedness to any such lender.

11. **Governing Law and Jurisdiction.** This Amendment shall be governed by and construed in accordance with the laws of the State of Texas without giving effect to conflicts of law principles. Each Party irrevocably agrees that any proceeding against it arising out of or in connection with this Amendment or the transactions contemplated by this Amendment or disputes relating hereto (whether for breach of contract, tortious conduct or otherwise) shall be brought exclusively in the state courts of Texas, and hereby irrevocably accepts and submits to the exclusive jurisdiction and venue of the aforesaid courts *in personam* with respect to any such proceeding and waives to the fullest extent permitted by law any objection that it may now or hereafter have that any such proceeding has been brought in an inconvenient forum.

12. **Waiver of Jury Trial.** Each Party hereby waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Amendment or the transactions contemplated hereby or thereby or disputes relating hereto or thereto. Each Party (a) certifies that no representative, agent or attorney of any other Party has represented, expressly or otherwise, that such other Party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other Party have been induced to enter into this Amendment by, among other things, the mutual waivers and certifications in this Section 12.

13. **Specific Performance.** The Parties agree that irreparable damage for which monetary damages, even if available, would not be an adequate remedy, would occur in the event that the Parties do not perform their obligations under the provisions of this Amendment (including failing to take such actions as are required of them hereunder to consummate this Amendment) in accordance with its specified terms or otherwise breach such provisions. The Parties acknowledge and agree that (a) the Parties shall be entitled to an injunction or injunctions, specific performance or other equitable relief to prevent breaches of this Amendment and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction without proof of damages or otherwise, this being in addition to any other remedy to which they are entitled under this Amendment and (b) the right of specific enforcement is an integral part of the transactions contemplated by this Amendment and without that right, the Parties would not have entered into this Amendment. The Parties agree not to assert that a remedy of specific enforcement is unenforceable, invalid, contrary to law or inequitable for any reason, and not to assert that a remedy of monetary damages would provide an adequate remedy or that the Parties otherwise have an adequate remedy at law.

14. **Prevailing Party.** If any litigation or other court action, arbitration, or similar adjudicatory proceeding is commenced by any Party to enforce its rights under this Amendment against any other Party, all fees, costs, and expenses, including, without limitation, reasonable attorneys' fees and court costs, incurred by the prevailing party in such litigation, action, arbitration, or proceeding will be reimbursed by the losing party; provided, that if, a Party to such litigation, action, arbitration, or proceeding prevails in part, and loses in part, then the court, arbitrator, or other adjudicator presiding over such litigation, action, arbitration, or proceeding will award a reimbursement of the fees, costs and expenses incurred by such Party on an equitable basis.

15. **Expenses.** All costs and expenses incurred by the Parties in connection with the negotiation, preparation and execution of this Amendment and the consummation of the transactions contemplated hereby shall be paid by the Party incurring such expenses.

16. **Notices.** Any notice, request, instruction or other communication to be given hereunder by either Party to the other Party shall be in writing and delivered personally, or sent by postpaid registered or certified mail, or sent by electronic mail, pursuant to the information below:

if to Seller, addressed to:

[***]
Attention: [***]
Email: [***]

with a copy (not constituting notice) to:

Fredrikson & Byron, P.A.
200 South Sixth Street, Suite 4000
Attention: [***]
Email: [***]

and, if to the Company, addressed to:

c/o Direct Digital Management, LLC
[***]
Attention: [***]
Email: [***]

with a copy (not constituting notice) to:

McGuireWoods LLP
2000 McKinney Avenue, Suite 1400
Dallas, Texas 75201
Attention: [***]
Email: [***]

or to such other address for either Party as such Party shall hereafter designate by like notice. Each notice, request, instruction, consent and other communication under this Amendment shall be deemed to have been given, (i) on the date of delivery, if personally delivered, (ii) on the earlier of the date of the receipt or three (3) days after deposit in the US mail, if delivered by postpaid registered or certified mail, and (iii) on the earlier of the date of the electronic email transmission or the date of acknowledged receipt, if sent by email.

17. **Severability.** All agreements and covenants contained herein are severable, and in the event that any of them shall be held to be invalid by any competent court, this Amendment shall be interpreted as though such invalid agreements were not contained herein.

18. **Counterparts**. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original but together shall constitute one and the same instrument.

19. **Headings**. The Article and Section headings contained in this Amendment are for reference purposes only and shall not affect in any way the meaning and interpretation of this Amendment.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment has been executed by the Parties on the date and year first above written.

COMPANY:

DIRECT DIGITAL HOLDINGS, LLC

By: /s/ Mark D. Walker

Name: Mark D. Walker

Title: Chief Executive Officer

SELLER:

USDM HOLDINGS, INC.

By: /s/ Leah Woolford

Name: Leah Woolford

Title: Founder and Chairwoman

Annex A
Calculation of Remaining Redemption Balance

Annex B
Wire Transfer Instructions

Annex C
Form of Receipt

Annex D
Form of Seller's Closing Certificate

Annex E
Form of Company's Closing Certificate

**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: November 14, 2022

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

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

I, Susan Echard, 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: November 14, 2022

/s/ Susan Echard

Susan Echard,
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Direct Digital Holdings, Inc. (the “Company”) for the period ended September 30, 2022, 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: November 14, 2022

/s/ Mark Walker

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

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

In connection with the Quarterly Report on Form 10-Q of Direct Digital Holdings, Inc. (the “Company”) for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Susan Echard, 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: November 14, 2022

/s/ Susan Echard

Susan Echard,
Chief Financial Officer
(Principal Financial Officer)
