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 March 31, 2021

OR

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

For the transition period from _________ to _________

Digital Media Solutions, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	001-38393	98-1399727
(State of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

4800 140th Avenue N. , Suite 101, Clearwater, Florida	33762
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (877) 236-8632

(Former Name or Former Address, if Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0001 par value per share	DMS	New York Stock Exchange
Redeemable warrants to acquire Class A common stock	DMS WS	New York Stock Exchange

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

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

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

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

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

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

As of May 13, 2021, 35,281,699 shares of the registrant’s Class A common stock; 25,999,464 of the registrant’s Class B common stock, par value $0.0001 per share; and 13,999,998 warrants to purchase shares of the registrant’s Class A common stock, par value $0.0001 per share, were issued and outstanding.

Digital Media Solutions, Inc.
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Cautionary Note Regarding Forward-Looking Statements

References in this document to the “Registrant,” “DMS Inc.,” “DMS,” the “Company,” “we,” “management,” “us” or “our” refers to Digital Media Solutions, Inc. and its consolidated subsidiaries, except where the context otherwise requires or indicates.

This report, particularly Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) and Part II. Item 1A. Risk Factors, and the documents we incorporate into this report contain certain statements that are, or may be deemed to be, forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are made in reliance upon the protections provided by such acts for forward-looking statements. These forward looking statements are often identified by words such as “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believes,” “predicts,” “potential,” “continue,” and similar expressions. These forward-looking statements include, without limitation, DMS’s expectations with respect to its future performance and its ability to implement its strategy, and are based on the beliefs and expectations of our management team from the information available at the time such statements are made. These forward-looking statements involve significant risks and uncertainties that could cause the actual results to differ materially from the expected results. Most of these factors are outside DMS’s control and are difficult to predict. Factors that may cause such differences include, but are not limited to: (1) the COVID-19 pandemic or other public health crises; (2) changes in client demand for our services and our ability to adapt to such changes; (3) the entry of new competitors in the market; (4) the ability to maintain and attract consumers and advertisers in the face of changing economic or competitive conditions; (5) the ability to maintain, grow and protect the data DMS obtains from consumers and advertisers; (6) the performance of DMS’s technology infrastructure; (7) the ability to protect DMS’s intellectual property rights; (8) the ability to successfully source and complete acquisitions and to integrate the operations of companies DMS acquires, including the Crisp Results assets and Aimtell, PushPros and Aramis Interactive; (9) the ability to improve and maintain adequate internal controls over financial and management systems, and remediate the identified material weakness; (10) changes in applicable laws or regulations and the ability to maintain compliance; (11) our substantial levels of indebtedness; (12) volatility in the trading price on the NYSE of our common stock and warrants; (13) fluctuations in value of our private placement warrants; and (14) other risks and uncertainties indicated from time to time in DMS’s filings with the SEC, including those under “Risk Factors” in DMS’s Annual Report on Form 10-K and its subsequent filings with the SEC.

There may be additional risks that we consider immaterial or which are unknown, and it is not possible to predict or identify all such risks.

DMS cautions that the foregoing list of factors is not exclusive. DMS cautions readers not to place undue reliance upon any forward-looking statements, which speak only as of the date made. DMS does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

DIGITAL MEDIA SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except per share data)

	March 31, 2021	December 31, 2020 As Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,866	$ 31,397
Accounts receivable, net of allowances of $3,526 and $3,121, respectively	46,496	42,085
Prepaid and other current assets	2,799	2,943
Income tax receivable	474	474
Total current assets	73,635	76,899
Property and equipment, net	16,528	15,016
Goodwill	49,757	44,904
Intangible assets, net	61,029	46,447
Deferred tax assets	18,826	18,948
Other assets	206	206
Total assets	$ 219,981	$ 202,420
LIABILITIES AND DEFICIT		
Current liabilities:		
Accounts payable	$ 37,529	$ 37,191
Accrued expenses and other current liabilities	7,178	9,886
Current portion of long-term debt	7,141	7,967
Income tax payable	2,546	1,413
Short-term Tax Receivable Agreement liability	510	510
Contingent consideration payable	—	—
Total current liabilities	54,904	56,967
Commitments and contingencies (Note 12)		
Long-term debt	192,786	193,591
Long-term Tax Receivable Agreement liability	15,760	15,760
Deferred tax liability	5,886	7,024
Private Placement Warrant liabilities	22,390	22,080
Contingent consideration payable - noncurrent	5,307	—
Other non-current liabilities	2,484	2,683
Total liabilities	299,517	298,105
Stockholders' deficit:		
Preferred stock, $0.0001 par value, 100,000 shares authorized; none issued and outstanding at March 31, 2021	—	—
Class A common stock, $0.0001 par value, 500,000 shares authorized; 33,687 issued and outstanding at March 31, 2021	3	3
Class B common stock, $0.0001 par value, 60,000 shares authorized; 25,999 issued and outstanding at March 31, 2021	3	3
Class C common stock, $0.0001 par value, 40,000 authorized; none issued and outstanding at March 31, 2021	—	—
Additional paid-in capital	(37,261)	(48,027)
Retained earnings	(3,265)	(3,146)
Total stockholders' deficit	(40,520)	(51,167)
Non-controlling interest	(39,016)	(44,518)
Total deficit	(79,536)	(95,685)
Total liabilities and deficit	$ 219,981	$ 202,420

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

DIGITAL MEDIA SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net revenue	$ 96,803	$ 72,728
Cost of revenue	69,182	50,159
Salaries and related costs	10,269	8,331
General and administrative expenses	6,962	5,297
Acquisition costs	1,494	27
Depreciation and amortization	5,419	4,315
Income (loss) from operations	3,477	4,599
Interest expense	3,257	3,790
Change in fair value of warrant liabilities	315	—
Net (loss) income before income taxes	(95)	809
Income tax expense	117	52
Net (loss) income	(212)	757
Net loss attributable to non-controlling interest	(93)	—
Net income (loss) attributable to Digital Media Solutions, Inc.	$ (119)	$ 757
Earnings (loss) per share attributable to Digital Media Solutions, Inc.:		
Basic and diluted	$ 0.00	N/A[1]
Weighted-average shares outstanding - basic and diluted	33,241	N/A

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

[1] Prior to the Business Combination, the membership structure of Digital Media Solutions, LLC included units which had profit interests. The Company analyzed the calculation of earnings per unit for periods prior to the Business Combination (as defined in Note 1. Summary of Significant Accounting Policies) and determined that it resulted in values that would not be meaningful to the users of these consolidated financial statements. Therefore, earnings per share information has not been presented for periods prior to the Business Combination on July 15, 2020.

DIGITAL MEDIA SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
(Unaudited)
(in thousands, except share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Deficit	Non-controlling Interest	Total Deficit
	Shares	Amount	Shares	Amount					
Balance, December 31, 2020	32,393	$ 3	25,999	$ 3	$ (48,027)	$ (3,146)	$ (51,167)	$ (44,518)	$ (95,685)
Net income (loss)	—	$ —	—	$ —	$ —	$ (119)	$ (119)	$ (93)	$ (212)
Shares issued in connection with acquisition of Aramis, PushPros and Aimtell (Note 8)	1,293	$ —	—	$ —	$ 9,384	$ —	$ 9,384	$ 5,616	$ 15,000
Exercise of warrants to issue Class A common stock	1	$ —	—	$ —	$ 17	$ —	$ 17	$ —	$ 17
Stock-based compensation	—	$ —	—	$ —	$ 1,365	$ —	$ 1,365	$ —	$ 1,365
Other	—	$ —	—	$ —	$ —	$ —	$ —	$ (21)	$ (21)
Balance, March 31, 2021	33,687	$ 3	25,999	$ 3	$ (37,261)	$ (3,265)	$ (40,520)	$ (39,016)	$ (79,536)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Deficit	Non-controlling Interest	Members' Deficit	Total Deficit
	Shares	Amount	Shares	Amount						
Balance, December 31, 2019	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ (106,258)	$ (106,258)
Net income	—	$ —	—	$ —	$ —	$ —	$ —	$ —	757	$ 757
Member distributions	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ (170)	$ (170)
Balance, March 31, 2020	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ —	$ (105,671)

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

DIGITAL MEDIA SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Net income (loss)	$ (212)	$ 757
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,419	4,315
Lease restructuring charges	(303)	—
Provision for bad debt	410	143
Stock-based compensation	1,257	—
Payment of contingent consideration	—	(1,000)
Amortization of debt issuance costs	233	280
Deferred income tax provision, net	(1,016)	(490)
Change in fair value of contingent consideration	382	—
Change in fair value of warrant liability	315	—
Change in income tax receivable and payable	1,133	—
Change in accounts receivable, net	(1,069)	(4,870)
Change in prepaid expenses and other current assets	367	(1,188)
Change in accounts payable and accrued expenses	(5,703)	3,174
Change in other liabilities	(24)	(12)
Net cash provided by (used in) operating activities	$ 1,189	$ 1,109
Cash flows from investing activities		
Additions to property and equipment	$ (2,391)	$ (2,976)
Acquisition of businesses, net of cash acquired	(4,454)	—
Net cash used in investing activities	$ (6,845)	$ (2,976)
Cash flows from financing activities		
Payments of long-term debt and notes payable	$ (1,865)	$ (1,037)
Proceeds from borrowings on revolving credit facilities	—	10,000
Proceeds from warrants exercised	11	—
Payment of debt issuance costs	—	(22)
Distributions to members	(21)	(170)
Net cash (used in) provided by financing activities	$ (1,875)	$ 8,771
Net change in cash	$ (7,531)	$ 6,904
Cash, beginning of period	31,397	3,008
Cash, end of period	$ 23,866	$ 9,912
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Period For:		
Interest	$ 3,098	$ 3,612
Income taxes, net	$ —	$ —
Non-Cash Investing and Financing Transactions:		
Issuance of equity for Aramis, Aimtell & PushPros	$ 15,000	$ —
Capital expenditures included in accounts payable	$ 391	$ 258

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

DIGITAL MEDIA SOLUTIONS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Digital Media Solutions, Inc. (“DMS Inc.”) is a digital performance marketing company offering a diversified lead and software delivery platform that drives high value and high intent leads to its customers. As used in this Quarterly Report, the “Company” refers to DMS Inc. and its consolidated subsidiaries, (including its wholly-owned subsidiary, CEP V DMS US Blocker Company, a Delaware corporation (“Blocker”)). The Company is headquartered in Clearwater, Florida, with satellite offices throughout the United States and Canada. The Company primarily operates and derives most of its revenues in the United States.

Leo Holdings Corp. (“Leo”) a special purpose acquisition company, was incorporated on November 29, 2017 as a Cayman Islands exempted company for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving the Company and one or more businesses. On July 15, 2020, Leo consummated a transaction structured similar to a reverse recapitalization (the “Business Combination”) and domesticated as a corporation incorporated in the state of Delaware. At the closing of the Business Combination (the “Closing”), Leo acquired the equity in Blocker and a portion of the equity of Digital Media Solutions Holding, LLC (“DMSH”) and Blocker became the sole managing member of DMSH, and Leo was renamed Digital Media Solutions, Inc.

The Business Combination was structured as a reverse recapitalization. The historical operations of DMSH are deemed to be those of the Company. Thus, the financial statements included in this Quarterly Report reflect (i) the historical operating results of DMSH prior to the Business Combination; (ii) the combined results of the Company following the Business Combination; (iii) the assets and liabilities of Leo at historical cost; and (iv) the Company’s equity and earnings (loss) per share for all periods presented. Refer to Note 2. Business Combination for additional discussion related to the transaction.

The Company operates as a performance marketing engine for companies across numerous industries, including consumer finance (mortgage), education (split between non-profit and for-profit), automotive (aftermarket auto warranty, auto insurance), insurance (health, homeowners), home services (home security), brand performance (consumer products), gig, health and wellness, and career (job pursuit). Through its agency business, DMS provides access and control over the advertising spend of clients, and also offers marketing automation software as a service (SaaS) to clients.

The Company has organized its operations into three reportable segments. The Brand Direct reportable segment consists of services delivered against an advertiser’s brand, while the Marketplace reportable segment is made up of services delivered directly against the DMS brand. In the Other reportable segment, services offered by DMS include software services, and digital media services that are managed on behalf of the customer (i.e., Managed services).

Restatement of Previously Issued Financial Statements

On April 12, 2021, the Acting Director of the Division of Corporation Finance and Acting Chief Accountant of the Securities and Exchange Commission together issued a statement regarding the accounting and reporting considerations for warrants issued by special purpose acquisition companies entitled “Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies (“SPACs”) (the “SEC Statement”). Specifically, the SEC Statement focused in part on provisions in warrant agreements that provide for potential changes to the settlement amounts dependent upon the characteristics of the warrant holder, and because the holder of a warrant is not an input into the pricing of a fixed-for-fixed option on equity shares, such provision would preclude the warrant from being classified in equity and thus the warrant should be classified as a liability. As a result of the SEC Statement, the Company reevaluated the accounting treatment of the Company’s Warrants issued in connection with the Business Combination Agreement, dated April 23, 2020, as amended on July 2, 2020 (the “Business Combination”) and recorded in equity in the Company’s consolidated balance sheet as a result of the Business Combination occurring on July 15, 2020. Because the Company’s Private Placement Warrants contain provisions whereby the settlement amount varies depending upon the characteristics of the warrant holder, the Private Placement Warrants should have been recorded at fair value as a liability in the Company’s consolidated balance sheet. There was no change to the Company’s Public Warrants as a result of the SEC Statement and the Company’s reevaluation, and therefore the Public Warrants continue to be classified in equity.

Accordingly, due to this restatement, the Private Placement Warrants are now classified as a liability at fair value on the Company’s consolidated balance sheet at December 31, 2020, as well as of the date of the Business Combination, and the change in the fair value of such liability in each period is recognized as a gain or loss in the Company’s consolidated statements of earnings (loss) and comprehensive income (loss). The restatement of the financial statements has no effect on the Company's liquidity, cash or cash flows from operating activities.

The Warrants continue to be deemed equity instruments for income tax purposes and, accordingly, there is no tax accounting relating to changes in the fair value of the Private Placement Warrants recognized for book purposes.

As a result of classifying the Private Placement Warrants as liabilities, a portion of our transaction issuance costs that were previously included in equity were allocated to the Private Placement Warrants and recorded as general and administrative expenses.

When presenting diluted earnings (loss) per share in this Quarterly Report, the shares issuable under the Private Placement Warrants were considered for inclusion in the diluted share count in accordance with U.S. generally accepted accounting principles ("GAAP"). Since the shares issuable under the Private Placement Warrants are issuable shares when exercised by the holders, they are included when computing diluted earnings (loss) per share to the extent such exercise is dilutive to EPS. Upon exercise, these shares will be included in Class A common stock in the Company's basic EPS share count from the date of issuance. Also, upon exercise, the liability would be extinguished and the fair value at the time of the exercise of the shares issued in settlement will be recorded as an increase in equity.

The Company's policy is to recognize Private Placement Warrants as a liability and to recognize the fair value adjustments through mark-to market analysis into earnings for every period the balance sheets and the statement of operations is presented.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with GAAP and applicable rules and regulations of the SEC.

Principles of Consolidation

The Company consists of DMS Inc. and its wholly-owned subsidiary, Blocker. Pursuant to the Business Combination, DMS Inc. acquired, directly and through its acquisition of the equity of Blocker, approximately 55.5% of the membership interest in DMSH, while the Sellers (as defined in Note 2. Business Combination) retained approximately 44.5% of the membership interest in DMSH ("non-controlling interests").

The Company consolidates the assets, liabilities and operating results of DMSH and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The results of operations attributable to the non-controlling interests are included in the Company's consolidated statements of operations, and the non-controlling interests are reported as a separate component of equity.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported as separate financial statement line items in the consolidated financial statements. Actual results could differ from those estimates. Management regularly makes estimates and assumptions that are inherent in the preparation of the consolidated financial statements including, but not limited to, the fair value of private placement warrants, the allowance for doubtful accounts, stock-based compensation, fair value of net assets acquired in business combinations, loss contingencies, asset impairments, deferred taxes and amounts associated with the Tax Receivable Agreement related to the Business Combination.

Revenue recognition

The Company derives revenue primarily from fees earned through the delivery of qualified clicks, leads, inquiries, calls, applications, customers and, to a lesser extent, display advertisements, or impressions. The Company recognizes revenue when the Company transfers promised goods or services to clients in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company recognizes revenue pursuant to the five-step framework contained in Accounting Standards Update ("ASC") 606, Revenue from Contracts with Customers: (i) identify the contract with a client; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the performance obligations.

As part of determining whether a contract exists, probability of collection is assessed on a client-by-client basis at the outset of the contract. Clients are subjected to a credit review process that evaluates the client's financial position and the ability and intention to pay. If it is determined from the outset of an arrangement that the client does not have the ability or intention to pay, the Company will conclude that a contract does not exist and will continuously reassess its evaluation until the Company is able to conclude that a contract does exist.

Generally, the Company's contracts specify the period of time as one month, but in some instances the term may be longer. However, for most of the Company's contracts with clients, either party can terminate the contract at any time without penalty. Consequently, enforceable rights and obligations only exist on a day-to-day basis, resulting in individual daily contracts during the specified term of the contract or until one party terminates the contract prior to the end of the specified term.
The Company has assessed the services promised in its contracts with clients and has identified one performance obligation, which is a series of distinct services. Depending on the client's needs, these services consist of a specified number or an unlimited number of clicks, leads, calls, applications, customers, etc. (hereafter collectively referred to as "marketing results") to be delivered over a period of time. The Company satisfies these performance obligations over time as the services are provided. The Company does not promise to provide any other significant goods or services to its clients.

Transaction price is measured based on the consideration that the Company expects to receive from a contract with a client. The Company's contracts with clients contain variable consideration as the price for an individual marketing result varies on a day-to-day basis depending on the market-driven amount a client has committed to pay. However, because the Company ensures the stated period of its contracts does not generally span multiple reporting periods, the contractual amount within a period is based on the number of marketing results delivered within the period. Therefore, the transaction price for any given period is fixed and no estimation of variable consideration is required.

If a marketing result delivered to a client does not meet the contractual requirements associated with that marketing result, the Company's contracts allow for clients to return a marketing result generally within 5-10 days of having received the marketing result. Such returns are factored into the amount billed to the client on a monthly basis and consequently result in a reduction to revenue in the same month the marketing result is delivered. No warranties are offered to the Company's clients.

The Company does not allocate transaction price as the Company has only one performance obligation and its contracts do not generally span multiple periods. Taxes collected from clients and remitted to governmental authorities are not included in revenue. The Company elected to use the practical expedient which allows the Company to record sales commissions as expense as incurred when the amortization period would have been one year or less.

The Company bills clients monthly in arrears for the marketing results delivered during the preceding month. The Company's standard payment terms are 30-60 days. Consequently, the Company does not have significant financing components in its arrangements.

Separately from the agreements the Company has with clients, the Company has agreements with Internet search companies, third-party publishers and strategic partners that we engage with to generate targeted marketing results for its clients. The Company receives a fee from its clients and separately pays a fee to the Internet search companies, third-party publishers and strategic partners. Other than certain of its managed services arrangements, the Company is the principal in the transaction. For the transactions where the Company is the principal, the fees paid by its clients are recognized as revenue and the fees paid to its Internet search companies, third-party publishers and strategic partners are included in cost of revenue.

Customer acquisition

The Company's performance obligation for Customer acquisition contracts is to deliver an unspecified number of potential customers or leads (i.e., number of clicks, emails, calls and applications) to the customer in real-time, on a daily basis as the leads are generated, based on predefined qualifying characteristics specified by our customer. The contracts generally have a one-month term and the Company has an enforceable right to payment for all leads delivered to the customer. The Company's customers simultaneously receive and consume the benefits provided, as the Company satisfies its performance obligations. The Company recognizes revenue as the performance obligations are satisfied over time.

When there is a delay between the period in which revenue is recognized and when a customer invoice is issued, revenue is recognized and the corresponding amounts are recorded as unbilled revenue (i.e., contract assets) within Accounts receivable, net on the consolidated balance sheets. In line with industry practice, the Company applies the constraint on variable consideration and records revenue based on internally tracked conversions (leads delivered), net of the amount tracked and subsequently confirmed by customers. Substantially all amounts included within the unbilled revenue balance are invoiced to customers within the month directly following the period of service. Historical estimates related to unbilled revenue have not been materially different from actual revenue billed.

Managed services

The Company's performance obligation for Managed service contracts is to provide continuous service of managing the customer's media spend for the purpose of generating leads through a third-party supplier of leads, as requested by our customer. Each month of service is distinct, and any variable consideration is allocated to a distinct month. Therefore, revenue is recognized as the performance obligation is satisfied each month and there is no estimation of revenue required at each reporting period for managed services contracts.

The Company enters into agreements with Internet search companies, third-party publishers and/or strategic partners to generate customer acquisition services for their Managed service customers. The Company receives a fee from its customers and separately pays a fee to the Internet search companies, third-party publishers and/or strategic partners. The third-party supplier is primarily responsible for the performance and deliverable to the customer, and the Company solely arranges for the third-party supplier to provide services to the customer. Therefore, in certain cases, the Company acts as the agent and the net fees earned by the Company are recorded as revenue, with no associated costs of revenue attributable to the Company.

Software services

The Company's performance obligation for Software services contracts is to provide the customer with continuous, daily access to the Company's proprietary software. Service provided each month is distinct, and any variable consideration is allocated to a distinct month. Therefore, revenue is recognized as the performance obligations are satisfied each month and there is no estimation of revenue required at each reporting period for Software services contracts.

Cost of revenue

Cost of revenue primarily includes media and related costs, which consist of the cost to acquire traffic through the purchase of impressions, clicks or actions from publishers or third-party intermediaries, such as advertising exchanges, and technology costs that enable media acquisition. These media costs are used primarily to drive user traffic to the Company's and its clients' media properties. Cost of revenue additionally consists of indirect costs such as data verification, hosting and fulfillment costs. Cost of revenue is presented exclusive of depreciation and amortization expenses, as well as salaries and related costs.

Cash and cash equivalents

The Company considers highly liquid securities and other investments purchased with an original or remaining maturity of three months or less at the date of the purchase to be cash equivalents. The Company's cash is primarily held as cash deposits with no cash restrictions at retail and commercial banks.

Accounts receivable, net

Accounts receivables are recorded net of the allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on factors including past write-offs and delinquency trends and current credit conditions. Accounts are written off when management determines that collection is unlikely. As of March 31, 2021 and 2020, the allowance for doubtful accounts was $3.5 million and $3.1 million, respectively, and bad debts expense was $0.4 million and $0.1 million for the three months ended March 31, 2021 and 2020, respectively.

Property and equipment, net

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment consist of computer and office equipment, furniture and fixtures and leasehold improvements, which are depreciated on a straight-line basis over the estimated useful lives of the assets.

Management regularly assesses the carrying value of its long-lived assets to be held and used, including property and equipment, for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. If such events or circumstances are present, a loss is recognized to the extent the carrying value of the asset is in excess of estimated fair value.

Software development costs

Costs for software developed for internal use are capitalized as Property and equipment on the Consolidated Balance Sheets during the preliminary stage and post-implementation stages and any initial research and development and maintenance costs are expensed as incurred. Costs incurred in the application development stage are capitalized when the internal use software is placed in service, and amortized over the estimated economic life of the software from the date of implementation.

The capitalization and ongoing assessment of recoverability of development costs require considerable judgment by management with respect to certain external factors, including estimated economic life. Capitalized software development costs are amortized on a straight line basis over 3 years, an estimated useful life.

Goodwill and other intangible assets

As of the acquisition date, the Company measures and recognizes goodwill as the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any non-controlling interest in the acquiree (if any), and the acquisition date fair value of the Company's previously held equity interest in the acquiree (if any), over (b) the fair value of net assets acquired and liabilities assumed. Goodwill acquired in Business Combinations is assigned to the reporting unit that is expected to benefit from the combination as of the acquisition date.

On an annual basis, the Company performs a qualitative assessment of goodwill to determine whether it is necessary to perform a quantitative impairment test or more frequently upon the occurrence of certain triggering events or substantive changes in circumstances. The Company is only required to perform the annual quantitative goodwill impairment test if it is concluded that it is more likely than not that a reporting unit's fair value is less than its carrying amount.

Finite-lived intangible assets primarily consist of software with related technology, customer relationships, non-competition agreements and brand. These assets are initially capitalized based on fair value, acquisition cost, and fair value, if acquired as part of a business combination. The related costs are subsequently amortized on a straight-line basis over the estimated useful lives of the assets.

The Company tests intangible assets with finite useful lives for impairment when a triggering event occurs, or circumstances change indicating that the fair value of the entity may be below its carrying amount. If no triggering event occurs, further impairment testing is not necessary.

Contingencies

The Company is subject to legal, regulatory and other proceedings and claims that arise in the ordinary course of business. An estimated liability is recorded for those proceedings and claims when the loss from such proceedings and claims becomes probable and reasonably estimable. Outstanding claims are reviewed with internal and external counsel to assess the probability and the estimates of loss, including the possible range of an estimated loss. The risk of loss is reassessed each period and as new information becomes available and liabilities are adjusted as appropriate. The actual cost of resolving a claim may be substantially different from the amount of the liability recorded. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the consolidated financial position but could possibly be material to the consolidated results of operations or cash flows for any one period.

Business combinations

Under the acquisition method of accounting, the Company recognizes, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill.

The Company performs valuations of assets acquired and liabilities assumed and allocates the purchase price to its respective assets and liabilities. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates, including the selection of valuation methodologies, estimates of future revenue, costs and cash flows, discount rates, and selection of comparable companies. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. As a result, actual results may differ from these estimates. During the measurement period, the Company may record adjustments to acquired assets and assumed liabilities, with corresponding offsets to goodwill. Upon the conclusion of a measurement period, any subsequent adjustments are recorded to earnings.

At the acquisition date, the Company measures the fair values of all assets acquired and liabilities assumed that arise from contractual contingencies. The Company also measures the fair values of all non-contractual contingencies if, as of the acquisition date, it is more likely than not that the contingency will give rise to an asset or a liability.

Acquisition related costs not considered part of the consideration are expensed as incurred.

Contingent consideration

The Company recognizes the fair value of any contingent consideration that is transferred to the seller in a business combination on the date at which control of the acquiree is obtained. Contingent consideration is classified as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability. If the contingent consideration is payable in cash, the Company classifies its contingent consideration as a liability. Contingent consideration payments related to acquisitions are measured at fair value at each reporting period using Level 3 unobservable inputs. The Company's estimates of fair value are based upon projected cash flow, estimated volatility and other inputs but which are uncertain and involve significant judgments by management. Any changes in the fair value of these contingent consideration payments are included in income from operations in the consolidated statements of operations.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In most cases, the exit price and transaction (or entry) price will be the same at initial recognition. In this case, the fair value of financial instruments approximate fair value.

The fair value hierarchy uses a framework which requires categorizing assets and liabilities into one of three levels based on the inputs used in valuing the asset or liability.

- Level 1 inputs are unadjusted, quoted market prices in active markets for identical assets or liabilities.
- Level 2 inputs are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 inputs include unobservable inputs that are supported by little, infrequent or no market activity and reflect management's own assumptions about inputs used in pricing the asset or liability.

Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Warrants

The Private Placement Warrants meet the definition of a derivative under ASC 815. The Private Placement Warrants are recorded as liabilities on the balance sheet at fair value, with subsequent changes in their respective fair values recognized in the consolidated statement of earnings (loss) and consolidated statements of comprehensive income (loss) at each reporting date. The Private Placement Warrants are valued using a Black-Scholes-Merton option pricing model using a combination of the historical share price volatility of the Company's and other similar companies' share prices and the implied volatility of the public warrants, market price and exercise price and the remaining life of the Private Placement Warrants.

Advertising costs

All advertising, promotional and marketing costs are expensed when incurred. Advertising, promotional and marketing costs for the three months ended March 31, 2021 and 2020 were $0.2 million and $0.5 million, respectively.

Stock-based compensation

Stock-based compensation is measured using the grant-date fair value of the award of equity instruments, including stock options and restricted stock units ("RSUs"). The expense is recognized over the requisite service period and forfeitures are recognized as incurred.

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes-Merton option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the expected volatility in the fair market value of the Company's common stock, a risk-free interest rate and expected dividends. The Company uses the simplified calculation of expected life as the contractual term for options of 10 years is longer than the Company has been publicly traded. The Company does not have enough historical perspective to estimate its volatility of its publicly traded shares or units. The Company's common stock began trading on April 20, 2018; no cash dividends have been declared since that time, and we do not anticipate paying cash dividends in the foreseeable future. Expected volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses the straight-line method for expense attribution.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that the deferred tax assets will be realized. Deferred tax assets and liabilities are calculated by applying existing tax laws and the rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the year of the enacted rate change.

The Company accounts for uncertainty in income taxes using a recognition and measurement threshold for tax positions taken or expected to be taken in a tax return, which are subject to examination by federal and state taxing authorities. The tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination by taxing authorities based on technical merits of the position. The amount of the tax benefit recognized is the largest amount of the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The effective tax rate and the tax basis of assets and liabilities reflect management's estimates of the ultimate outcome of various tax uncertainties. The Company recognizes penalties and interest related to uncertain tax positions within the provision (benefit) for income taxes line in the accompanying consolidated statements of operations.

DMSH, the Company's accounting predecessor, is a limited liability company treated as a partnership for U.S. federal income tax purposes and is not subject to entity-level U.S. federal income tax, except with respect to UE, which was acquired in November 2019. Because UE is treated as a corporation for U.S. federal income tax purposes, it is subject to entity-level U.S. federal income tax. As a result of the Business Combination, Blocker's allocable share of earnings from DMSH are also subject to U.S. federal and state and local income taxes.

Tax Receivable Agreement

In conjunction with the Business Combination, DMS Inc. and Blocker also entered into the Tax Receivable Agreement with the Sellers. Pursuant to the Tax Receivable Agreement, DMS Inc. is required to pay the Sellers (i) 85% of the amount of savings, if any, in U.S. federal, state and local income tax that DMS Inc. and Blocker actually realize as a result of (A) certain existing tax attributes of Blocker acquired in the Business Combination, and (B) increases in Blocker's allocable share of the tax basis of the assets of DMS and certain other tax benefits related to the payment of the cash consideration pursuant to the Business Combination Agreement and any redemptions or exchanges of DMS Units for cash or Class A Common Stock after the Business Combination and (ii) 100% of certain refunds of pre-Closing taxes of DMSH and Blocker received during a taxable year beginning within two (2) years after the Closing. All such payments to the Sellers are the obligation of DMS Inc., and not that of DMSH. As a result of the Business Combination, the Company recorded a deferred tax asset and income tax receivable of $20.1 million and $199 thousand, respectively, with the offset as a long-term Tax Receivable Agreement liability of $16.3 million and Additional Paid-in Capital of $4.0 million in the consolidated balance sheet.

As of March 31, 2021, the total amount of liability under the Tax Receivable Agreement was $16.3 million, of which $0.5 million was current and included in Accrued expenses and other current liabilities on the consolidated balance sheet.

Earnings per share

Basic earnings per share of Class A common stock is computed by dividing net income attributable to DMS Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to DMS Inc., adjusted for the assumed exchange of all potentially dilutive securities, by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive elements.

Prior to the Business Combination, the membership structure of DMSH included units which had profit interests. The Company analyzed the calculation of earnings per unit for periods prior to the Business Combination and determined that it resulted in values that would not be meaningful to the users of these consolidated financial statements. Therefore, earnings per share information has not been presented for January 1, 2020 through July 15, 2020, the Business Combination date.

New Accounting Standards

Accounting Standards Recently Adopted

In January 2020, the Company adopted FASB ASU 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

The Company qualifies as an "emerging growth company" and thus, has elected to adhere to the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act. This election allows the Company to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies.

In March 2020, the Financial Accounting Standards Board ("FASB") issued guidance related to reference rate reform, which provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions that reference LIBOR and are affected by reference rate reform. The Company adopted the standard effective March 31, 2020 and elected the expedient to prospectively adjust the effective interest rate when LIBOR is replaced. We do not expect this standard to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued authoritative guidance *ASC 842, Lease Accounting*, regarding the accounting for leases, and has since issued subsequent updates to the initial guidance. The amended guidance requires the recognition of assets and liabilities for operating leases. The standard was initially effective for annual and interim reporting periods beginning after December 15, 2019. However, in November 2019, the FASB issued amended guidance, which defers for Emerging Growth Companies ("EGC") the effective date for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The standard must be adopted using a modified retrospective transition. We plan to elect the package of practical expedients permitted under the transition guidance of the new standards, which allows us to not reassess whether any expired or existing contracts contain leases, allows us to carry forward the historical lease classification and permits us to exclude from our assessment initial direct costs for any existing leases. We will also make an accounting policy election to exclude leases with an initial term of twelve months or less from our transition adjustment. We are currently evaluating the impact on our consolidated balance sheets, recognizing assets and related lease liabilities, which may or may not have a material impact on the Company’s Consolidated Financial Statements.

In August 2018, the FASB issued authoritative guidance regarding customer's accounting for implementation costs incurred in a cloud computing arrangement (“CCA”) that is a service contract. These amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We plan to address which costs should be capitalized, including the cost to acquire the license and the related implementation costs. When we evaluate potential capitalization costs, we will consider external direct costs of materials, third-party service fees to develop the software, costs to obtain software from third-parties, and coding and testing fees directly related to software product. We are permitted to apply either a retrospective or prospective transition approach to adopt this guidance. If the prospective transition is chosen, we will apply the transition requirements to eligible costs incurred after adoption. The guidance is effective for annual periods beginning in 2021 and interim periods in 2022. We are currently evaluating the impact on our consolidated financial statements.

In June 2016, the FASB issued authoritative guidance on accounting for credit losses on financial instruments, including trade receivables, and has since issued subsequent updates to the initial guidance. The amended guidance requires the application of a current expected credit loss model, which measures credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts. The guidance requires adoption using a modified retrospective approach and is effective for EGC fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We are currently evaluating the impact on our consolidated financial statements.

NOTE 2. BUSINESS COMBINATION

On July 15, 2020, DMSH consummated the Business Combination with Leo pursuant to the Business Combination Agreement (the “Business Combination Agreement”), by and among Leo, DMSH, Blocker, Prism Data, LLC, a Delaware limited liability company (“Prism”), CEP V-A DMS AIV Limited Partnership, a Delaware limited partnership (“Clairvest Direct Seller”) and related entities (the “Sellers”).

In connection with the consummation of the Business Combination, the following occurred:

- Leo was domesticated and continues as a Delaware corporation, changing its name to “Digital Media Solutions, Inc.”
- The Company was organized into an umbrella partnership-C corporation (or “Up-C”) structure, in which substantially all of the assets and business of the Company are held by DMSH and continue to operate through the subsidiaries of DMSH, and the Company’s sole material assets are the equity interests of DMSH indirectly held by it.
- DMS Inc. consummated the PIPE investment with certain qualified institutional buyers and accredited investors (the “PIPE Investors”), pursuant to which the PIPE Investors collectively subscribed for 10,424,282 shares of Class A Common Stock for an aggregate purchase price of $100.0 million.
- DMS Inc. purchased all of the issued and outstanding common stock of Blocker and a portion of the units of DMSH held by Prism and Clairvest Direct Seller. Those DMSH membership interests were then immediately contributed to the capital of Blocker in exchange for aggregate consideration to the Sellers of $57.3 million in cash, 25,857,070 shares of Class B common stock, 2.0 million warrants to purchase Class A Common Stock, and 17,937,954 shares of Class C common stock. Refer to Note 10. Equity for a description of the Company’s common stock.
- The Sellers amended and restated the limited liability company agreement of DMSH (the “Amended Partnership Agreement”), to, among other things: (i) recapitalize DMSH such that, as of immediately following the consummation of the Business Combination, Prism and Clairvest Direct Seller collectively own 25,857,070 of DMSH Units and Blocker owns 32,293,793 of DMSH Units; and (ii) provide Clairvest Direct Seller and Prism the right to redeem their DMSH Units for cash or, at the Company’s option, the Company may acquire the DMSH Units in exchange for cash or shares of Class A Common Stock, subject to certain restrictions set forth therein.
- DMS Inc. issued 2.0 million warrants in exchange for previously held warrants in Leo, and an additional approximate 10.0 million warrants were issued in exchange for the warrants offered and sold by Leo in its initial public offering. Refer to Note 10. Equity for a description of the Company’s warrants.
- DMS Inc. obtained $30.0 million in cash for working capital needs and $10.0 million to pay down outstanding indebtedness under the Monroe Capital Management Advisors Credit Agreement (as administrative agent and lender) (the “Monroe Facility”).

- The Sellers exercised their right to convert the shares of Class C Common Stock into shares of Class A Common Stock, on a one-for-one basis, in accordance with the new Certificate of Incorporation (the "Conversion").
- Prism and Clairvest Direct Seller continue to retain a significant continuing equity interest in the Company, representing 44% of the economic interests in DMSH and 44% of the voting interest in DMS Inc. ("non-controlling interest").
- On October 22, 2020, as required by the post-closing working capital adjustment provisions of the Business Combination Agreement, (i) the Company issued (a) 98,783 total additional shares of Class A Common Stock to the Blocker Sellers and (b) 142,394 total additional shares of Class B Common Stock to Prism and Clairvest Direct Seller.
- In conjunction with the Business Combination, DMS Inc. and Blocker also entered into a Tax Receivable Agreement with the Sellers. Pursuant to the Tax Receivable Agreement, DMS Inc. is required to pay the Sellers (i) 85% of the amount of savings, if any, in U.S. federal, state and local income tax that DMS Inc. and Blocker actually realize as a result of (A) certain existing tax attributes of Blocker acquired in the Business Combination, and (B) increases in Blocker's allocable share of the tax basis of the assets of DMS and certain other tax benefits related to the payment of the cash consideration pursuant to the Business Combination Agreement and any redemptions or exchanges of DMS Units for cash or Class A Common Stock after the Business Combination and (ii) 100% of certain refunds of pre-Closing taxes of DMSH and Blocker received during a taxable year beginning within two (2) years after the Closing. All such payments to the Sellers are the obligation of DMS Inc., and not that of DMSH. As a result of this agreement, the Company recorded a deferred tax asset and income tax receivable of $20.1 million and $199 thousand, respectively, with the offset as a long-term Tax Receivable Agreement liability of $16.3 million and Additional Paid-in Capital of $4.0 million in the consolidated balance sheets.

At December 31, 2020, there were (i) 32,392,576 shares of Class A Common Stock outstanding, (ii) 25,999,464 shares of Class B Common Stock outstanding, (iii) no shares of Class C Common Stock outstanding and (iv) 13,999,998 warrants to purchase Class A Common Stock outstanding.

In conjunction with the Business Combination, we incurred approximately $2.4 million of transaction expenses related to incentive bonuses and other acquisition related expenses, which were recorded at the time of the Business Combination.

NOTE 3. REVENUE

The Company derives revenue primarily through the delivery of various types of services, including: customer acquisition, managed services and software as a service ("SaaS"). The Company recognizes revenue when the promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company has elected the practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognized in the amount to which the Company has the right to invoice for services performed.

The Company has organized its operations into three reportable segments: Brand Direct, Marketplace and Other. The Brand Direct reportable segment consists of services delivered against our customers' brands, while the Marketplace reportable segment includes services delivered directly against the DMS brand. In the Other reportable segment, services offered by the Company include software services and digital media services that are managed on behalf of the customer. Corporate and other represents other business activities and includes eliminating entries. Management uses these segments to evaluate the performance of its businesses and to assess its financial results and forecasts.

Disaggregation of Revenue

The following tables presents the disaggregation of revenue by reportable segment and type of service (in thousands):

	Brand Direct	Marketplace	Other	Corporate and other	Total
Three Months Ended March 31, 2021					
Net revenue:					
Customer acquisition	$ 52,901	$ 49,101	$ —	$ (10,652)	$ 91,350
Managed services	3,278	158	510	—	3,946
Software services	—	—	1,507	—	1,507
Total Net revenue	$ 56,179	$ 49,259	$ 2,017	$ (10,652)	$ 96,803
Three Months Ended March 31, 2020					
Net revenue:					
Customer acquisition	$ 38,453	$ 34,178	$ —	$ (3,610)	$ 69,021
Managed services	2,448	—	450	—	2,898
Software services	—	—	809	—	809
Total Net revenue	$ 40,901	$ 34,178	$ 1,259	$ (3,610)	$ 72,728

Contract balances

The Company's contract liabilities result from payments received in advance of revenue recognition received from clients, which precede the Company's satisfaction of the associated performance obligation. If a customer pays consideration before the Company's performance obligations are satisfied, such amounts are classified as deferred revenue on the consolidated balance sheets. As of March 31, 2021 and December 31, 2020, the balance of deferred revenue was $1.1 million and $1.7 million, respectively, and recorded within Accrued expenses and other current liabilities on the unaudited condensed consolidated balance sheets. We expect the majority of the deferred revenue balance at March 31, 2021 to be recognized as revenue during the second quarter of 2021.

When there is a delay between the completion of our performance obligations and when a customer is invoiced, revenue is recognized and recorded as unbilled revenue (i.e. contract assets) within Accounts receivable, net on the unaudited condensed consolidated balance sheets. As of March 31, 2021 and December 31, 2020, unbilled revenue included in accounts receivable was $2.5 million and $1.8 million, respectively. In line with industry practice, the Company applies the constraint on variable consideration and records revenue based on internally tracked conversions (leads delivered), net of the amount tracked and subsequently confirmed by customers. Substantially all amounts included within the unbilled revenue balance are invoiced to customers within the month directly following the period of service. Historical estimates related to unbilled revenue have not been materially different from actual revenue billed.

NOTE 4. REPORTABLE SEGMENTS

The Company's operating segments are determined based on the financial information reviewed by its chief operating decision maker ("CODM"), and the basis upon which management makes resource allocation decisions and assesses the performance of the Company's segments. The Company evaluates the operating performance of its segments based on financial measures such as net revenue, cost of revenue, and gross profit. Given the nature of the digital marketing solutions business, the amount of assets does not provide meaningful insight into the operating performance of the Company. As a result, the amount of the Company's assets is not subject to segment allocation and total assets is not included within the disclosure of the Company's segment financial information.

The following tables are a reconciliation of the operations of our segments to income from operations (in thousands):

	Three Months Ended March 31, 2021				
	Brand Direct	Marketplace	Other	Corporate and Other	Total
Net revenue	$ 56,179	$ 49,259	$ 2,017	$ (10,652)	$ 96,803
Cost of revenue	41,061	36,599	416	(8,894)	69,182
Gross profit	$ 15,118	$ 12,660	$ 1,601	$ (1,758)	$ 27,621
Salaries and related costs					10,269
General and administrative expenses					6,962
Acquisition costs					1,494
Depreciation and amortization					5,419
Income from operations					$ 3,477

	Three Months Ended March 31, 2020				
	Brand Direct	Marketplace	Other	Corporate and Other	Total
Net revenue	$ 40,901	$ 34,178	$ 1,259	$ (3,610)	$ 72,728
Cost of revenue	30,888	22,899	31	(3,659)	50,159
Gross profit	$ 10,013	$ 11,279	$ 1,228	$ 49	$ 22,569
Salaries and related costs					8,331
General and administrative expenses					5,297
Acquisition costs					27
Depreciation and amortization					4,315
Loss from operations					$ 4,599

NOTE 5. PROPERTY AND EQUIPMENT

The following table presents major classifications of property and equipment and the related useful lives (in thousands, except useful lives):

	Useful Lives	March 31, 2021	December 31, 2020
Computers and office equipment	3	$ 2,010	$ 1,684
Furniture and fixtures	5	$ 905	$ 305
Leasehold improvements	7	$ 692	$ 320
Software development costs	3	$ 20,774	$ 18,913
Total		$ 24,381	$ 21,222
Less: Accumulated depreciation and amortization		$ (7,853)	$ (6,206)
Property and equipment, net		$ 16,528	$ 15,016

Depreciation and amortization expense for property and equipment for the period ended March 31, 2021 and 2020 was $0.1 million and $0.1 million, respectively, included in our consolidated statements of operations.

As of March 31, 2021 and December 31, 2020, the unamortized balance of capitalized software development costs was $14.7 million and $14.0 million, respectively. Amortization of capitalized software development costs for the quarters ended March 31, 2021 and 2020 was $1.0 million and $0.7 million, respectively, included in depreciation and amortization of our consolidated statements of operations.

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Changes in the carrying value of goodwill, by reporting segment, were as follows (in thousands):

	Brand Direct	Marketplace	Other	Total
Balance, December 31, 2020	$ 8,616	$ 32,660	$ 3,628	$ 44,904
Additions (Note 8)	4,853	—	—	4,853
Balance, March 31, 2021	$ 13,469	$ 32,660	$ 3,628	$ 49,757

The carrying amount of goodwill for all reporting units had no accumulated impairments as of March 31, 2021 and December 31, 2020

Intangible assets, net

Finite-lived intangible assets consisted of the following (in thousands):

		March 31, 2021			December 31, 2020		
	Amortization Period (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:							
Technology	3 to 5	$ 58,508	$ (22,795)	$ 35,713	$ 48,008	$ (21,454)	$ 26,554
Customer relationships	1 to 12	28,092	(7,621)	20,471	21,794	(6,749)	15,045
Brand	1 to 5	4,521	(1,174)	3,347	4,295	(961)	3,334
Non-competition agreements	3	2,222	(724)	1,498	2,105	(591)	1,514
Total		$ 93,343	$ (32,314)	$ 61,029	$ 76,202	$ (29,755)	$ 46,447

Amortization expense for finite-lived intangible assets is recorded on a straight-line basis in the pattern in which the assets' economic benefits are consumed over their estimated useful lives. Amortization expense related to finite-lived intangible assets was $4.1 million and $3.5 million for the three months ended March 31, 2021 and 2020, respectively.

NOTE 7. DEBT

The following table presents the components of outstanding debt (in thousands):

	March 31, 2021	December 31, 2020
Term loan	$ 189,546	$ 190,541
Revolving credit facility	4,000	4,000
Delayed draw term loan	8,194	8,236
Notes payable - insurance premium	247	1,074
Total debt	201,987	203,851
Unamortized debt issuance costs	(2,060)	(2,293)
Debt, net	199,927	201,558
Current portion of long-term debt	(7,141)	(7,967)
Long-term debt	$ 192,786	$ 193,591

On July 3, 2018, DMSH entered into a Credit Agreement with Monroe Capital Management Advisors (as administrative agent and lender) (the "Monroe Facility"). The Monroe Facility matures in July 2023 and bears interest at a variable rate equal to the three-month LIBOR, or an alternate base rate, plus an agreed upon margin with the lender. The Monroe Facility also contains covenants that require the Company to meet certain financial ratios and places restrictions on the payment of dividends, sale of assets, borrowing level, mergers, and purchases of capital stock, assets, and investments.

On January 7, 2020, the Monroe Facility was amended to increase the revolver commitment to $15.0 million with an additional payment of $1.5 million incremental issuance cost.

On August 26, 2020, we amended the Monroe Facility to, among other things, (i) modify the covenant calculation of EBITDA to include certain transaction expenses incurred in connection with the Business Combination and (ii) exclude certain accounts from the SmarterChaos acquisition.

As of March 31, 2021, we had approximately $212.7 million total outstanding capacity under our Monroe Facility, which had an effective interest rate of 5.2% ly.

The Monroe Facility also contains covenants that require the Company to meet certain financial ratios and places restrictions on the payment of dividends, Cap threshold for holding excess cash, sale of assets, borrowing level, mergers, and purchases of capital stock, assets, and investments.

As of March 31, 2021, the Company was in compliance with its debt covenants under its Credit Agreement with the Monroe Facility.

The Company's debt with the Monroe Facility is collateralized by subordinated rights to the landlord's lien on personal property deposit and security accounts, and intellectual properties such as licensed trademarks and copyrights.

Debt Maturity Schedule

The scheduled maturities of our total debt are estimated as follows at March 31, 2021 (in thousands):

(in thousands)		
2021		7,141
2022		8,000
2023		186,846
2024	$	—
2025 and thereafter	$	—
	$	201,987

The Company holds a certain cash balance throughout the year depending on its cash flow requirements. When it exceeds a certain level of the Cap threshold, it will trigger additional cash payments under the Monroe Facility. If the Cap threshold is not met, at minimum the Company is expected to make $4.2 million principal payment under the Monroe Facility. The table above presents minimum payments plus additional fees paid attributable to holding excess cash on its balance sheets. As of March 31, 2021, the Company was in compliance with its debt covenants under its Credit Agreement under the Monroe Facility.

NOTE 8. ACQUISITIONS

Aimtell, PushPros and Aramis

The Company acquired on February 1, 2021, Aimtell, Inc. ("Aimtell"), PushPros, Inc. ("PushPros") and Aramis Interactive ("Aramis"). Aimtel and PushPros are leading providers of technology-enabled digital performance advertising solutions connecting consumers and advertisers within home, auto, health and life insurance. Aramis is a network of owned-and-operated websites that leverages the Aimtell and PushPros technologies and relationships.

The Company paid consideration of $25.3 million at the closing transaction, consisting of $5.0 million in cash and approximately 1.29 million shares of Class A Common Stock valued at $15.0 million, subject to a lock-up agreement, contingent consideration with an initial fair value of $4.9 million and working capital of $0.3 million. Total expected payouts for contingent consideration over the next three years is $15.0 million, subject to the acquired companies reaching certain milestones. The contingent consideration can be paid in cash or capital stock at the election of the Company.

In conjunction with this acquisition, we incurred approximately $0.5 million of legal and other acquisition-related expenses, which were recorded as Acquisitions Costs in the unaudited condensed consolidated statements of operations during the three months ended March 31, 2021.

The Company primarily used an Income Approach, specifically a Discounted Cash Flow ("DCF") analysis, which represents Level 3 fair value measurements, to assess the components of its purchase price allocation. The acquisition was accounted for as a business combination, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. The results of operations of the acquired businesses have been included in the Company's results of operations since the acquisition date of February 1, 2021. Under Accounting Standards Codification 805 (ASC 805), an acquirer must recognize any assets acquired and liabilities assumed at the acquisition date, measured at fair value as of that date. Assets meeting the identification criteria included tangible assets, such as real and personal property, and intangible assets. Identified intangible assets included the brand and customer relationships of the acquired business. The fair value of the brand was determined by applying an Income Approach, specifically the Relief from Royalty Method. The fair value of the acquired customer relationships was determined by applying an Income Approach, specifically the Multi Period Excess Earnings Method.

The following table presents the preliminary fair value allocation of the purchase price to the assets acquired, and liabilities assumed (in thousands):

		February 1, 2021
Goodwill		4,853
Brand		226
Non-competition agreements		117
Technology		10,500
Customer relationships		7,920
Other assets acquired		5,100
Liabilities assumed		(3,446)
Net assets acquired	$	25,270

The goodwill related to this transaction reflects the workforce and synergies expected from combining the operations of Aimtel/Aramis/PushPros and is included in the Brand Direct reportable segment. Intangible assets primarily consist of technology, brand and customer relationships with an estimated useful life of seven years for technology, one to five years for brand, and five to seven years for customer relationships. Accounting remains open for working capital adjustments and final fair value calculations.

Smarterchaos and She is Media

On July 16, 2020, the Company acquired SmarterChaos.com, LLC, a premier digital marketing and online performance management marketer, along with She Is Media, a female-centric performance ad network, (collectively, "SmarterChaos") for cash and equity of DMSH totaling approximately $5.8 million, net of cash, which is subject to a working capital adjustment. This acquisition expanded media distribution, allowing the Company to further accelerate the digital marketing acquisition efforts of its advertiser clients and enable brands to acquire new customers by leveraging our customer acquisition platform and the relationships cultivated by SmarterChaos.

DMSH issued the SmarterChaos sellers approximately 307 thousand DMSH Units, which are convertible to Class A Common Stock, with an aggregate total value of $3.0 million based on the DMS Inc. stock price on July 15, 2020. The SmarterChaos sellers also became parties to the Amended Partnership Agreement.

In conjunction with this acquisition, we incurred approximately $0.4 million of legal and other acquisition-related expenses, which were recorded as Acquisitions Costs in the unaudited condensed consolidated statements of operations.

The Company primarily used an Income Approach, specifically a Discounted Cash Flow ("DCF") analysis, which represents Level 3 fair value measurements, to assess the components of its purchase price allocation. The acquisition was accounted for as a business combination, whereby the excess of the fair value of the business over the fair value of identifiable net assets was allocated to goodwill. The results of operations of the acquired businesses have been included in the Company's results of operations since the acquisition date of July 16, 2020. Under Accounting Standards Codification 805 (ASC 805), an acquirer must recognize any assets acquired and liabilities assumed at the acquisition date, measured at fair value as of that date. Assets meeting the identification criteria included tangible assets, such as real and personal property, and intangible assets. Identified intangible assets included the brand and customer relationships of the acquired business. The fair value of the brand was determined by applying an Income Approach, specifically the Relief from Royalty Method. The fair value of the acquired customer relationships was determined by applying an Income Approach, specifically the Multi Period Excess Earnings Method.

The following table presents the preliminary fair value allocation of the purchase price to the assets acquired, and liabilities assumed (in thousands):

		July 16, 2020
Goodwill	$	3,078
Brand		277
Customer relationships		2,500
Accounts receivable		576
Other assets acquired		30
Liabilities assumed		(662)
Net assets acquired	$	5,799

The goodwill related to this transaction reflects the workforce and synergies expected from combining the operations of SmarterChaos and is included in the Other reportable segment. Intangible assets primarily consist of brand and customer relationships with an estimated useful life of three and five years, respectively. Accounting remains open for working capital adjustments and final fair value during the measurement period.

NOTE 9. RESTRUCTURING COSTS

Restructuring costs include expenses associated with the Company’s effort to continually improve operational efficiency and reposition its assets to remain competitive on a national basis. Termination of office lease and other related costs include lease and termination of fixed assets, employee training, relocation and facility costs. These costs are recorded in General and administrative expenses, net in the consolidated statements of earnings (loss).

The Company leases certain office locations, including both long-term and short-term leases, with several leases offering renewal options. Rent expense for the three months ended March 31, 2021 and 2020 was $0.4 million and $0.6 million, respectively.

Management analyzed our current leases due to the COVID-19 economic environment and maintain a reserve of approximately $3.0 million as a result of the cease use of certain leased properties (included in the future minimum lease payments above). As of March 31, 2021, $1.3 million is accrued for within Accrued expenses and other current liabilities and $1.7 million is accrued for within Other non-current liabilities, on the unaudited condensed consolidated balance sheets.

At March 31, 2021, the future minimum lease payments for the Company were comprised of the following (in thousands):

March 31, 2021		
2021	$	1,562
2022		1,963
2023		1,966
2024		1,537
2025		404
Thereafter		—
Total	$	7,432

During the quarter ended March 31, 2021, the Company recognized a valuation cost reduction to the lease liability of $351 thousand. Restructuring charges incurred under the program were $0.3 million in 2020, which primarily consisted of lease payments for existing charges net of lease income for properties that the Company was able to sublet to other third parties.

The change in liability for the restructuring costs for the quarter ended March 31, 2021 follows:

Restructuring Lease Liability:		
Beginning balance at December 31, 2020	$	3,653
Valuation adjustments		(351)
Lease payments		(383)
Lease accretion		47
Ending balance at March 31, 2021	$	2,966

During the year ended December 31, 2020, the Company entered into negotiations with landlords to terminate lease agreements, for twelve different properties for a total approximately 62,113 square feet of office space located in Canada and the United States. As of December 31, 2020, the Company concluded negotiations on three properties and agreed to make payments to the landlord totaling approximately $0.4 million in release of all future obligations under the leases.

NOTE 10. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

Private Placement Warrants

As a result of the SEC Statement, the Company reevaluated the accounting treatment of the Company's Warrants issued in connection with the Business Combination. The Private Placement Warrants were restated and recorded at fair value as a liability in the Company's consolidated balance sheet as at December 31, 2020. The fair value of the Private Placement Warrants is considered a Level 3 valuation and is determined using the Black-Scholes-Merton valuation model.

As of March 31, 2021, the Company has approximately 4.0 million Private Placement Warrants outstanding.

		March 31, 2021			
Category	**Balance Sheet Location**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Private Placement Warrant liabilities	Total liabilities	$ —	$ —	$ 22,390	$ 22,390
Total		$ —	$ —	$ 22,390	$ 22,390

The following table represents the change in the warrant liability (in thousands):

	Level 3
December 31, 2020	$ 22,080
Additions	—
Changes in fair value	315
Exercised	(5)
March 31, 2021	$ 22,390

Contingent consideration related to acquisitions

The fair value of the contingent consideration for the Aimtell/PushPros/Aramis acquisition was determined using a Monte Carlo fair value analysis based on estimated performance and the probability of achieving certain targets. As certain inputs are not observable in the market, the contingent consideration is classified as a Level 3 instrument. Changes in fair value of contingent consideration are presented under Acquisition costs on the Income Statement.

The following table presents assets and liabilities measured at fair value on a recurring basis (in thousands):

		March 31, 2021			
Category	**Balance Sheet Location**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Contingent consideration	Contingent consideration payable	$ —	$ —	$ 5,307	$ 5,307
Total		$ —	$ —	$ 5,307	$ 5,307

The following table represents the change in the contingent consideration (in thousands):

	Level 3
December 31, 2020	$ —
Additions	4,925
Changes in fair value	382
Settlements	—
March 31, 2021	$ 5,307

NOTE 11. EQUITY

Authorized Capitalization

The total amount of the Company’s authorized capital stock consists of (a) 600,000,000 shares of common stock, par value $0.0001 per share, of DMS Inc., consisting of (i) 500,000,000 shares of Class A Common Stock, (ii) 60,000,000 shares of Class B Common Stock, (iii) 40,000,000 shares of Class C Common Stock, and (b) 100,000,000 shares of preferred stock, par value $0.0001 per share, of DMS Inc. (“Company Preferred Stock”). As of March 31, 2021, there were 33,686,599 shares of Class A Common Stock outstanding and 25,999,464 shares of Class B Stock outstanding.

Company Common Stock

The following table sets forth the economic and voting interests of the Company’s common stockholders as of March 31, 2021:

Class	Total Shares (1)	Economic Ownership in DMSH (2)	Economic Ownership in DMS Inc. (3)	Voting Ownership in DMS Inc. (4)
Class A Common Stock	33,686,599	56.2 %	100.0 %	56.4 %
Class B Common Stock	25,999,464	43.3 %	— %	43.6 %

(1) Represents the total number of outstanding shares for each class of DMS Inc. common stock as of March 31, 2021.

(2) Represents (i) the Class A Common Stock holders’ indirect economic interest in DMSH through their ownership of Class A Common Stock and (ii) the Class B Common Stock holders’ direct economic interest in DMSH through their ownership of DMSH Units. The remaining economic ownership of 0.5% is held by the sellers in SmarterChaos acquisition.

(3) Represents the aggregate economic interest in DMS Inc. through the stockholders' ownership of Class A Common Stock.

(4) Represents the aggregate voting interest in DMS Inc. through the stockholders' ownership of Company common stock.

Voting rights

Each holder of Company Common Stock is entitled to one (1) vote for each share of Company Common Stock held of record by such holder. The holders of shares of Company Common Stock do not have cumulative voting rights. Except as otherwise required in the Company Certificate of Incorporation or by applicable law, the holders of Class A Common Stock, Class B Common Stock and Class C Common Stock will vote together as a single class on all matters on which stockholders are generally entitled to vote (or, if any holders of Company Preferred Stock are entitled to vote together with the holders of Company Common Stock, as a single class with such holders of Company Preferred Stock). In addition to any other vote required in the Company Certificate of Incorporation or by applicable law, the holders of Class A Common Stock, Class B Common Stock and Class C Common Stock will each be entitled to vote separately as a class only with respect to amendments to the Company Certificate of Incorporation that increase or decrease the par value of the shares of such class or alter or change the powers, preferences or special rights of the shares of such class so as to affect them adversely. Notwithstanding the foregoing, except as otherwise required by law, holders of Company Common Stock, as such, will not be entitled to vote on any amendment to the Company Certificate of Incorporation (including any Preferred Stock Designation (as defined in the Company Certificate of Incorporation) relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon pursuant to the Company Certificate of Incorporation (including any Preferred Stock Designation relating to any series of Preferred Stock) or pursuant to the General Corporation Law of the State of Delaware (the “DGCL”).

Dividend rights

Subject to any other provisions of the Company Certificate of Incorporation, as it may be amended from time to time, holders of shares of Class A Common Stock are entitled to receive ratably, in proportion to the number of shares of Class A Common Stock held by them, such dividends and other distributions in cash, stock or property of the Company when, as and if declared thereon by the Company’s board of directors (the “Board”) from time to time out of assets or funds of the Company legally available therefor.

Except as provided in the Company Certificate of Incorporation, dividends and other distributions will not be declared or paid on the Class B Common Stock. Subject to any other provisions of the Company Certificate of Incorporation, as it may be amended from time to time, holders of shares of Class C Common Stock are entitled to receive ratably, in proportion to the number of shares held by them, the dividends and other distributions in cash, stock or property of the Company payable or to be made on outstanding shares of Class A Common Stock that would have been payable on the shares of Class C Common Stock if each such share of Class C Common Stock had been converted into a fraction of a share of Class A Common Stock equal to the Conversion Ratio (as defined in the Company Certificate of Incorporation) immediately prior to the record date for such dividend or distribution. The holders of shares of Class C Common Stock are entitled to receive, on a pari passu basis with the holders of the Class A Common Stock, such dividend or other distribution on the Class A Common Stock when, as and if declared by the Board from time to time out of assets or funds of the Company legally available therefor. At March 31, 2021, there were no shares of Class C Common Stock outstanding.

Redemption

Pursuant to the terms and subject to the conditions of the Amended Partnership Agreement, each holder (other than Blocker) of a DMSH Unit has the right (the "Redemption Right") to redeem each such DMSH Unit for the applicable Cash Amount (as defined in the Amended Partnership Agreement), subject to the Company's right, in its sole and absolute discretion, to elect to acquire some or all of such DMSH Units that such holder has tendered for redemption for a number of shares of Class A Common Stock, an amount of cash or a combination of both (the "Exchange Option"), in the case of each of the Redemption Right and the Exchange Option, on and subject to the terms and conditions set forth in the Company Certificate of Incorporation and in the Amended Partnership Agreement.

Retirement of Class B Common Stock

In the event that (i) any DMSH Unit is consolidated or otherwise cancelled or retired or (ii) any outstanding share of Class B Common Stock held by a holder of a corresponding DMSH Unit otherwise ceases to be held by such holder, in each case, whether as a result of exchange, reclassification, redemption or otherwise (including in connection with the Redemption Right and the Exchange Option as described above), then the corresponding share(s) of Class B Common Stock, if any, (which, for the avoidance of doubt, will be equal to such DMSH Unit divided by the Conversion Ratio prior to and until the Effective Time (as defined below) (in the case of (i)) or such share of Class B Common Stock (in the case of (ii)) will automatically and without further action on the part of the Company or any holder of Class B Common Stock be transferred to the Company for no consideration and thereupon will be retired and restored to the status of authorized but unissued shares of Class B Common Stock.

Rights upon Liquidation

In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Company after payments to creditors of the Company that may at the time be outstanding, and subject to the rights of any holders of Preferred Stock that may then be outstanding, holders of shares of Class A Common Stock and Company C Common Stock will be entitled to receive ratably, in proportion to the number of shares held by them, all remaining assets and funds of the Company available for distribution; provided, however, that, for purposes of any such distribution, each share of Class C Common Stock will be entitled to receive the same distribution as would have been payable if such share of Class C Common Stock had been converted into a fraction of a share of Company A Common Stock equal to the Conversion Ratio immediately prior to the record date for such distribution. The holders of shares of Class B Common Stock, as such, will not be entitled to receive any assets of the Company in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company.

Automatic Conversion of Class B Common Stock

Immediately and automatically upon the earlier of (i) July 4, 2024 or (ii) the date on which there are no amounts owed to any lender pursuant to the Credit Facility, each share of Class B Common Stock will automatically and without any action on the part of the holder thereof, be reclassified as and changed, pursuant to a reverse stock split, into a fraction of a share of Class B Common Stock equal to the Conversion Ratio (the "Effective Time").

Conversion of Class C Common Stock

Each holder of Class C Common Stock has the right, at such holder's option, at any time, to convert all or any portion of such holder's shares of Class C Common Stock, and the Company will have the right, at the Company's option, from and after the Effective Time, to convert all or any portion of the issued and outstanding shares of Class C Common Stock, in each case into shares of fully paid and non-assessable Class A Common Stock at the ratio of one (1) share of Class A Common Stock for the number of shares of Class C Common Stock equal to the Issuance Multiple (as defined in the Business Combination Agreement) so converted. As of March 31, 2021, there were no Class C Common Stock issued and outstanding.

Transfers

The holders of shares of Class B Common Stock will not transfer such shares other than as part of a concurrent transfer of (i) if prior to the Effective Time, a number of DMSH Units equal to the number of shares of Company Common Stock being so Transferred multiplied by the Conversion Ratio or (ii) if after the Effective Time, an equal number of DMSH Units, in each case made to the same transferee in accordance with the restrictions on transfer contained in the Amended Partnership Agreement.

Other rights

No holder of shares of Company Common Stock are entitled to preemptive or subscription rights. There are no redemption or sinking fund provisions applicable to the Company Common Stock. The rights, preferences and privileges of holders of the Company Common Stock will be subject to those of the holders of any shares of the Preferred Stock the Company may issue in the future.

Preferred Stock

The Board has the authority to issue shares of preferred stock from time to time on terms it may determine, to divide shares of preferred stock into one or more series and to fix the designations, preferences, privileges, and restrictions of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms, and the number of shares constituting any series or the designation of any series to the fullest extent permitted by the DGCL. The issuance of Preferred Stock of the Company could have the effect of decreasing the trading price of Company Common Stock, restricting dividends on the capital stock of the Company, diluting the voting power of the Company Common Stock, impairing the liquidation rights of the capital stock of the Company, or delaying or preventing a change in control of the Company. At March 31, 2021, there were no shares of preferred stock outstanding.

Public Warrants

Each Company Public Warrant entitles the registered holder to purchase one share of Class A Common Stock at a price of $11.50 per share, subject to adjustment. Pursuant to the warrant agreement, a warrant holder may exercise its warrants only for a whole number of shares of Class A Common Stock. This means only a whole warrant may be exercised at a given time by a warrant holder. The warrants will expire five years after the Business Combination, or earlier upon redemption or liquidation.

The Company may call the Company Public Warrants for redemption as follows: (1) in whole and not in part; (2) at a price of $0.01 per warrant; (3) upon a minimum of 30 days' prior written notice of redemption; and (4) only if the last reported closing price of the Class A Common Stock equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption to the warrant holders.

If the Company calls the Company Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Company Public Warrants to do so on a "cashless basis."

The exercise price and number of Class A Common Stock issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuances of Class A Common Stock at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the warrant shares.

At March 31, 2021, approximately 10.0 million Public Warrants were outstanding.

Non-controlling Interest

The non-controlling interest represents the membership interest in DMSH held by holders other than the Company. As of March 31, 2021, the Prism and Clairvest Direct Sellers combined ownership percentage in DMSH was 43.9% and as of December 31, 2020 it was 44.8%. The Company has consolidated the financial position and results of operations of DMSH and reflected the proportionate interest held by Prism, Clairvest Direct Seller and the SmarterChaos sellers as a non-controlling interest.

NOTE 12. RELATED PARTY TRANSACTIONS

Registration Rights

At the Closing, the Company entered into an amended and restated registration rights agreement with certain Sellers (the "Amended and Restated Registration Rights Agreement"), pursuant to which the Company registered for resale certain shares of Class A Common Stock and warrants to purchase Class A Common Stock that were held by the parties thereto. Additionally, the Sellers may request to sell all or any portion of their shares of Class A Common Stock in an underwritten offering that is registered pursuant to the shelf registration statement filed by the Company (each, an "Underwritten Shelf Takedown"); however, the Company will only be obligated to effect an Underwritten Shelf Takedown if such offering will include securities with a total offering price reasonably expected to exceed, in the aggregate, $20.0 million and will not be required to effect more than four Underwritten Shelf Takedowns in any six-month period. The Amended and Restated Registration Rights Agreement also includes customary piggy-back rights, subject to cooperation and cut-back provisions. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

Amended Partnership Agreement

Pursuant to the Amended Partnership Agreement, following the expiration of the lock-up period under the lock-up agreement entered into by the Company and the Sellers at the Closing, the non-controlling interests (as defined in the Amended Partnership Agreement) will have the right to redeem their DMSH Units for cash (based on the market price of the shares of

Class A Common Stock) or, at the Company's option, the Company may acquire such DMSH Units (which DMSH Units are expected to be contributed to Blocker) in exchange for cash or Class A Common Stock (a "Redemption") on a one-for-one basis (subject to customary conversion rate adjustments, including for stock splits, stock dividends and reclassifications), in each case subject to certain restrictions and conditions set forth therein, including that any such Redemption be for an amount no less than the lesser of 10,000 DMSH Units or all of the remaining DMSH Units held by such Non-Blocker Member. In the event of a change of control transaction with respect to a Non-Blocker Member, DMSH will have the right to require such Non-Blocker Member to effect a Redemption with respect to all or any portion of the DMSH Units transferred in such change of control transaction. In connection with any Redemption (other than a Redemption by the SmarterChaos sellers) a number of shares of Class B Common. Stock will automatically be surrendered and cancelled in accordance with the Company Certificate of Incorporation.

Tax Receivable Agreement

In conjunction with the Business Combination, DMS Inc. and Blocker also entered into the Tax Receivable Agreement with the Sellers. Pursuant to the Tax Receivable Agreement, DMS Inc. is required to pay the Sellers (i) 85% of the amount of savings, if any, in U.S. federal, state and local income tax that DMS Inc. and Blocker actually realize as a result of (A) certain existing tax attributes of Blocker acquired in the Business Combination, and (B) increases in Blocker's allocable shares of the tax basis of the assets of DMS and certain other tax benefits related to the payment of the cash consideration pursuant to the Business Combination Agreement and any redemptions or exchanges of DMS Units for cash or Class A Common Stock after the Business Combination and (ii) 100% of certain refunds of pre-Closing taxes of DMSH and Blocker received during a taxable year beginning within two (2) years after the Closing. All such payments to the Sellers are the obligation of DMS Inc., and not that of DMSH. As a result, the Company recorded a deferred tax asset and income tax receivable of $20.1 million and $199 thousand, respectively, with the offset as a long-term Tax Receivable Agreement liability of $16.3 million and Additional Paid-in Capital of $4.0 million in the consolidated balance sheets.

As of March 30, 2021, the total amount of liability under the Tax Receivable Agreement was $16.3 million, of which $510 thousand was current and included in Accrued expenses and other current liabilities on the consolidated balance sheet.

Lock-Up Agreement

At the Closing, Sellers executed and delivered to the Company a lock up agreement (the "Lock-Up Agreement"), pursuant to which, among other things, Sellers agreed not to, subject to certain exceptions set forth in the Lock-Up Agreement, during the period commencing from the Closing and through the 180 day anniversary of the date of the Closing (the "Lock-Up Period"): (i) lend, offer, pledge, hypothecate, encumber, donate, assign, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any Class A Common Stock, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Class A Common Stock, whether any such transaction described in clauses (i) or (ii) above is to be settled by delivery of Class A Common Stock or other securities, in cash or otherwise. Any waiver by the Company of the provisions of the Lock-Up Agreement requires the approval of a majority of the Company's directors who qualify as "independent" for purposes of serving on the audit committee under the applicable rules of the SEC (including Rule 10A-3 of the Securities Exchange Act of 1934).

On July 29, 2020, the Company's Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") executed joinder agreements to the Lock-Up Agreement in connection with Prism's distribution of 538,912 and 538,911 Seller Warrants to the Company's CEO and COO, respectively, as a permitted transfer under the Amended Warrant Agreement and the Lock-Up Agreement.

Management Agreement

Prior to the Business Combination, the Management Agreement included consideration for various management and advisory services, where DMSH made payment to one of its members a quarterly retainer of $50 thousand plus any out-of-pocket expenses. The total expense for the years ended December 31, 2020 and 2019 was $0.1 million and $0.2 million, respectively, which was recorded in General and administrative expenses in the consolidated statements of operations. The management agreement was terminated in connection with the Business Combination.

Prism Incentive Agreement

On October 1, 2017, DMS, through a subsidiary, acquired the assets of Mocade Media LLC ("Mocade"). On that date, in connection with the acquisition, DMS also entered into a consulting agreement with Singularity Consulting LLC ("Singularity"), a Texas limited liability company owned by the former management of Mocade. On August 1, 2018, in order to further incentivize Singularity's efforts with respect to the acquired Mocade assets, DMS entered into an amendment to the Singularity consulting agreement. On that date, Prism Data, the then majority equityholder of DMS, also entered into an incentive agreement with Singularity, to which DMS was not a party, providing for certain incentive payments to be accounted for in accordance with applicable accounting standards by Prism Data to Singularity in the event of certain specified change of control sale transactions involving DMS. Following the Business Combination, in November 2020, DMS and Singularity resolved all outstanding amounts due under the Singularity consulting agreement between DMS and Singularity with a payment of $850,000. In addition, Prism Data and Singularity agreed that Singularity would be entitled to a payment from Prism Data of $2,000,000 in the event of certain specified change of control sale transactions involving DMS.

NOTE 13. EMPLOYEE AND DIRECTOR INCENTIVE PLANS

2020 Omnibus Incentive Plan

On July 15, 2020, Leo's shareholders approved the 2020 Omnibus Incentive Plan (the "2020 Plan"). The 2020 Plan allows for the issuance of stock options, stock appreciation rights, stock awards (including restricted stock awards ("RSAs") and Restricted Stock Units ("RSUs") and other stock-based awards. Directors, officers and employees, as well as others performing independent consulting or advisory services for the Company or its affiliates, will be eligible for grants under the 2020 Plan. The aggregate number of shares reserved under the 2020 Plan is approximately 11.6 million. The 2020 Plan terminates on June 24, 2030.

On January 14, 2021, the Board of Directors of DMS Inc. approved additional employee quarterly grant for new employees of the Company with 36,790 RSUs under the 2020 Plan. The RSUs vest one-third each year based on three years of employee continuous service. The 2020 Plan provides Directors' vesting rights after each year for completed service to the Company.

The participants have no rights of a stockholder with respect to the RSUs, including the right to vote and the right to receive distributions or dividends until the shares become vested and settled. The settlement occurs after the vesting date and shall represent the right to receive one Share of Class A of common stock. RSUs awards provide for accelerated vesting if there is a change in control.

The fair value of non-vested shares is determined based on the closing trading price of the Company's shares on the grant date and are amortized over the award's service period. At March 30, 2021, total non-vested stock-based compensation expense related to restricted stock was $8.5 million, which will be recognized over a weighted-average remaining period of 2.29 years. The weighted-average grant-date fair value of shares granted during the year ended March 30, 2020, were $7.09 per share.

Restricted Shares

The following table presents the restricted share activity for the year ended March 31, 2021 (in thousands, except price per share):

Restricted Stock Units	Number of Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2020	1,198	$ 7.31
Granted	37	$ 11.65
Forfeited/Canceled	(95)	$ 11.65
Vested	—	$ —
Outstanding at March 31, 2021	1,140	$ 7.09
Vested at March 31, 2021	—	—

As of March 31, 2021, the Company has two shared-based compensation plans: restricted share units and stock options. The compensation cost that has been recorded against Consolidated Statement of Operations, "Salaries and related costs" was approximately $1.4 million.

The Company's 2020 Omnibus Incentive Plan, which is shareholder-approved, permits the grant of share options and shares to its employees up to 11.6 million shares of Class A Common Stock. The Company believes that such awards better align the interest of its employees with those of its shareholders. Stock option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards vest on 3 years of continuous service and have 10-year contractual terms. The 2020 Plan allows employees' vesting rights after each year for completed service to the Company.

The participants have no rights of a stockholder with respect to the stock options, including the right to vote and the right to receive distributions or dividends until the shares become vested and exercised. The exercise occurs after the vesting date and the participant may exercise the option by giving written notice of exercise to the Company specifying the number of shares to be purchased, accompanied by full payment of the exercise price or by means of a broker-assisted cashless exercise. Stock option awards provide for accelerated vesting if there is a change in control.

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation method, which uses the assumptions noted in the following table. Because Black-Scholes option valuation models incorporate ranges of assumption for inputs, the selected inputs are disclosed below. Expected volatilities are based on implied volatilities from traded options on the Company's peer group. The expected term of an option granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding; the below range results from certain Company's peer group of employees exhibiting different behavior. The Company's common stock began trading on April 20, 2018; no cash dividends have been declared since that time, and we do not anticipate paying cash dividends in the foreseeable future. The risk-free rate within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. We recognize forfeitures and/or cancellations based on an actual occurrence.

Stock Options

The following is the weighted average of the assumptions used in calculating the fair value of the total stock options granted in 2020 using the Black-Scholes method:

Fair market value	$	3.28
Risk-free rate		0.5 %
Dividend yield		— %
Expected volatility		49.3 %
Expected term (in years)		5.8 years

The following table presents the stock option activity for the quarter ended March 31, 2021 (in thousands, except price per share):

Stock Options	Number of Stock Options		Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in Years)		Total Intrinsic Value of Restricted Stock Vested
Outstanding at January 1, 2021	550	$	3.34	5.8 years	$	—
Granted	27	$	5.27	5.8 years	$	—
Exercised	—	$	—	—	$	—
Forfeited/expired	(44)	$	5.27	—	$	—
Outstanding at March 31, 2021	533	$	3.28	5.8 years	$	—
Vested at March 31, 202	—		—	—		—
Exercisable at March 31, 2021	—		—	—		—

The weighted-average grant-date strike price of options during the quarter ended March 31, 2021 was $11.65 per share. The total intrinsic value of options exercised during the quarter ended March 31, 2021, was $0. The weighted-average grant-date fair value of shares granted during the quarter ended March 31, 2021, was $3.28 per share. During the quarter ended March 31, 2021, there were no shares or units converted into Class A Common Stock, or exercised from restricted stock units, stock options or warrants.

The following table presents non-vested shares for the quarter ended March 31, 2021 (in thousands, except price per share):

Non-vested Shares	Shares (000)		Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2021	1,748	$	6.06
Granted	64	$	8.96
Vested	—	$	—
Forfeited	(139)	$	9.62
Non-vested at March 31, 2021	1,673	$	5.88

As of March 31, 2021, the total value of unvested shares was $10.3 million under the 2020 Plan. That cost is expected to be recognized over a weighted-average period of 2.29 years. The total fair value of shares vested during the quarter ended March 31, 2021, was $0.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Legal proceedings

The Company is subject to legal, regulatory and other proceedings and claims that arise in the ordinary course of business. An estimated liability is recorded for those proceedings and claims when the loss from such proceedings and claims becomes probable and reasonably estimable. The risk of loss is reassessed each quarter and liabilities are adjusted as new information becomes available. The actual cost of resolving a claim may be substantially different from the amount of the liability recorded. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the consolidated financial position, but could be material to the consolidated results of operations or cash flows for any one period.

Lease agreements

The Company leases certain office locations, including both long-term and short-term leases, with several leases offering renewal options. Rent expense for the three months ended March 31, 2021 and 2020 was $0.4 million and $0.6 million, respectively.

At March 31, 2021, the future minimum lease payments for the Company were comprised of the following (in thousands):

March 31, 2021		
2021	$	1,562
2022		1,963
2023		1,966
2024		1,537
2025		404
Thereafter		—
Total	$	7,432

Management analyzed our current leases due to the COVID-19 economic environment and recorded a reserve of approximately $3.0 million as a result of the cease use of certain leased properties (included in the future minimum lease payments above). As of March 31, 2021, $1.3 million is accrued for within Accrued expenses and other current liabilities and $1.7 million is accrued for within Other non-current liabilities, on the unaudited condensed consolidated balance sheets.

DMSH Unit Redemption Rights

The Amended and Restated Partnership Agreement includes provisions intended to ensure that the Company at all times maintains a one-to-one ratio between (i) the number of outstanding shares of Class A Common Stock (including the number of shares of Class A Common Stock into which all of the outstanding shares of Class C Common Stock are convertible in accordance with the Company Certificate of Incorporation) and (ii) the aggregate number of DMSH Units owned by DMS Inc., its subsidiaries and any consolidated, combined, unitary or similar group of entities that join in filing any tax return with DMS Inc.

NOTE 15. INCOME TAXES

As a result of the Business Combination, the Company consists of DMS Inc. and its wholly-owned subsidiary, Blocker, which owns 56.2% of equity interests in DMSH. DMSH is treated as a partnership for purposes of U.S. federal and certain state and local income tax. As a U.S. partnership, generally DMSH will not be subject to corporate income taxes (except with respect to UE, as described below). Instead, each of the ultimate partners (including DMS Inc.) are taxed on their proportionate share of DMSH taxable income.

While the Company consolidates DMSH for financial reporting purposes, the Company will only be taxed on its allocable share of future earnings (i.e. those earnings not attributed to the non-controlling interests, which continue to be taxed on their own allocable share of future earnings of DMSH). The Company’s income tax expense is attributable to the allocable share of earnings from DMSH, a portion of activities of DMSH that are subject to Canadian income tax, and the activities of UE, a wholly-owned U.S. corporate subsidiary of DMSH, which is subject to U.S. federal and state and local income taxes. The income tax burden on the earnings allocated to the non-controlling interests is not reported by the Company in its condensed consolidated financial statements under GAAP. As a result, the Company's effective tax rate is expected to differ materially from the statutory rate.

The Company's tax provision or benefit from income taxes for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any. Each quarter the Company updates its estimate of the annual effective tax rate and makes a year-to-date adjustment to the provision. The Company recorded income tax expense of $117 thousand for the three months ended March 31, 2021. The blended effective tax rate for the three months ended March 31, 2021 was 124.64%, which varies from our statutory U.S. tax rate due to the tax impact of the change in fair value of warrant liabilities, change in fair value of contingent liabilities, and taxable income or loss that is allocated to the non-controlling interest. The Company recorded $52 thousand income tax expense or benefit for the three months ended March 31, 2020.

Tax Receivable Agreement

In conjunction with the Business Combination, DMS Inc. and Blocker also entered into a Tax Receivable Agreement with the Sellers. Pursuant to the Tax Receivable Agreement, DMS Inc. is required to pay the Sellers (i) 85% of the amount of savings, if any, in U.S. federal, state and local income tax that DMS Inc. and Blocker actually realize as a result of (A) certain existing tax attributes of Blocker acquired in the Business Combination, and (B) increases in Blocker's allocable share of the tax basis of the assets of DMS and certain other tax benefits related to the payment of the cash consideration pursuant to the Business Combination Agreement and any redemptions or exchanges of DMS Units for cash or Class A Common Stock after the Business Combination and (ii) 100% of certain refunds of pre-Closing taxes of DMSH and Blocker received during a taxable year beginning within two (2) years after the Closing. All such payments to the Sellers are the obligation of DMS Inc., and not that of DMSH. As a result of this agreement, the Company recorded as of December 31, 2020, a deferred tax asset and income tax receivable of $20.1 million and $199 thousand, respectively, with the offset as a long-term Tax Receivable Agreement liability of $16.3 million and Additional Paid-in Capital of $4.0 million in the consolidated balance sheets.

As of March 31, 2021, the total amount of payments under the TRA was $16.3 million, of which $0.5 million was current and included in Accrued expenses and other current liabilities on the unaudited condensed consolidated balance sheet.

ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This new guidance was effective for the Company beginning on January 1, 2021, and did not have a material impact on the Company's condensed consolidated financial statements.

NOTE 16. EARNINGS PER SHARE

Basic earnings per share of Class A common stock is computed by dividing net income attributable to DMS Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to DMS Inc., adjusted for the assumed exchange of all potentially dilutive securities, by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive elements. Diluted loss per share for all period presented is the same as basic loss per share as the inclusion of the potentially issuable shares would be anti-dilutive.

Prior to the Business Combination, the membership structure of DMSH included units which had profit interests. The Company analyzed the calculation of earnings per unit for periods prior to the Business Combination and determined that it resulted in values that would not be meaningful to the users of these unaudited condensed consolidated financial statements. Therefore, earnings per share information has not been presented for periods prior to the Business Combination on July 15, 2020. The basic and diluted earnings per share represent only the shares earned during the period of January 1, 2021 to March 31, 2021.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings per share of Class A common stock:

	Three Months Ended March 31,
Numerator:	
Net (loss) income before income taxes	$ (212)
Less: Net income attributable to non-controlling interests	(93)
Net income attributable to DMS Inc.	$ (119)
Denominator:	
Weighted-average shares of Class A Common Stock outstanding - basic and diluted	33,241
Earnings per share of Class A Common Stock - basic and diluted	$ —

Shares of the Company's Class B common stock, warrants, restricted stock units and stock options do not participate in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been presented.

Potential shares of common stock not included in the computation of earnings per share because their effect would be antidilutive includes Stock Based Compensation for 84,009 Options and 530,745 RSUs, Warrants of 505,130 Public and 202,052 Private Placement, contingent consideration which could be settled in common stock of 1,237,636 and convertible equity of 26,306,841.

On January 14, 2021, the Board of Directors of DMS Inc. approved and granted approximately 36,790 RSUs and 27,000 in stock options to the Company's new employees under the 2020 Omnibus Incentive Plan. Refer to Note 13. Employee and Director Incentive Plans for a description of the Company's stock incentive plan.

Note. 17 Subsequent Events

On April 1, 2021, the Company has completed a transaction to purchase the assets of Crisp Marketing, LLC ("Crisp Results"). Crisp Results is a digital performance advertising company that connects consumers with brands within the insurance sector, with primary focus on the Medicare insurance industry. Crisp Results is known for providing predictable, reliable, flexible and scalable customer acquisition solutions, supporting large brands with a process that combines data, design, technology and innovation. The Company paid consideration of $40.0 million upon closing of the transaction, consisting of $20.0 million cash and Class A Common Stock valued at $20.0 million. The transaction also includes up to $10.0 million in contingent consideration to be earned over the next 12 months, subject to the acquired companies reaching certain milestones, and a $5.0 million deferred payment. The contingent consideration and deferred payment can be paid in cash or stock at the election of the Company.

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

BUSINESS OVERVIEW

The Company is a premier performance-based marketing company offering a diversified customer leads and software delivery platform that drives high value, high intent leads to our customers. The Company is headquartered in Clearwater, Florida with approximately 405 employees as of March 31, 2021, located at our headquarters and satellite offices throughout the United States and Canada. We are a major contributor to the structural shift from traditional media to the online and digital arena currently ongoing in the advertising industry. Through our cutting-edge technologies and multi-faceted platforms, the Company enables advertising customers to more closely track, monitor and adjust marketing campaigns based on their return on investment.

The Company operates as a performance marketing engine for companies across numerous industries, including consumer finance, education, automotive, insurance, home services, brand performance, health and wellness and career placements. We also operate in managed services that provides better access and control over the advertising spend of our customers, including marketing automation and SaaS.

We classify our operations into three reportable segments: Brand Direct, Marketplace and Other. Under the Brand Direct reportable segment, revenues are earned from fees we charge to our customers when we advertise directly for them under their brand name. In servicing our customers under this reportable segment, the end consumer of our customer interacts directly with our customer and does not interface with the Company at any point during the transaction process. Under the Marketplace reportable segment, we earn revenues from fees we charge to our customers when we advertise their business under our brand name. The end consumer interfaces directly with our brand and may be redirected to our customer based on information obtained during the transaction process. Under the Other reportable segment, we earn revenues from fees for other services provided to our customers such as the management of digital media services on behalf of our customers as well as SaaS.

Recent Business Acquisitions

Our acquisitions in the past few years have enabled us to expand our reach into high quality proprietary targeted media solutions in a wide range of industries.

On February 1, 2021, the Company acquired Aimtell, Inc. (“Aimtell”), PushPros, Inc. (“PushPros”) and Aramis Interactive (“Aramis”). Aimtell and PushPros are leading providers of technology-enabled digital performance advertising solutions connecting consumers and advertisers within home, auto, health and life insurance. Aramis is a network of owned-and-operated websites that leverages the Aimtell and PushPros technologies and relationships.

The Company paid consideration of $20.0 million at the closing transaction, consisting of $5.0 million in cash and approximately 1.29 million shares of Class A Common Stock valued at $15.0 million, subject to a lock-up agreement. The transaction also includes up to $15.0 million in contingent consideration to be earned over the next three years, subject to the acquired companies reaching certain milestones. The contingent consideration can be paid in cash or capital stock at the election of the Company (see Note 8. Acquisitions).

On July 16, 2020, we purchased substantially all assets and business of SmarterChaos for cash and equity of DMSH totaling approximately $5.8 million. We believe this acquisition will create expanded media distribution, allowing the Company to further accelerate the digital marketing acquisition efforts of our advertiser customers and enable brands to acquire new customers by leveraging our customer acquisition platform and the relationships cultivated by the SmarterChaos team.

Factors Affecting Our Business

Management of high quality targeted media sources

In the digital marketing solutions industry, it is essential that advertising service providers are able to acquire and retain high quality media sources that attract targeted users for advertiser customers on a large scale at low cost. This can be particularly challenging given the dynamic nature of the media resources available to advertising service providers. Frequent updates in search engine algorithms and consolidation of media sources result in high costs of retaining high quality media sources. This, combined with high levels of competition by a large number of service providers, drives up costs within the advertising industry.

To combat this challenge, we have formed strategic partnerships through acquisitions with other advertising and proprietary media marketing software providers to increase our access to high quality targeted media. For example our prior acquisitions of W4, LLC and UE provide us access to proprietary software to drive meaningful engagement with advertising targets.

Regulation

Federal, state and industry-based regulations impact the businesses of our customers and in turn impact our revenues. Increased regulations can cause customers to reduce their expenditures and thus, their advertising budgets, which can potentially lower our revenues.

Macro-economic conditions

During 2020, the U.S. economy increasingly suffered the adverse effects of the COVID-19 economic and health crisis. Macro-economic factors, such as the level of interest rates, credit availability and the level of unemployment, including during economic downturns and global pandemics, had some adverse impact on our customers’ costs of services and their demand for our services and our revenues. Any difficulties faced by our customers due to hardships in the economy caused a reduction in their advertising budgets as they seek to manage expenses in general.

Conversely, to an extent, we believe that the digital media advertising industry was also counter-cyclical to macro-economic conditions since some customers increased their advertising and promotion efforts in times where consumers where more difficult to acquire. This enabled us to ease the downward impact on our revenues during a downturn in the economy.

Our technologies can be securely accessed remotely, which put us in a good position to seamlessly transition to operating our business remotely during the ongoing COVID-19 pandemic and beyond. Feedback from employee surveys indicate that our employees have embraced and prefer to continue to work in a remote environment, which caused us to look to a more flexible working environment. Management continues to analyze our lease contracts and options to close and sublease certain office locations and will continue to analyze the Company’s capacity requirements into the future.

RESULTS OF OPERATIONS

The following table presents our consolidated results of operations as a percentage of net revenue:

	Three Months Ended March 31,	
	2021	2020
Revenue by type:		
Customer acquisition	94.4 %	94.9 %
Managed services	4.0 %	4.0 %
Software services	1.6 %	1.1 %
Total Net revenue	100.0 %	100.0 %
Revenue by segment:		
Brand Direct	58.0 %	56.2 %
Marketplace	50.9 %	47.0 %
Other	2.1 %	1.7 %
Corporate and other	(11.0)%	(5.0)%
Total Net revenue	100.0 %	100.0 %
Salaries and related costs	10.6 %	11.5 %
General and administrative	7.2 %	7.3 %
Acquisition costs	1.5 %	— %
Depreciation and amortization	5.6 %	5.9 %
Income (loss) from operations	3.6 %	6.3 %
Interest expense	3.4 %	5.2 %
Change in fair value of warrant liabilities	0.3 %	— %
Net (loss) income before income taxes	(0.1)%	1.1 %
Income tax expense	0.1 %	0.1 %
Net (loss) income	(0.2)%	1.0 %
Net loss attributable to non-controlling interest	(0.1)%	— %
Net income (loss) attributable to Digital Media Solutions, Inc.	(0.1)%	1.0 %

Operating Results for three months ended March 31, 2021 and March 31, 2020

The following table presents the consolidated results of operations for the three months ended March 31, 2021 and 2020 and the changes from the prior periods (in thousands):

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
Net revenue	$ 96,803	$ 72,728	$ 24,075	33 %
Cost of revenue	69,182	50,159	19,023	38 %
Salaries and related costs	10,269	8,331	1,938	23 %
General and administrative	6,962	5,297	1,665	31 %
Acquisition costs	1,494	27	1,467	5433 %
Depreciation and amortization	5,419	4,315	1,104	26 %
Income (loss) from operations	3,477	4,599	(1,122)	(24)%
Interest expense	3,257	3,790	(533)	(14)%
Change in fair value of warrant liabilities	315	—	315	— %
Net (loss) income before income taxes	(95)	809	(904)	(112)%
Income tax expense	117	52	65	125 %
Net (loss) income	(212)	757	(969)	(128)%
Net loss attributable to non-controlling interest	(93)	—	(93)	— %
Net income (loss) attributable to Digital Media Solutions, Inc.	$ (119)	$ 757	$ (876)	(116)%

Net revenue. Our business generates revenue primarily through the delivery of a variety of performance-based marketing services, including customer acquisition, managed services and software services.

The following table presents revenue by type for each segment and the changes from the prior periods:

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
Brand Direct				
Customer acquisition	$ 52,901	$ 38,453	$ 14,448	38 %
Managed services	3,278	2,448	830	34 %
Total Brand Direct	$ 56,179	$ 40,901	$ 15,278	37 %
Marketplace				
Customer acquisition	$ 49,101	$ 34,178	$ 14,923	44 %
Total Marketplace	$ 49,259	$ 34,178	$ 15,081	44 %
Other				
Managed services	$ 510	$ 450	$ 60	13 %
Software services	1,507	809	698	86 %
Total Other	$ 2,017	$ 1,259	$ 758	60 %
Corporate and Other				
Customer acquisition	$ (10,652)	$ (3,610)	$ (7,042)	195 %
Total Corporate and Other	$ (10,652)	$ (3,610)	$ (7,042)	195 %
Total Customer acquisition	91,350	69,021	22,329	32 %
Total Managed services	3,946	2,898	1,048	36 %
Total Software services	1,507	809	698	86 %
Total Net revenue	$ 96,803	$ 72,728	$ 24,075	33 %

Customer Acquisition Revenue. Customer acquisition contracts deliver potential consumers or leads (i.e. number of clicks, emails, calls and applications) to the customer in real-time based on predefined qualifying characteristics specified by our customer.

Our Brand Direct segment experienced an increase in Customer acquisition revenue of $14.4 million, or 38%, during the three months ended March 31, 2021, as compared to the same period in 2020. This change was primarily due to growth in our affiliate and performance businesses due to further penetration of existing customers and expansion in the markets, offset by lack of sales from our messaging services due to a strategic shift away from this industry.

Customer acquisition revenue for Marketplace increased by $15.1 million, or 44%, during the three months ended March 31, 2021, as compared to the same periods in 2020, primarily due to our penetration of the auto insurance vertical as a result of UE's performance.

Managed Services Revenue. Managed services contracts provide continuous service of managing the customer's media spend for the purpose of generating leads through a third-party supplier of leads, as requested by our customer.

Managed services revenue experienced an increase of $1.0 million, or 36%, during the three months ended March 31, 2021 as compared to the same period in 2020, primarily driven by third-party leads.

Software Services Revenue. Software services contracts provide the customer with continuous, daily access to the Company's proprietary software. Software services revenue is considered insignificant to our total Net revenue as a whole.

Cost of revenue and gross profit. Cost of revenue primarily includes media and other related costs, such as the cost to acquire user traffic through the purchase of impressions, clicks or actions from publishers or third-party intermediaries, including advertising exchanges, and technology costs that enable media acquisition. These media costs are used primarily to drive user traffic to the Company's and our customers' media properties. Cost of revenue also includes indirect costs such as data verification, hosting and fulfillment costs.

The following table presents the gross profit percentage (gross profit as a percentage of total revenue) by segment and the changes from prior period:

	Three Months Ended March 31,		
	2021	2020	% Change
Brand Direct	27.0 %	24.0 %	12.5 %
Marketplace	26.0 %	33.0 %	(21.2)%
Other	79.0 %	98.0 %	(19.4)%
Total gross profit percentage	28.5 %	31.0 %	(8.1)%

Gross profit for Brand Direct increased from 24.0% to 27.0% for the three months ended March 31, 2021. This margin increase was driven by substantial diversification in our distribution channels as we continue to scale growth.

Gross profit for Marketplace decreased from 33.0% to 26.0% for the three months ended March 31, 2021 and 2020, respectively, primarily due to the expansion in the auto insurance business at compressed margins.

Gross profit for Other decreased from 98.0% to 79.0% for the three months ended March 31, 2021 primarily due to the new revenue mix, which has compressed lower profit margins.

Total gross profit decreased from 31.0% to 28.5% for the three months ended March 31, 2021. This decrease was primarily due to the expansion of performance ad network for our affiliate and auto insurance business, both at compressed margins.

Salaries and related costs. Total compensation includes salaries, commissions, bonuses, payroll taxes and retirement benefits.

Salaries and related costs increased by $1.9 million, or 23%, for the three months ended March 31, 2021 as compared to the same period in 2020, primarily driven by stock-based compensation and headcount as a result of an expansion of our workforce in the insurance business, as well as an increase in commissions due to the increase in revenue.

Salaries as a percentage of net revenue were 10.6% and 11.5% for the three months ended March 31, 2021 and 2020, respectively.

General and administrative. General and administrative expenses consist of expenses incurred in our normal course of business relating to office supplies, computer and technology, rent and utilities, insurance, legal and professional fees, state and local taxes and licenses, penalties and settlements and bad debt expense, as well as sales and marketing expenses relating to advertising and promotion. We also include other expenses such as investment banking expenses, fundraising costs and costs related to the advancement of our corporate social responsibility program.

General and administrative expenses increased $5.3 million, or —%, from $5.3 million for the three months ended March 31, 2020 to $7.0 million the three months ended March 31, 2021, primarily driven by approximately $0.8 million of software and computer expense as well as an overall increase in insurance, legal and professional fees related to compliance, partially offset by a decline in rental expense due to recent office closures.

Acquisition costs. Acquisition related costs are not considered part of the consideration for acquisitions and are expensed as incurred. This includes accretion of contingent consideration, acquisition incentive compensation and other transaction related costs.

Acquisition costs increased by $1.5 million, or 5433% during the three months ended March 31, 2021. The increase was primarily due to the acquisition costs related to Aimtell, PushPros and Aramis on February 1, 2021, as well as preliminary expenses related to Crisp Results acquisition (see Note 17. Subsequent Events).

Depreciation and amortization. Property, plant and equipment consists of computers and office equipment, furniture and fixtures, leasehold improvements and internally developed software costs. Intangible assets subject to amortization include technology, customer relationships, brand, and non-competition agreements.

Depreciation and amortization expense increased $1.1 million, or 26%, during the three months ended March 31, 2021, respectively, as compared to the same period in 2020, primarily driven by the fixed assets acquired with Aimtel/Aramis/PushPros ("AAP") as well as continued investments in internally developed software, which were placed in service.

Interest expense. Interest expense is related primarily to our debt, which carries a variable interest rate based on the three-month LIBOR, or an alternate base rate, plus an agreed upon margin with the Company's financial institution.

For the three months ended March 31, 2021, interest expense was $3.3 million as compared to $3.8 million for the three months ended March 31, 2020. The decrease was primarily due to the decrease in our outstanding debt balance and partial decrease in the interest rate during the three months ended March 31, 2021 compared to the three months ended March 31, 2020.

Income tax expense. For the three months ended March 31, 2021, the Company's effective income tax rate was 94%, as compared to 0% for the three ended March 31, 2020. The blended effective tax rate for the three months ended March 31, 2021 was 94% , which varies from our statutory U.S. tax rate due to the tax impact of the taxable income or loss that is allocated to the non-controlling interest.

Non-controlling interest. As a result of the Business Combination and the SmarterChaos acquisition, our non-controlling interest owns approximately 43.8% of the ownership interest of DMSH and we allocate the respective portion of net income or loss to the DMSH Units held by the non-controlling interest. Refer to Note 2. Business Combination and Note 10. Equity in the Notes to Unaudited Condensed Consolidated Financial Statements, included in Item 1. Financial Statements of this report, for a more detailed discussion on the non-controlling interest and the Business Combination.

NON-GAAP FINANCIAL MEASURES

In addition to providing financial measurements based on accounting principles generally accepted in the United States of America ("GAAP"), this earnings press release includes additional financial measures that are not prepared in accordance with GAAP ("non-GAAP"), including adjusted revenue, adjusted EBITDA, unlevered free cash flow, adjusted net income and adjusted EPS. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures can be found below. As explained further below, we use these financial measures internally to review the performance of our business units without regard to certain accounting treatments and non-recurring items. We believe that presentation of these non-GAAP financial measures provides useful information to investors regarding our results of operations. Because of these limitations, management relies primarily on its GAAP results and uses non-GAAP measures only as a supplement.

Adjusted Revenue

Adjusted revenue is a non-GAAP financial measure presented as an alternative method for assessing the Company's operating results in a manner that is focused on the performance of our underlying operations. Management believes this measure provides useful information because, while the majority of our business consists of lead generation contracts which are accounted for on a gross basis, a portion of our agency managed services contracts are accounted for on a net basis. In light of these considerations, management believes that adjusted revenue provides useful information regarding operating performance across our business, without regard to the accounting treatment of individual contracts, and allows management to build forecasts on a consistent basis across the business. Management further uses adjusted revenue to compare the performance of divisions within the Company against each other and to isolate our core operating performance. Moreover, management expects that over time we will transition all of our services to a principal relationship and as our contracts are either amended or new agreements are executed, this measure will help provide a basis for comparison of our business operations between different periods over time as we transition these services and related accounting for these contracts.

Adjusted revenue is defined as revenue as reported under GAAP, without regard to netting of costs applicable to revenues earned under contracts that are deemed to be entered into on an agency basis.

The following table provides a reconciliation of Adjusted Revenue to revenue, the most directly comparable GAAP measure (in thousands):

	Three Months Ended March 31, 2021		
	Reported (GAAP)	Adjustments (1)	Adjusted (Non-GAAP)
Net revenue	$ 96,803	$ 2,735	$ 99,538
Cost of revenue	69,182	2,735	71,917
Gross profit	$ 27,621	$ —	$ 27,621
Gross profit margin	28.5 %	— %	27.7 %

(1) Includes the gross up for certain Managed services contracts that are presented net of costs under GAAP for the three months ended March 31, 2021.

Adjusted EBITDA, Unlevered Free Cash Flow and Unlevered Free Cash Flow Conversion

We use the non-GAAP measures of adjusted EBITDA and unlevered free cash flow to assess operating performance. Management believes that these measures provide useful information to investors regarding DMS's operating performance and its capacity to incur and service debt and fund capital expenditures. DMS believes that these measures are used by many investors, analysts and rating agencies as a measure of performance. By reporting these measures, DMS provides a basis for comparison of our business operations between current, past and future periods by excluding items that DMS does not believe are indicative of our core operating performance. Financial measures that are non-GAAP should not be considered as alternatives to operating income, cash flows from operating activities or any other performance measures derived in accordance with GAAP as measures of operating performance, or cash flows as measures of liquidity. These measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, DMS relies primarily on its GAAP results and uses adjusted EBITDA and unlevered free cash flow only as a supplement.

Adjusted EBITDA, is defined as net income (loss), excluding (1) interest expense, (2) income tax expense, (3) depreciation and amortization, (4) acquisition costs, (5) other expenses, (6) other non-recurring, infrequent or unusual costs (An item is considered to be non-recurring, infrequent or unusual if it is unlikely that it will recur in the next two years or if a similar charge or gain has not occurred in the preceding two years, in accordance with SEC rules.); (7) future estimated cost savings resulting primarily from the reorganization of acquisitions, including adjustments to headcount, as well as other operational synergies, (8) future estimated technology synergies and cost savings due to the use of an alternative vendor, (9) future estimated costs savings resulting primarily from acquisitions as well as reorganization of staff adjustments, use of lower cost distribution vendors, amongst others, and (10) Aimtell EBITDA from January 1, 2021 through January 31, 2021, the date of the acquisition.

Unlevered free cash flow is defined as adjusted EBITDA, less capital expenditures, and unlevered free cash flow conversion is defined as unlevered free cash flow divided by adjusted EBITDA.

The following table provides a reconciliation of Adjusted EBITDA and Unlevered Free Cash Flow from net income the most directly comparable GAAP measure (*in thousands*):

	Three Months Ended March 31,	
	2021	**2020**
Net income (loss)	$ (212)	$ 757
Adjustments		
Interest expense	3,257	3,790
Income tax expense	117	52
Depreciation and amortization	5,419	4,315
Acquisition costs (1)	1,494	27
Other expenses (2)	2,253	133
Other non-recurring expenses (3)	554	348
Subtotal before additional adjustments	$ 12,882	$ 9,422
Additional Adjustments		
Pro forma cost savings (4)	$ 31	$ 675
Technology synergies (5)	192	779
Pro forma cost savings (6)	577	1,372
Acquisitions EBITDA (7)	422	1,126
Adjusted EBITDA	$ 14,104	$ 13,374
Capital expenditures	$ 2,498	$ 2,976
Unlevered Free Cash Flow	$ 11,606	$ 10,398
Unlevered Free Cash Flow Conversion	82 %	78 %

(1) Includes pre-acquisition transactions related to travel, professional and legal fees for recent acquisitions.

(2) Includes primarily stock-based compensation, investor management fees, director fees and costs related to philanthropic initiatives.

(3) Other non-recurring expenses include, restructuring costs and lease termination costs due to office closures, severance and commission payments due to company reorganization.

(4) These are estimated cost savings primarily from reorganization of the company.

(5) These are annualized estimated UE Authority, Co. (“UE”) technology synergies related to uniform infrastructure platform.

(6) These are annualized estimated cost synergies from the UE, SmarterChaos.com, and Aimtell acquisitions.

(7) Includes pre-acquisition Aimtell EBITDA during the three months ended March 31, 2021 and comparable pro forma amounts during the same period in 2020.

A reconciliation of Unlevered Free Cash Flow to net cash provided by operating activities, the most directly comparable GAAP measure, is presented below (*in thousands):*

	Three Months Ended March 31,	
	2021	2020
Unlevered Free Cash Flow	$ 11,713	$ 10,398
Capital expenditures	2,391	2,976
Adjusted EBITDA	$ 14,104	$ 13,374
Acquisitions EBITDA (1)	422	1,126
Pro forma cost savings (2)	577	1,372
Technology synergies (3)	192	779
Pro forma cost savings (4)	31	675
Subtotal before additional adjustments	$ 12,882	$ 9,422
Other non-recurring expenses (5)	554	348
Other expenses (6)	2,253	133
Acquisition costs (7)	1,494	27
Subtotal before additional adjustments	$ 8,581	$ 8,914
Provision for bad debt	(351)	143
Lease restructuring charges	1,365	—
Stock-based compensation	(3,257)	—
Interest expense	(117)	(3,790)
Income tax expense	—	(52)
Payment of contingent consideration	233	(1,000)
Amortization of debt issuance costs	(1,016)	280
Deferred income tax provision, net	(1,069)	(490)
Change in accounts receivable, net	367	(4,870)
Change in prepaid expenses and other current assets	(5,703)	(1,188)
Change in accounts payable and accrued expenses	—	3,174
Change in other liabilities	(24)	(12)
Net cash provided by (used in) operating activities	$ 552	$ 1,109

(1) Includes pre-acquisition Aimtell EBITDA during the three months ended March 31, 2021 and comparable pro forma amounts during the same period in 2020.
(2) These are annualized estimated cost synergies from the UE, SmarterChaos.com, and Aimtell acquisitions.
(3) These are annualized estimated UE Authority, Co. (“UE”) technology synergies related to uniform infrastructure platform.
(4) These are estimated cost savings primarily from reorganization of the company.
(5) Other non-recurring expenses include, restructuring costs and lease termination costs due to office closures, severance and commission payments due to company reorganization.
(6) Includes primarily stock-based compensation, investor management fees, director fees and costs related to philanthropic initiatives.
(7) Includes pre-acquisition transactions related to travel, professional and legal fees for recent acquisitions.

Adjusted Net Income and Adjusted EPS:

We use the non-GAAP measures adjusted net income and adjusted EPS to assess operating performance. Management believes that these measures provide investors with useful information on period-to-period performance as evaluated by management and comparison with our past financial and operating performance. Management also believes these non-GAAP financial measures are useful in evaluating our operating performance compared to that of other companies in our industry, as this metric generally eliminates the effects of certain items that may vary from company to company for reasons unrelated to overall operating performance. We define adjusted net income (loss) as net income (loss) attributable to Digital Media Solutions, Inc. adjusted for (x) costs associated with the Business Combination, acquisition-related costs, equity based compensation and lease restructuring charges and (y) the reallocation of net income (loss) attributable to non-controlling interests from the assumed acquisition by Digital Media Solutions, Inc. of all units of Digital Media Solutions Holdings, LLC ("DMSH LLC") (other than units held by subsidiaries of Digital Media Solutions, Inc.) for newly-issued shares of Class A common stock of Digital Media Solutions, Inc. on a one-to-one basis. We define adjusted pro forma net loss per share as adjusted pro forma net loss divided by the weighted-average shares of Class A common stock outstanding, assuming the acquisition by Digital Media Solutions, Inc. of all outstanding DMSH LLC units (other than units held by subsidiaries of Digital Media Solutions, Inc.) for newly-issued shares of Class A common stock on a one-to-one-basis.

The following table presents a reconciliation between GAAP Earnings Per Share and Non-GAAP Adjusted Net Income and Adjusted EPS (*In thousands, except per share data*):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Numerator:		
Net income (loss)	$ (212)	$ 757
Less: Net income attributable to non-controlling interests subsequent to the Business Combination	(93)	—
Net income attributable to DMS Inc.	(119)	757
Denominator:		
Weighted-average shares of Class A Common Stock outstanding - basic and diluted	33,241	N/A
Earnings per share of Class A Common Stock - basic and diluted	$ —	N/A

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Numerator:		
Net income (loss) attributable to Digital Media Solutions, Inc.;	$ (119)	$ 757
Add adjustments to net income (loss):		
Acquisition costs	1,494	27
Equity based compensation, legal and severance costs	2,253	133
Restructuring,transition and refinance costs	554	348
Acquisition synergies	800	2,826
Acquisition EBITDA	422	1,126
	$ 5,404	$ 5,217
Net income tax benefit (expense) based on conversion of units	144	121
Adjusted net income (loss)	$ 5,678	$ 4,917
Denominator:		
Weighted-average shares outstanding - basic and diluted		
Class A common stock	33,241	23,960
Weighted-average LLC Units of Digital Media Solutions Holdings, LLC that are convertible into Class A common stock	26,306	20,500
	59,547	44,460
Adjusted EPS	$ 0.09	$ 0.11

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes certain key measures of our liquidity and capital resources (in thousands):

	March 31, 2021	December 31, 2020	$ Change	% Change
Cash	$ 23,866	$ 31,397	$ (7,531)	(24)%
Availability under revolving credit facility	$ 11,000	$ 15,000	$ (4,000)	(27)%
Total Debt	201,987	203,851	$ (1,864)	(1)%

Our capital sources are focused on investments in our technology solutions, corporate infrastructure and strategic acquisitions to further expand into new business sectors and/or expand sales in existing sectors. We generate sufficient cash flows for working capital and expect to do so for the foreseeable future.

Our principal sources of liquidity on a short-term basis are cash and cash equivalents, and cash flows provided by operations. Our primary use of cash is compensation to our employees and payments for general operating expenses and interest expense. During the year ended December 31, 2020, we increased the capacity on our revolving commitment and borrowed the remaining availability as a precautionary measure to reinforce our cash position and preserve financial flexibility in light of the current uncertainty in the global economy resulting from the COVID-19 pandemic.

For the three months ended March 31, 2021 and the three months ended March 31, 2020, our Unlevered Free Cash Flow conversion rate was 83% and 78%, respectively. The increase was due to lower expected UE and SmarterChaos synergies and management proforma adjustments.

On July 15, 2020, the Company completed its Business Combination with Leo, and in accordance with the terms of the Business Combination Agreement, DMS received $40.0 million in cash and paid $10.0 million on the Monroe Facility.

Cash flows from operating activities

Net cash provided by operating activities was $1.2 million for the three months ended March 31, 2021 as compared to $1.1 million provided by in the three months ended March 31, 2020. The increase in comparable cash provided by operating activities was primarily due to continued growth of the business and payments of accrued expenses offset by stock-based compensation and the payout of the earnout compensation related to a previous acquisition of UE Authority, Co. during the three months ended March 31, 2020.

Cash flows from investing activities

Net cash used in investing activities for the three months ended March 31, 2021 increased by $3.9 million, or 130% to $6.8 million from $3.0 million for the three months ended March 31, 2020 primarily due to the recent acquisition of Aimtell/Aramis/PushPros and continued investments in internally developed software.

Cash flows from financing activities

Net cash used in financing activities for the three months ended March 31, 2021 was $(1.9) million, reflecting a decrease of $(10.6) million, or 121%, as compared to $8.8 million for the three months ended March 31, 2020. This decrease was mainly due to borrowings on revolving credit facilities during the period ended March 31, 2020.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. In addition, we do not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

SUMMARY OF CONTRACTUAL OBLIGATIONS

The following table presents our expected future contractual obligations as of March 31, 2021 (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Monroe Credit Facility (1)	$ 201,987	$ 7,141	$ 8,000	$ 186,846	$ —
Notes payable- insurance premium	$ —	$ —	$ —	$ —	$ —
Operating leases (2)	$ 7,432	$ 1,562	$ 5,466	$ 404	$ —
Purchase obligations (3)	$ 10,931	$ 5,200	$ 5,731	$ —	$ —
Total	$ 220,350	$ 13,903	$ 19,197	$ 187,250	$ —

(1) Our credit facility matures July 2023. Our interest rate as of March 31, 2021 was used to forecast the expected future interest rate payments. These payments are inherently uncertain due to fluctuations in interest rates and outstanding borrowings that will occur over the remaining term of the credit facility.
(2) Management analyzed our current leases due to the COVID-19 economic environment and recorded a reserve as a result of the cease of use of certain leased properties, which was $3.0 million as of March 31, 2021.
(3) Purchase obligations include agreements to purchase goods and services that are enforceable, legally binding and specify all significant terms.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have prepared our consolidated financial statements in accordance with GAAP. In doing so, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses during the reporting period. Actual results could differ significantly from these estimates. A number of the estimates and assumptions relate to matters that are inherently uncertain as they pertain to future events. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. On an ongoing basis, we reconsider and evaluate our estimates and assumptions.

We believe that the accounting policies listed below involve our more significant judgments, estimates and assumptions and, therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary to understand and evaluate the consolidated financial statements included in this Quarterly Report.

Refer to Note 1. Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements, included in Item 1. Financial Statements of this Quarterly Report, for further information on our critical and other significant accounting policies.

Revenue recognition

The Company derives revenue primarily from fees earned through the delivery of qualified clicks, leads, inquiries, calls, applications, customers and, to a lesser extent, display advertisements, or impressions. The Company recognizes revenue when the Company transfers promised goods or services to clients in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company recognizes revenue pursuant to the five-step framework contained in ASC 606, Revenue from Contracts with Customers: (i) identify the contract with a client; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the performance obligations.

As part of determining whether a contract exists, probability of collection is assessed on a client-by-client basis at the outset of the contract. Clients are subjected to a credit review process that evaluates the clients’ financial position and the ability and intention to pay. If it is determined from the outset of an arrangement that the client does not have the ability or intention to pay, the Company will conclude that a contract does not exist and will continuously reassess its evaluation until the Company is able to conclude that a contract does exist.

Generally, the Company’s contracts specify the period of time as one month, but in some instances the term may be longer. However, for most of the Company’s contracts with clients, either party can terminate the contract at any time without penalty. Consequently, enforceable rights and obligations only exist on a day-to-day basis, resulting in individual daily contracts during the specified term of the contract or until one party terminates the contract prior to the end of the specified term.
The Company has assessed the services promised in its contracts with clients and has identified one performance obligation, which is a series of distinct services. Depending on the client’s needs, these services consist of a specified number or an unlimited number of clicks, leads, calls, applications, customers, etc. (hereafter collectively referred to as “marketing results”)

to be delivered over a period of time. The Company satisfies these performance obligations over time as the services are provided. The Company does not promise to provide any other significant goods or services to its clients.

Transaction price is measured based on the consideration that the Company expects to receive from a contract with a client. The Company's contracts with clients contain variable consideration as the price for an individual marketing result varies on a day-to-day basis depending on the market-driven amount a client has committed to pay. However, because the Company ensures the stated period of its contracts does not generally span multiple reporting periods, the contractual amount within a period is based on the number of marketing results delivered within the period. Therefore, the transaction price for any given period is fixed and no estimation of variable consideration is required.

If a marketing result delivered to a client does not meet the contractual requirements associated with that marketing result, the Company's contracts allow for clients to return a marketing result generally within 5-10 days of having received the marketing result. Such returns are factored into the amount billed to the client on a monthly basis and consequently result in a reduction to revenue in the same month the marketing result is delivered. No warranties are offered to the Company's clients.

The Company does not allocate transaction price as the Company has only one performance obligation and its contracts do not generally span multiple periods. Taxes collected from clients and remitted to governmental authorities are not included in revenue. The Company elected to use the practical expedient which allows the Company to record sales commissions as expense as incurred when the amortization period would have been one year or less.

The Company bills clients monthly in arrears for the marketing results delivered during the preceding month. The Company's standard payment terms are 30-60 days. Consequently, the Company does not have significant financing components in its arrangements.

Separately from the agreements the Company has with clients, the Company has agreements with Internet search companies, third-party publishers and strategic partners that we engage with to generate targeted marketing results for its clients. The Company receives a fee from its clients and separately pays a fee to the Internet search companies, third-party publishers and strategic partners. Other than certain of its managed services arrangements, the Company is the principal in the transaction. For the transactions where the Company is the principal, the fees paid by its clients are recognized as revenue and the fees paid to its Internet search companies, third-party publishers and strategic partners are included in cost of revenue.

Customer acquisition

The Company's performance obligation for Customer acquisition contracts is to deliver an unspecified number of potential customers or leads (i.e., number of clicks, emails, calls and applications) to the customer in real-time, on a daily basis as the leads are generated, based on predefined qualifying characteristics specified by our customer. The contracts generally have a one-month term and the Company has an enforceable right to payment for all leads delivered to the customer. The Company's customers simultaneously receive and consume the benefits provided, as the Company satisfies its performance obligations. The Company recognizes revenue as the performance obligations are satisfied over time.

When there is a delay between the period in which revenue is recognized and when a customer invoice is issued, revenue is recognized and the corresponding amounts are recorded as unbilled revenue (i.e., contract assets) within Accounts receivable, net on the consolidated balance sheets. In line with industry practice, the Company applies the constraint on variable consideration and records revenue based on internally tracked conversions (leads delivered), net of the amount tracked and subsequently confirmed by customers. Substantially all amounts included within the unbilled revenue balance are invoiced to customers within the month directly following the period of service. Historical estimates related to unbilled revenue have not been materially different from actual revenue billed.

Managed services

The Company's performance obligation for Managed service contracts is to provide continuous service of managing the customer's media spend for the purpose of generating leads through a third-party supplier of leads, as requested by our customer. Each month of service is distinct, and any variable consideration is allocated to a distinct month. Therefore, revenue is recognized as the performance obligation is satisfied each month and there is no estimation of revenue required at each reporting period for managed services contracts.

The Company enters into agreements with Internet search companies, third-party publishers and/or strategic partners to generate customer acquisition services for their Managed service customers. The Company receives a fee from its customers and separately pays a fee to the Internet search companies, third-party publishers and/or strategic partners. The third-party supplier is primarily responsible for the performance and deliverable to the customer, and the Company solely arranges for the third-party supplier to provide services to the customer. Therefore, in certain cases, the Company acts as the agent and the net fees earned by the Company are recorded as revenue, with no associated costs of revenue attributable to the Company.

Software services

The Company's performance obligation for Software services contracts is to provide the customer with continuous, daily access to the Company's proprietary software. Service provided each month is distinct, and any variable consideration is allocated to a distinct month. Therefore, revenue is recognized as the performance obligations are satisfied each month and there is no estimation of revenue required at each reporting period for Software services contracts.

Cost of revenue

Cost of revenue primarily includes media and related costs, which consist of the cost to acquire traffic through the purchase of impressions, clicks or actions from publishers or third-party intermediaries, such as advertising exchanges, and technology costs that enable media acquisition. These media costs are used primarily to drive user traffic to the Company's and its clients' media properties. Cost of revenue additionally consists of indirect costs such as data verification, hosting and fulfillment costs. Cost of revenue is presented exclusive of depreciation and amortization expenses, as well as salaries and related costs.

Cash and cash equivalents

The Company considers highly liquid securities and other investments purchased with an original or remaining maturity of three months or less at the date of the purchase to be cash equivalents. The Company's cash is primarily held as cash deposits with no cash restrictions at retail and commercial banks.

Accounts receivable, net

Accounts receivables are recorded net of the allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on factors including past write-offs and delinquency trends and current credit conditions. Accounts are written off when management determines that collection is unlikely. As of March 31, 2021 and 2020, the allowance for doubtful accounts was $3.5 million and $3.1 million, respectively, and bad debts expense was $0.4 million and $0.1 million for the three months ended March 31, 2021 and 2020, respectively.

Property and equipment, net

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Property and equipment consist of computer and office equipment, furniture and fixtures and leasehold improvements, which are depreciated on a straight-line basis over the estimated useful lives of the assets.

Management regularly assesses the carrying value of its long-lived assets to be held and used, including property and equipment, for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. If such events or circumstances are present, a loss is recognized to the extent the carrying value of the asset is in excess of estimated fair value.

Software development costs

Costs for software developed for internal use are capitalized as Property and equipment on the Consolidated Balance Sheets during the preliminary stage and post-implementation stages and any initial research and development and maintenance costs are expensed as incurred. Costs incurred in the application development stage are capitalized when the internal use software is placed in service, and amortized over the estimated economic life of the software from the date of implementation.

The capitalization and ongoing assessment of recoverability of development costs require considerable judgment by management with respect to certain external factors, including estimated economic life. Capitalized software development costs are amortized on a straight line basis over 3 years, an estimated useful life.

Goodwill and other intangible assets

As of the acquisition date, the Company measures and recognizes goodwill as the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any non-controlling interest in the acquiree (if any), and the acquisition date fair value of the Company's previously held equity interest in the acquiree (if any), over (b) the fair value of net assets acquired and liabilities assumed. Goodwill acquired in Business Combinations is assigned to the reporting unit that is expected to benefit from the combination as of the acquisition date.

On an annual basis, the Company performs a qualitative assessment of goodwill to determine whether it is necessary to perform a quantitative impairment test or more frequently upon the occurrence of certain triggering events or substantive changes in circumstances. The Company is only required to perform the annual quantitative goodwill impairment test if it is concluded that it is more likely than not that a reporting unit's fair value is less than its carrying amount.

Finite-lived intangible assets primarily consist of software with related technology, customer relationships, non-competition agreements and brand. These assets are initially capitalized based on fair value, acquisition cost, and fair value, if acquired as part of a business combination. The related costs are subsequently amortized on a straight-line basis over the estimated useful lives of the assets.

The Company tests intangible assets with finite useful lives for impairment when a triggering event occurs, or circumstances change indicating that the fair value of the entity may be below its carrying amount. If no triggering event occurs, further impairment testing is not necessary.

Contingencies

The Company is subject to legal, regulatory and other proceedings and claims that arise in the ordinary course of business. An estimated liability is recorded for those proceedings and claims when the loss from such proceedings and claims becomes probable and reasonably estimable. Outstanding claims are reviewed with internal and external counsel to assess the probability and the estimates of loss, including the possible range of an estimated loss. The risk of loss is reassessed each period and as new information becomes available and liabilities are adjusted as appropriate. The actual cost of resolving a claim may be substantially different from the amount of the liability recorded. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the consolidated financial position but could possibly be material to the consolidated results of operations or cash flows for any one period.

Business combinations

Under the acquisition method of accounting, the Company recognizes, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill.

The Company performs valuations of assets acquired and liabilities assumed and allocates the purchase price to its respective assets and liabilities. Determining the fair value of assets acquired and liabilities assumed requires management to use significant judgment and estimates, including the selection of valuation methodologies, estimates of future revenue, costs and cash flows, discount rates, and selection of comparable companies. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. As a result, actual results may differ from these estimates. During the measurement period, the Company may record adjustments to acquired assets and assumed liabilities, with corresponding offsets to goodwill. Upon the conclusion of a measurement period, any subsequent adjustments are recorded to earnings.

At the acquisition date, the Company measures the fair values of all assets acquired and liabilities assumed that arise from contractual contingencies. The Company also measures the fair values of all non-contractual contingencies if, as of the acquisition date, it is more likely than not that the contingency will give rise to an asset or a liability.

Acquisition related costs not considered part of the consideration are expensed as incurred.

Contingent consideration

The Company recognizes the fair value of any contingent consideration that is transferred to the seller in a business combination on the date at which control of the acquiree is obtained. Contingent consideration is classified as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability. If the contingent consideration is payable in cash, the Company classifies its contingent consideration as a liability. Contingent consideration payments related to acquisitions are measured at fair value at each reporting period using Level 3 unobservable inputs. The Company’s estimates of fair value are based upon projected cash flow, estimated volatility and other inputs but which are uncertain and involve significant judgments by management. Any changes in the fair value of these contingent consideration payments are included in income from operations in the consolidated statements of operations.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In most cases, the exit price and transaction (or entry) price will be the same at initial recognition. In this case, the fair value of financial instruments approximate fair value.

The fair value hierarchy uses a framework which requires categorizing assets and liabilities into one of three levels based on the inputs used in valuing the asset or liability.

- Level 1 inputs are unadjusted, quoted market prices in active markets for identical assets or liabilities.
- Level 2 inputs are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 inputs include unobservable inputs that are supported by little, infrequent or no market activity and reflect management’s own assumptions about inputs used in pricing the asset or liability.

Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Warrants

The Private Placement Warrants meet the definition of a derivative under ASC 815. The Private Placement Warrants are recorded as liabilities on the balance sheet at fair value, with subsequent changes in their respective fair values recognized in the consolidated statement of earnings (loss) and consolidated statements of comprehensive income (loss) at each reporting date. The Private Placement Warrants are valued using a Black-Scholes-Merton pricing model using a Monte Carlo fair value analysis based on estimated Class A Common Stock volatility, market price and exercise price and the remaining life of the Private Placement Warrants.

Advertising costs

All advertising, promotional and marketing costs are expensed when incurred. Advertising, promotional and marketing costs for the three months ended March 31, 2021 and 2020 were $0.2 million and $0.5 million, respectively.

Stock-based compensation

Stock-based compensation is measured using the grant-date fair value of the award of equity instruments, including stock options and restricted stock units (“RSUs”). The expense is recognized over the requisite service period and forfeitures are recognized as incurred.

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes-Merton option valuation model. This valuation model for stock-based compensation expense requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted-average period of time that the options granted are expected to be outstanding), the expected volatility in the fair market value of the Company’s common stock, a risk-free interest rate and expected dividends. The Company uses the simplified calculation of expected life as the contractual term for options of 10 years is longer than the Company has been publicly traded. The Company does not have enough historical perspective to estimate its volatility of its publicly traded shares or units. The Company’s common stock began trading on April 20, 2018; no cash dividends have been declared since that time, and we do not anticipate paying cash dividends in the foreseeable future. Expected volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company uses the straight-line method for expense attribution.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that the deferred tax assets will be realized. Deferred tax assets and liabilities are calculated by applying existing tax laws and the rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the year of the enacted rate change.

The Company accounts for uncertainty in income taxes using a recognition and measurement threshold for tax positions taken or expected to be taken in a tax return, which are subject to examination by federal and state taxing authorities. The tax benefit from an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination by taxing authorities based on technical merits of the position. The amount of the tax benefit recognized is the largest amount of the benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The effective tax rate and the tax basis of assets and liabilities reflect management’s estimates of the ultimate outcome of various tax uncertainties. The Company recognizes penalties and interest related to uncertain tax positions within the provision (benefit) for income taxes line in the accompanying consolidated statements of operations.

DMSH, the Company’s accounting predecessor, is a limited liability company treated as a partnership for U.S. federal income tax purposes and is not subject to entity-level U.S. federal income tax, except with respect to UE, which was acquired in November 2019. Because UE is treated as a corporation for U.S. federal income tax purposes, it is subject to entity-level U.S. federal income tax. As a result of the Business Combination, Blocker’s allocable share of earnings from DMSH are also subject to U.S. federal and state and local income taxes.

Tax Receivable Agreement

In conjunction with the Business Combination, DMS Inc. and Blocker also entered into the Tax Receivable Agreement with the Sellers. Pursuant to the Tax Receivable Agreement, DMS Inc. is required to pay the Sellers (i) 85% of the amount of savings, if any, in U.S. federal, state and local income tax that DMS Inc. and Blocker actually realize as a result of (A) certain existing tax attributes of Blocker acquired in the Business Combination, and (B) increases in Blocker's allocable share of the tax basis of the assets of DMS and certain other tax benefits related to the payment of the cash consideration pursuant to the Business Combination Agreement and any redemptions or exchanges of DMS Units for cash or Class A Common Stock after the Business Combination and (ii) 100% of certain refunds of pre-Closing taxes of DMSH and Blocker received during a taxable year beginning within two (2) years after the Closing. All such payments to the Sellers are the obligation of DMS Inc., and not that of DMSH. As a result of the Business Combination, the Company recorded a deferred tax asset and income tax receivable of $20.1 million and $199 thousand, respectively, with the offset as a long-term Tax Receivable Agreement liability of $16.3 million and Additional Paid-in Capital of $4.0 million in the consolidated balance sheet.

As of March 31, 2021, the total amount of under the Tax Receivable Agreement was $16.3 million, of which $0.5 million was current and included in Accrued expenses and other current liabilities on the consolidated balance sheet.

Earnings per share

Basic earnings per share of Class A common stock is computed by dividing net income attributable to DMS Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income attributable to DMS Inc., adjusted for the assumed exchange of all potentially dilutive securities, by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive elements.

Prior to the Business Combination, the membership structure of DMSH included units which had profit interests. The Company analyzed the calculation of earnings per unit for periods prior to the Business Combination and determined that it resulted in values that would not be meaningful to the users of these consolidated financial statements. Therefore, earnings per share information has not been presented for January 1, 2020 through July 15, 2020, the Business Combination date.

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to Note 1. Summary of Significant Accounting Policies in the Notes to Unaudited Condensed Consolidated Financial Statements, included in Item 1. Financial Statements of this Quarterly Report, for a more detailed discussion on recent accounting pronouncements and the related impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In addition to the inherent operational risks, the Company is exposed to certain market risks, primarily related to changes in interest rates.

As of the quarter ended March 31, 2021 and year ended December 31, 2020 we had $229.0 million outstanding under our Monroe Facility, which had an effective interest rate of 5.19% and 5.20% for the quarter ended March 31, 20211 and year ended December 31, 2020, respectively.

The effective interest rate was in a variable rate range between 5.19% and 5.24%, equal to the three-month LIBOR, or an alternate base rate, plus an agreed upon margin with the lender. Refer to Note 7. Debt in the Notes to Unaudited Condensed Consolidated Financial Statements, included in Item 1. Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report, for further details on our debt.

LIBOR is expected to be discontinued after 2021. The expected discontinuation of LIBOR will require borrowers to transition from LIBOR to an alternative benchmark interest rate. We are currently evaluating the impact of the transition from LIBOR as an interest rate benchmark to other potential alternative reference rates. We do not currently have material contracts, with the exception of the above-mentioned items, that are indexed to LIBOR. We will continue to actively assess the related opportunities and risks involved in this transition.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information otherwise required under this Item 3.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2021, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that during the period covered by this Quarterly Report, our disclosure controls and procedures were not effective because of the material weaknesses in our internal control over financial reporting described in our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed on May 17, 2021. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our quarterly interim consolidated financial statements will not be prevented or detected on a timely basis.

Changes in Internal Control Over Financial Reporting

Since completing the Business Combination, with the oversight of senior management and our audit committee, we have been taking steps to improve and enhance our internal control over financial reporting, and more recently to remediate the material weaknesses described in our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed on May 17, 2021. These steps include: (i) moving to a new accounting system for the period commencing on January 1, 2021 for more efficient and timely reporting; (ii) hiring additional personnel to oversee and effectively allow for formally documenting accounting policies and ensuring compliance with accounting requirements; (iii) continuing to improve and maintain policies, processes and documentation procedures to improve the overall efficiency and accuracy of our financial reporting; and (iv) establishing an ongoing program of education for our corporate finance and reporting employees, specifically including U.S. GAAP and the application of accounting pronouncements.

Except as disclosed above, there was no change in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various disputes and litigation that arise in the ordinary course of business. However, separate from such matters, to the best of our knowledge, there are no material pending or threatened legal proceedings to which we are a party, either individually or in the aggregate.

Item 1A. Risk Factors

As of March 31, 2021, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K/A for the year ended December 31, 2020, filed on May 17, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds from Registered Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Description
3.1	Certificate of Incorporation of Digital Media Solutions, Inc. (incorporated by reference to Exhibit 3.1 to Digital Media Solutions, Inc.'s Current Report on Form 8-K filed with the SEC on July 16, 2020).
3.2	Bylaws of Digital Media Solutions, Inc. (incorporated by reference to Exhibit 3.2 to Digital Media Solutions, Inc.'s Current Report on Form 8-K filed with the SEC on July 16, 2020).
10.1	Amendment No. 5 to Credit Agreement, dated February 1, 2021, by and among Digital Media Solutions Holdings, LLC, Digital Media Solutions, LLC, each of the affiliates of Digital Media Solutions, LLC party thereto, various financial institutions party thereto and Monroe Capital Management Advisors, LLC, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Digital Media Solutions, Inc.'s Current Report on Form 8-K filed with the SEC on February 4, 2021).
10.2 #	Offer Letter, dated February 13, 2021, by and between Digital Media Solutions, Inc. and Vasundara Srenivas (incorporated by reference to Exhibit 10.1 to Digital Media Solutions, Inc.'s Current Report on Form 8-K filed with the SEC on February 19, 2021).
10.3 #	Letter Agreement, dated March 16, 2021, by and between Digital Media Solutions, Inc. and Randall Koubek (incorporated by reference to Exhibit 10.15 to Digital Media Solutions, Inc.'s Post-Effective Amendment No. 1 to the Registration Statement on Form S-1 filed with the SEC on March 26, 2021).
10.4 #	Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of Digital Media Solutions Holdings, LLC, dated January 19, 2021 (incorporated by reference to Exhibit 10.4 to Digital Media Solutions, Inc.'s Annual Report on Form 10-K/A filed with the SEC on May 17, 2021).
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information for the period ended March 31, 2021, formatted in Inline XBRL: (i) Unaudited Condensed Consolidated Balance Sheets; (ii) Unaudited Condensed Consolidated Statements of Operations; (iii) Unaudited Condensed Consolidated Statements of Changes in Equity; (iv) Unaudited Condensed Consolidated Statements of Cash Flows; and (v) Notes to Unaudited Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Management contract and compensatory plan and arrangement.

SIGNATURE

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

Date: May 17, 2021

Digital Media Solutions, Inc.

/s/ Joseph Marinucci

Name:	Joseph Marinucci
Title:	President and Chief Executive Officer (Principal Executive Officer)

/s/ Vasundara Srenivas

Name:	Vasundara Srenivas
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

AMENDMENT NO. 1 TO AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

This Amendment No. 1 to Amended and Restated Limited Liability Company Agreement (this "Amendment"), is dated as of January 19, 2021. Each capitalized term used but not defined in this Amendment has the meaning given to it in the Amended and Restated Limited Liability Company Agreement of Digital Media Solutions Holdings, LLC (the "LLC Agreement").

RECITALS

WHEREAS, pursuant to Section 15.1 of the LLC Agreement, the Blocker Member proposed this Amendment to the Board of Managers of the Company;

WHEREAS, the Board of Managers submitted the Amendment to the Members for approval by written consent;

WHEREAS, the LLC Agreement may be amended with the consent of the Blocker Member and the Consent of the Non-Blocker Members;

WHEREAS, this Amendment has been approved by the Blocker Member and the Consent of the Non-Blocker Members; and

WHEREAS, in light of the approval of the Blocker Member and the Consent of the Non-Blocker Members, this Amendment may be implemented and reflected in a writing executed solely by the Company, and the Members shall be deemed a party to and bound by this Amendment.

NOW, THEREFORE, the LLC Agreement has been amended as follows:

1. Amendment to Section 14.1(b)(i) of the LLC Agreement. Section 14.1(b)(i) of the LLC Agreement is hereby amended by replacing the reference therein to "in the sole discretion of the Board of Directors" with "in the sole discretion of a majority of the members of the Board of Directors disinterested in the applicable decision."

2. Amendment to Section 14.1(b)(ii) of the LLC Agreement. Section 14.1(b)(ii) of the LLC Agreement is hereby amended by replacing the reference therein to "in the sole discretion of the Board of Directors" with "in the sole discretion of a majority of the members of the Board of Directors disinterested in the applicable decision."

3. Miscellaneous. Except to the extent specifically amended, modified or supplemented by this Amendment, the LLC Agreement remains unchanged and in full force and effect and this Amendment will be governed by and subject to the terms of the LLC Agreement, as amended by this Amendment. From and after the date of this Amendment, each reference in the LLC Agreement to "this Agreement," "hereof," "hereunder" or words of like import, and all references to the LLC Agreement in any and all agreements, instruments, documents, notes, certificates and other writings of every kind of nature

(other than in this Amendment or as otherwise expressly provided) will be deemed to mean the LLC Agreement, as amended by this Amendment, whether or not this Amendment is expressly referenced. Section 15.2(a) of the LLC Agreement is incorporated in this Amendment by reference and shall apply to this Amendment *mutatis mutandis*.

[Signature Pages Follow]

IN WITNESS WHEREOF, the undersigned has duly executed this Amendment as of the date first written above.

digital media solutions holdings, LLC

By: /s/ Joseph Marinucci

Name: Joseph Marinucci

Title: Chief Executive Officer

[Signature Page to Amendment No. 1]

EXHIBIT 31.1

CERTIFICATION
PURSUANT TO RULE 13a-14 AND 15d-14
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Joseph Marinucci, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 of Digital Media Solutions, 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 officers 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 officers 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 controls over financial reporting.

Date: May 17, 2021

By: /s/ Joseph Marinucci
Joseph Marinucci
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION
PURSUANT TO RULE 13a-14 AND 15d-14
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Vasundara Srenivas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 of Digital Media Solutions, 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 officers 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 officers 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 controls over financial reporting.

Date: May 17, 2021	By:	/s/ Vasundara Srenivas
		Vasundara Srenivas Chief Financial Officer (Principal Financial and Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report of Digital Media Solutions, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph Marinucci, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(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: May 17, 2021

/s/ Joseph Marinucci

Name:	Joseph Marinucci
Title:	President and Chief Executive Officer (Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report of Digital Media Solutions, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vasundara Srenivas, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(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: May 17, 2021

/s/ Vasundara Srenivas

Name:	Vasundara Srenivas
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)