Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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 November 7, 2022, 39,926,324 shares of the registrant’s Class A common stock; 25,699,464 of the registrant’s Class B common stock, par value $0.0001 per share; and 13,999,078 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.
Table of Contents

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 Quarterly 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 Quarterly 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 Traverse Data, Inc., 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 U.S. Securities and Exchange Commission ("SEC"), including those under "Risk Factors" in DMS's Annual Report on Form 10-K for the year ended December 31, 2021, filed on March 16, 2022 ("2021 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.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except per share data)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,271	$ 26,394
Accounts receivable, net of allowances of $5,654 and $4,459, respectively	45,780	51,578
Prepaid and other current assets	2,468	3,698
Income tax receivable	1,399	2,078
Total current assets	67,918	83,748
Property and equipment, net	18,167	19,168
Goodwill	77,219	76,558
Intangible assets, net	53,825	66,228
Other assets	808	889
Total assets	$ 217,937	$ 246,591
LIABILITIES AND DEFICIT		
Current liabilities:		
Accounts payable	$ 36,348	$ 42,073
Accrued expenses and other current liabilities	9,335	9,473
Current portion of long-term debt	2,250	2,250
Income taxes payable	721	103
Tax Receivable Agreement liability	1,190	1,310
Contingent consideration payable - current	1,371	7,370
Deferred acquisitions consideration payable - current	5,000	4,785
Total current liabilities	56,215	67,364
Long-term debt	214,838	215,505
Deferred tax liabilities	4,060	4,786
Private Placement Warrant liabilities	1,480	3,960
Contingent consideration payable - non-current	31	1,069
Other non-current liabilities	1,530	1,725
Total liabilities	278,154	294,409
Stockholders' deficit:		
Preferred stock, $0.0001 par value, 100,000 shares authorized; none issued and outstanding at September 30, 2022	—	—
Class A common stock, $0.0001 par value, 500,000 shares authorized; 39,926 issued and outstanding at September 30, 2022	4	3
Class B convertible common stock, $0.0001 par value, 60,000 shares authorized; 25,699 issued and outstanding at September 30, 2022	3	3
Class C convertible common stock, $0.0001 par value, 40,000 shares authorized; none issued and outstanding at September 30, 2022	—	—
Additional paid-in capital	(17,166)	(25,239)
Treasury stock, at cost, 125 and 0 shares, respectively	(156)	—
Cumulative deficit	(17,544)	(944)
Total stockholders' deficit	(34,859)	(26,177)
Non-controlling interest	(25,358)	(21,641)
Total deficit	(60,217)	(47,818)
Total liabilities and deficit	$ 217,937	$ 246,591

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue	$ 90,066	$ 107,399	$ 290,372	$ 309,281
Cost of revenue (exclusive of depreciation and amortization)	66,378	77,063	211,997	218,304
Salaries and related costs	11,668	12,449	38,612	34,426
General and administrative expenses	9,076	10,237	32,622	27,051
Depreciation and amortization	7,142	7,186	21,377	19,649
Acquisition costs	14	420	306	1,820
Change in fair value of contingent consideration liabilities	(3)	(3,085)	2,533	(2,525)
(Loss) income from operations	$ (4,209)	$ 3,129	$ (17,075)	$ 10,556
Interest expense	4,570	3,756	12,072	10,635
Change in fair value of warrant liabilities	1,000	(6,400)	(2,480)	(13,835)
Change in Tax Receivable Agreement liability	(121)	—	(121)	—
Loss on debt extinguishment	—	—	—	2,108
Net (loss) income before income taxes	$ (9,658)	$ 5,773	$ (26,546)	$ 11,648
Income tax expense	463	379	819	1,527
Net (loss) income	$ (10,121)	$ 5,394	$ (27,365)	$ 10,121
Net (loss) income attributable to non-controlling interest	(4,010)	1,858	(10,765)	4,217
Net (loss) income attributable to Digital Media Solutions, Inc.	$ (6,111)	$ 3,536	$ (16,600)	$ 5,904
Weighted-average shares outstanding - basic	39,961	36,511	37,644	35,050
Weighted-average shares outstanding - diluted	65,660	63,321	37,644	61,988
Earnings (loss) per share attributable to Digital Media Solutions, Inc.:				
Basic - per common shares	$ (0.15)	$ 0.10	$ (0.44)	$ 0.17
Diluted - per common shares	$ (0.15)	$ 0.09	$ (0.44)	$ 0.16

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

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

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Cumulative Deficit	Total Stockholders' Deficit	Non-controlling Interest	Total Deficit
	Shares	Amount	Shares	Amount						
Balance, June 30, 2022	36,564	$ 3	25,699	$ 3	$ (22,313)	$ —	$ (11,060)	$ (33,367)	$ (28,152)	$ (61,519)
Net loss	—	—	—	—	—	—	(6,111)	(6,111)	(4,010)	(10,121)
Shares issued in connection with the Crisp Earnout (Note 6)	2,989	1	—	—	9,999	—	—	10,000	—	10,000
Stock-based compensation	—	—	—	—	1,579	—	—	1,579	—	1,579
Shares issued under the 2020 Omnibus Incentive Plan	498	—	—	—	—	—	—	—	—	—
Treasury shares purchased under the 2020 Omnibus Incentive Plan	(125)	—	—	—	—	(156)	—	(156)	—	(156)
Impact of transactions affecting non-controlling interest (1)	—	—	—	—	(6,804)	—	—	(6,804)	6,804	—
Balance, September 30, 2022	39,926	$ 4	25,699	$ 3	$ (17,539)	$ (156)	$ (17,171)	$ (34,859)	$ (25,358)	$ (60,217)

(1) The carrying amount of non-controlling interest was adjusted to reflect the change in ownership interest caused by shares issued in connection with the Crisp Earnout and shares issued under the 2020 Omnibus Incentive Plan.

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Cumulative Deficit	Total Stockholders' Deficit	Non-controlling Interest	Total Deficit
	Shares	Amount	Shares	Amount					
Balance, June 30, 2021	35,818	$ 3	25,699	$ 3	$ (27,642)	$ (737)	$ (28,373)	$ (24,534)	$ (52,907)
Net income	—	—	—	—	—	3,536	3,536	1,858	5,394
Shares issued under the 2020 Omnibus Incentive Plan	350	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,583	—	1,583	—	1,583
Impact of transactions affecting non-controlling interest (1)	—	—	—	—	(1,416)	—	(1,416)	1,416	—
Correction of Business Combination Tax Receivable Agreement	—	—	—	—	(322)	—	(322)	—	(322)
Other (2)	—	—	—	—	80	—	80	(75)	5
Balance, September 30, 2021	36,168	$ 3	25,699	$ 3	$ (27,717)	$ 2,799	$ (24,912)	$ (21,335)	$ (46,247)

(1) The carrying amount of non-controlling interest was adjusted to reflect the change in ownership interest caused by shares issued under the 2020 Omnibus Incentive Plan.
(2) Includes costs associated with the issuance of equity shares.

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

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Cumulative Deficit	Total Stockholders' Deficit	Non-controlling Interest	Total Deficit
	Shares	Amount	Shares	Amount						
Balance, December 31, 2021	36,226	$ 3	25,699	$ 3	$ (25,239)	$ —	$ (944)	$ (26,177)	$ (21,641)	$ (47,818)
Net loss	—	—	—	—	—	—	(16,600)	(16,600)	(10,765)	(27,365)
SmarterChaos DMSH units redeemed and issued to Class A Common Stock (1)	153	—	—	—	—	—	—	—	—	—
Shares issued in connection with the Crisp Earnout (Note 6)	2,989	1	—	—	9,999	—	—	10,000	—	10,000
Stock-based compensation	—	—	—	—	5,695	—	—	5,695	—	5,695
Shares issued under the 2020 Omnibus Incentive Plan	683	—	—	—	—	—	—	—	—	—
Distributions to non-controlling interest holders (2)	—	—	—	—	—	—	—	—	(573)	(573)
Treasury shares purchased under the 2020 Omnibus Incentive Plan	(125)	—	—	—	—	(156)	—	(156)	—	(156)
Impact of transactions affecting non-controlling interest (3)	—	—	—	—	(7,621)	—	—	(7,621)	7,621	—
Balance, September 30, 2022	39,926	$ 4	25,699	$ 3	$ (17,166)	$ (156)	$ (17,544)	$ (34,859)	$ (25,358)	$ (60,217)

(1) On January 17, 2022, the Sellers of SmarterChaos redeemed their remaining non-controlling interest held through DMSH Units in exchange for 153 thousand shares of Class A Common Stock in DMS, Inc. The non-controlling interest held by the Sellers of SmarterChaos did not include related Class B Common Stock to be retired upon redemption.

(2) Represents tax distributions to shareholders Prism, Clairvest and the Sellers of SmarterChaos. As of September 30, 2022, $10 thousand of these distributions have not been paid.

(3) The carrying amount of non-controlling interest was adjusted primarily to reflect the change in ownership interest caused by additional DMSH units redeemed and issued to Class A Common Stock by the Sellers of SmarterChaos, shares issued in connection with the Crisp Earnout and shares issued under the 2020 Omnibus Incentive Plan.

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

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Cumulative Deficit	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 (loss) income	—	—	—	—	—	5,945	5,945	4,176	10,121
Shares issued in connection with acquisition of Aramis, PushPros and Aimtell (Note 6)	1,293	—	—	—	9,384	—	9,384	5,616	15,000
Shares issued in connection with acquisition of Crisp Results (Note 6)	1,595	—	—	—	11,513	—	11,513	8,310	19,823
Exercise of warrants to issue Class A common stock	1	—	—	—	17	—	17	—	17
Prism shares redeemed and issued to Class A Common Stock	300	—	(300)	—	192	—	192	—	192
SmarterChaos DMSH units redeemed and issued to Class A Common Stock (1)	154	—	—	—	392	—	392	—	392
Shares issued under the 2020 Omnibus Incentive Plan	432	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	4,342	—	4,342	—	4,342
Impact of transactions affecting non-controlling interest (2)	—	—	—	—	(5,204)	—	(5,204)	5,204	—
Correction of Business Combination Tax Receivable Agreement	—	—	—	—	(322)	—	(322)	—	(322)
Other (3)	—	—	—	—	(4)	—	(4)	(123)	(127)
Balance, September 30, 2021	36,168	$ 3	25,699	$ 3	$ (27,717)	$ 2,799	$ (24,912)	$ (21,335)	$ (46,247)

(1) On June 30, 2021, the sellers of SmarterChaos redeemed approximately one-half of their non-controlling interest held through DMSH Units in exchange for Class A Common Stock in DMS Inc. The non-controlling interest held by the sellers of SmarterChaos did not include related Class B Common Stock to be retired upon redemption.

(2) The carrying amount of non-controlling interest was adjusted to reflect the change in ownership interest caused by additional controlling shares contributed as a result of the Crisp acquisition and non-controlling redemptions by Prism and the sellers of SmarterChaos.

(3) Includes costs associated with the issuance of equity shares.

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

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

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities		
Net (loss) income	$ (27,365)	$ 10,121
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for bad debt	1,305	1,384
Depreciation and amortization	21,377	19,649
Lease restructuring charges	(167)	(81)
Loss on debt extinguishment	—	2,108
Stock-based compensation, net of amounts capitalized	5,332	3,976
Amortization of debt issuance costs	1,149	1,006
Deferred income tax provision, net	(1,160)	(856)
Change in fair value of contingent consideration	2,533	(2,525)
Change in fair value of warrant liability	(2,480)	(13,835)
Change in Tax Receivable Agreement liability	(120)	—
Change in income tax receivable and payable	1,297	(728)
Change in accounts receivable	4,824	(7,324)
Change in prepaid expenses and other current assets	1,120	(2,121)
Change in accounts payable and accrued expenses	(5,341)	(2,367)
Change in other liabilities	(195)	(516)
Net cash provided by operating activities	$ 2,109	$ 7,891
Cash flows from investing activities		
Additions to property and equipment	$ (5,247)	$ (7,875)
Acquisition of businesses, net of cash acquired	(2,579)	(24,830)
Net cash used in investing activities	$ (7,826)	$ (32,705)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	$ —	$ 220,840
Payments of long-term debt and notes payable	(1,687)	(200,414)
Proceeds from borrowings on revolving credit facilities	—	11,000
Payments of borrowings on revolving credit facilities	—	(15,000)
Payment of debt issuance costs	—	(3,565)
Payment of equity issuance	—	(475)
Payment of early termination	—	(188)
Proceeds from warrants exercised	—	11
Purchase of treasury stock related to stock-based compensation	(156)	—
Distributions to non-controlling interest holders	(563)	—
Other	—	(60)
Net cash (used in) provided by financing activities	$ (2,406)	$ 12,149
Net change in cash	$ (8,123)	$ (12,665)
Cash, beginning of period	26,394	31,397
Cash, end of period	$ 18,271	$ 18,732

	Nine Months Ended September 30,	
	2022	2021
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Period For		
Interest	$ 10,651	$ 10,908
Income taxes	$ 662	$ 3,837
Non-Cash Investing and Financing Transactions:		
Contingent and deferred acquisition consideration	$ 2,971	$ 11,877
Stock-based compensation capitalized in property and equipment	$ 363	$ 366
Capital expenditures included in accounts payable	$ 236	$ 550
Issuance of equity for Aimtell/Aramis//PushPros, and Crisp Results	$ 10,000	$ 35,000

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

DIGITAL MEDIA SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BUSINESS, BASIS OF PRESENTATION AND 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. The Company primarily operates and derives most of its revenues in the United States.

Basis of Presentation
These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair presentation of the results for the interim periods presented have been included. All significant intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. These estimates are based on information available as of the date of the unaudited consolidated financial statements; therefore, actual results could differ from those estimates. Interim results are not necessarily indicative of the results for a full year.

Business Combination
On July 15, 2020, Digital Media Solutions Holding ("DMSH") consummated the Business Combination with Leo Holdings Corp. ("Leo") pursuant to the Business Combination Agreement ("Business Combination"). Pursuant to the Business Combination, DMS Inc. acquired, directly and through its acquisition of the equity of Blocker, approximately 60.8% of the membership interest in DMSH, while 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") retained approximately 39.2% of the membership interest in DMSH ("non-controlling interests"). For additional information, see *Note 2. Business Combination* in the Notes to Consolidated Financial Statements in our 2021 Form 10-K.

Non-controlling Interest
The non-controlling interest represents the membership interest in DMSH held by holders other than the Company. As of September 30, 2022, the Prism, Clairvest Direct Sellers and SmarterChaos combined ownership percentage in DMSH was 39.2% and as of December 31, 2021 it was 41.6%.

Principles of Consolidation
The Company consists of DMS Inc. and its wholly-owned subsidiary, Blocker. 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 intangibles acquired in business combinations, loss contingencies, contingent consideration liabilities, asset impairments, and deferred taxes and amounts associated with the Tax Receivable Agreement.

Reclassifications
Certain prior period balances have been reclassified to conform to the current period presentation in the consolidated financial statements and the accompanying notes.

Significant Accounting Policies
There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in *Note 1. Business, Basis of Presentation and Summary of Significant Accounting Policies* in our 2021 Form 10-K.

New Accounting Standards

Accounting Standards Not Yet Adopted
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 adopt the standard using the optional transition method whereby we would apply the new lease requirements through a cumulative-effect adjustment on the effective date of adoption. 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 will adopt this standard in the last fiscal quarter of 2022 and we expect the adoption will have a material impact on our consolidated financial statements and disclosures.

The Company qualifies as an "emerging growth company" and 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 June 2016, the FASB issued authoritative guidance *ASC 326 Financial Instruments - Credit Losses*, regarding the impairment model known as the current expected credit loss ("CECL") model 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 CECL 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 emerging growth companies for 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. REVENUE

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

	Three Months Ended September 30, 2022				
	Brand Direct	Marketplace	Technology Solutions	Intercompany eliminations	Total
Net revenue:					
Customer acquisition	$ 41,381	$ 53,230	$ —	$ (8,059)	$ 86,552
Managed services	937	—	1,076	—	2,013
Software services	—	—	1,501	—	1,501
Total Net revenue	$ 42,318	$ 53,230	$ 2,577	$ (8,059)	$ 90,066

	Three Months Ended September 30, 2021				
	Brand Direct	Marketplace	Technology Solutions	Intercompany eliminations	Total
Net revenue:					
Customer acquisition	$ 63,332	$ 58,278	$ —	$ (18,133)	$ 103,477
Managed services	1,667	—	1,471	—	3,138
Software services	—	—	784	—	784
Total Net revenue	$ 64,999	$ 58,278	$ 2,255	$ (18,133)	$ 107,399

	Nine Months Ended September 30, 2022				
	Brand Direct	Marketplace	Technology Solutions	Intercompany eliminations	Total
Net revenue:					
Customer acquisition	$ 144,123	$ 166,128	$ —	$ (31,551)	$ 278,700
Managed services	4,211	—	3,989	—	8,200
Software services	—	—	3,472	—	3,472
Total Net revenue	$ 148,334	$ 166,128	$ 7,461	$ (31,551)	$ 290,372

	Nine Months Ended September 30, 2021				
	Brand Direct	Marketplace	Technology Solutions	Intercompany eliminations	Total
Net revenue:					
Customer acquisition	$ 174,341	$ 165,300	$ —	$ (43,260)	$ 296,381
Managed services	6,713	—	3,796	—	10,509
Software services	—	—	2,391	—	2,391
Total Net revenue	$ 181,054	$ 165,300	$ 6,187	$ (43,260)	$ 309,281

Contract Balances
The Company’s contract liabilities result from payments received from clients in advance of revenue recognition as they 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 unaudited consolidated balance sheets. As of September 30, 2022 and December 31, 2021, the balance of deferred revenue was $1.1 million and $1.8 million, respectively, and is recorded within “Accrued expenses and other current liabilities” on the unaudited consolidated balance sheets. We expect the majority of the deferred revenue balance at September 30, 2022 to be recognized as revenue during the following quarter.

For the three and nine months ended September 30, 2022, one customer accounted for approximately 27.9% and 23.0%, respectively, of our total revenues. For the three and nine months ended September 30, 2021, one customer accounted for approximately 19.3% and 14.9%, respectively, of our total revenues.

NOTE 3. 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue	$ 90,066	$ 107,399	$ 290,372	$ 309,281
Brand Direct	42,318	64,999	148,334	181,054
Marketplace	53,230	58,278	166,128	165,300
Technology Solutions	2,577	2,255	7,461	6,187
Intercompany eliminations	(8,059)	(18,133)	(31,551)	(43,260)
Cost of revenue (exclusive of depreciation and amortization)	66,378	77,063	211,997	218,304
Brand Direct	32,873	50,165	117,459	137,759
Marketplace	41,202	44,396	125,045	122,296
Technology Solutions	362	635	1,044	1,509
Intercompany eliminations	(8,059)	(18,133)	(31,551)	(43,260)
Gross profit (exclusive of depreciation and amortization)	$ 23,688	$ 30,336	$ 78,375	$ 90,977
Brand Direct	9,445	14,834	30,875	43,295
Marketplace	12,028	13,882	41,083	43,004
Technology Solutions	2,215	1,620	6,417	4,678
Salaries and related costs	11,668	12,449	38,612	34,426
General and administrative expenses	9,076	10,237	32,622	27,051
Depreciation and amortization	7,142	7,186	21,377	19,649
Acquisition costs	14	420	306	1,820
Change in fair value of contingent consideration liabilities	(3)	(3,085)	2,533	(2,525)
(Loss) income from operations	$ (4,209)	$ 3,129	$ (17,075)	$ 10,556

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

	Brand Direct	Marketplace	Technology Solutions	Total
Balance, December 31, 2021	$ 18,376	$ 54,554	$ 3,628	$ 76,558
Additions (Note 6)	—	—	716	716
Miscellaneous changes	(55)	—	—	(55)
Balance, September 30, 2022	$ 18,321	$ 54,554	$ 4,344	$ 77,219

The carrying amount of goodwill for all reporting units had no accumulated impairments as of September 30, 2022 and December 31, 2021.

Intangible assets, net

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

	Amortization Period (Years)	September 30, 2022 Gross	September 30, 2022 Accumulated Amortization	September 30, 2022 Net	December 31, 2021 Gross	December 31, 2021 Accumulated Amortization	December 31, 2021 Net
Technology	3 to 5	$ 54,336	$ (37,149)	$ 17,187	$ 51,946	$ (29,929)	$ 22,017
Customer relationships	2 to 9	49,423	(19,209)	30,214	49,273	(13,076)	36,197
Brand	1 to 7	12,168	(5,821)	6,347	12,109	(4,575)	7,534
Non-competition agreements	3	1,898	(1,821)	77	1,898	(1,418)	480
Total		$ 117,825	$ (64,000)	$ 53,825	$ 115,226	$ (48,998)	$ 66,228

The weighted average amortization period for intangible assets is 4 years in total, and by category is 4 years for technology, 6 years for customer relationships, 4 years for brand, 3 years for non-competition agreements.

Amortization expense relating to intangible assets subject to amortization for each of the next five years and thereafter is estimated to be as follows (in thousands):

	2022	2023	2024	2025	2026	Thereafter
Amortization expense	$ 4,719	$ 16,890	$ 14,311	$ 7,114	$ 6,368	$ 4,423

Amortization expense for finite-lived intangible assets is recorded on an accelerated straight-line basis. Amortization expense related to finite-lived intangible assets was $5.0 million and $15.0 million for the three and nine months ended September 30, 2022, respectively, and $5.5 million and $15.4 million for the three and nine months ended September 30, 2021, respectively.

NOTE 5. DEBT

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

	September 30, 2022	December 31, 2021
Term loan	$ 222,188	$ 223,875
Less: Unamortized debt issuance costs [1]	(5,100)	(6,120)
Debt, net	217,088	217,755
Less: Current portion of long-term debt	(2,250)	(2,250)
Long-term debt	$ 214,838	$ 215,505

(1) Includes net debt issuance discount and other costs.

On May 25, 2021, Digital Media Solutions, LLC (“DMS LLC”), as borrower, and DMSH, each of which is a subsidiary of DMS, entered into a five-year $275 million senior secured credit facility (the “Credit Facility”), with a syndicate of lenders (“Lenders”), arranged by Truist Bank and Fifth Third Bank, as joint lead arrangers, and Truist Bank, as administrative agent. The Credit Facility is guaranteed by, and secured by substantially all of the assets of, DMS LLC, DMSH LLC and their material subsidiaries, subject to customary exceptions. Pursuant to the Credit Facility, the Lenders provided DMS LLC with senior secured term loans consisting of a senior secured term loan with an aggregate principal amount of $225 million (the “Term Loan”) and a $50 million senior secured revolving credit facility (the “Revolving Facility”).

The Term Loan, which was issued at an original issue discount of 1.80% or $4.2 million, is subject to payment of 1.0% of the original aggregate principal amount per annum paid quarterly, with a bullet payment at maturity. The Term Loan will mature, and the revolving credit commitments under the Revolving Facility will terminate, on May 25, 2026, when any outstanding balances will become due.

Borrowings under the Revolving Facility bear interest, at our option, at either (i) adjusted LIBOR plus 4.25% or (ii) a base rate (which is equal to the highest of (a) the administrative agent’s prime rate, (b) the federal funds rate, as in effect from time to time, plus 0.50%, (c) one-month LIBOR plus 1.00%, and (d) 1.75% (the “Base Rate”)), plus 3.25%. The Term Loan bears interest at our option, at either (i) adjusted LIBOR plus 5.00% or (ii) the Base Rate plus 4.00%. Under the Revolving Facility, DMS LLC pays a 0.50% per annum commitment fee in arrears on the undrawn portion of the revolving commitments. Since May 25, 2021 our interest rate is based on LIBOR plus 5.00%. For the three and nine months ended September 30, 2022, the effective interest rate was 7.25%. On October 4, 2022, the Company drew $5.0 million on the Revolving Facility.

The initial $4.2 million debt discount and $3.5 million debt issuance cost related to the Term Loan and Revolving Facility is being amortized over the term of the loan using the effective interest method. As of September 30, 2022 the Term Loan debt discount and debt issuance cost classified as debt had a remaining unamortized balance of $3.1 million and $2.0 million, respectively. As of December 31, 2021, the Term Loan debt discount and debt issuance cost included in the carrying value of the debt had a remaining unamortized balance of $3.7 million and $2.4 million, respectively. At September 30, 2022 and December 31, 2021, the unamortized debt issuance cost of $0.6 million and $0.8 million, respectively, associated with the undrawn Revolving Facility is classified and amortized as “Other assets” within consolidated balance sheets.

Upon the closing of the Credit Facility, the credit agreement dated as of July 3, 2018, by and among DMS LLC, DMSH, each of their subsidiaries party thereto, various financial institutions party thereto and Monroe Capital Management Advisors, LLC, as administrative agent and lead arranger, and all outstanding amounts thereunder that was previously outstanding with an aggregate principal amount of $210 million was extinguished, and the $15 million revolving credit facility was closed.

As of September 30, 2022 and December 31, 2021, respectively, we were in material compliance with all financial covenants. If the Company fails to comply with its financial covenants, an event of default under the Credit Facility would be triggered and the Company’s obligations under the Credit Facility may be accelerated. Management is monitoring the Company’s compliance and future ability to comply with all financial covenants, which management estimates may not be met within one year of issuance of these consolidated financial statements. Management is prepared to take certain steps to ensure compliance, including requesting waivers from or entering into amendments with the Lenders.

Debt Maturity Schedule

The scheduled maturities of our total debt are estimated as follows at September 30, 2022 (in thousands):

2022	$	563
2023		2,250
2024		2,250
2025		2,250
2026		214,875
Total debt	$	222,188

NOTE 6. ACQUISITIONS

Traverse

On May 10, 2022, the Company acquired Traverse Data, Inc. (“Traverse”). Traverse is a marketing and advertising technology company. The Company paid cash consideration of $2.5 million upon closing of the transaction. The transaction also includes up to $0.5 million in contingent consideration, subject to the achievement of certain milestones, which is payable in cash 15 months after the acquisition date.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date.

Determining the fair value of assets acquired and liabilities assumed requires management's judgment and involves the use of significant estimates, including projections of future cash inflows and outflows, discount rates, asset lives and market multiples. As the result of the completed valuation of the assets acquired (including intangibles) and liabilities assumed, as well as the contingent consideration liabilities, as of the acquisition dates, the following adjustments were recorded related to further analysis of the forecast (for example, items that occurring in the pre-acquisition period that should have been factored into the forecast as of the acquisition date) and refinements to the significant assumptions in the valuation models used to value the intangibles and contingent consideration liabilities. As a result, we have made adjustment to the initial and subsequent fair value of our intangible asset, goodwill, contingent consideration and working capital. The impact of these adjustments are as follows (in thousands):

Traverse	Acquisition Date Fair Value		Fair Value Mark-to-Market changes		Revised Acquisition Date Fair Value	
Goodwill	$	444	$	(162)	$	282
Intangible Assets:						
Technology	$	2,500	$	(10)	$	2,490
Customer relationships	$	50	$	—	$	50
Brand	$	59	$	—	$	59
Non-competition agreements	$	3	$	(3)	$	—
Contingent consideration liability	$	428	$	10	$	438
Working capital accounts	$	(49)	$	333	$	284

The Company primarily used Income Approach methodologies, 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 business have been included in the Company's results of operations since the acquisition date of May 10, 2022. 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 technology, brand, customer relationships and non-competition agreements. Fair value of the technology was determined using the Multi Period Excess Earnings Approach; fair value of the customer relationships was determined using the Excess Earnings Method utilizing distributor inputs; fair value of the brand was determined using the Relief from Royalty Method; and fair value of the non-competition agreements was determined using the Discounted Cash Flow Approach.

The goodwill related to this transaction reflects the synergies expected from combining the operations of Traverse and is included in the Technology Solutions reportable segment. Goodwill is expected to be deductible for tax purposes. Intangible assets primarily consist of technology, brand and customer relationships with an estimated useful life of five years for technology, three years for brand and five years for customer relationships.

Crisp Results

On April 1, 2021, the Company completed a transaction to purchase the assets of Crisp Marketing, LLC ("Crisp Results" or "Crisp"). 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 1.6 million Class A Common Stock valued at $20.0 million. The transaction also included up to $10.0 million in contingent consideration, subject to the achievement of certain milestones, which can be paid in cash or Class A Common Stock at the election of the Company, and a $5.0 million deferred payment, to be paid 18 months after the acquisition date.

Determining the fair value of assets acquired and liabilities assumed requires management's judgment and involves the use of significant estimates, including projections of future cash inflows and outflows, discount rates, asset lives and market multiples. As the result of the completed valuation of the assets acquired (including intangibles) and liabilities assumed, as well as the contingent consideration liabilities, as of the acquisition dates, adjustments were recorded related to further analysis of the forecast (for example, items that occurring in the pre-acquisition period that should have been factored into the forecast as of the acquisition date) and refinements to the significant assumptions in the valuation models used to value the intangibles and contingent consideration liabilities. As a result, we made adjustment to the initial and subsequent fair value of the intangible assets, goodwill, contingent consideration and working capital. Since December 31, 2021, there were no measurement period adjustments identified and recorded. Accounting for the acquisition was completed on March 31, 2022.

As of April 1, 2021, the acquisition date, the fair value of the contingent consideration was $5.2 million. During the nine months ended September 30, 2022, the fair value of the contingent consideration increased $2.6 million due to accretion to $10.0 million from December 31, 2021. As of April 1, 2022, the contingent consideration milestones were met, and the

Company paid it on July 1, 2022 in the form of 2.99 million unregistered shares of Class A Common Stock, priced at $3.3455, the average closing price of the Class A common stock during the twenty trading-day period ended March 31, 2022.

As of April 1, 2021, the acquisition date, the fair value of the deferred consideration was $4.6 million. During the nine months ended September 30, 2022, the present value of the deferred consideration increased $0.2 million due to accretion to $5.0 million from December 31, 2021. The $5.0 million deferred consideration became due on October 1, 2022, which the Company paid on October 4, 2022.

The Company primarily used Income Approach methodologies, 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 business have been included in the Company's results of operations since the acquisition date of April 1, 2021. Under 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. Fair value of the Crisp Results brand was determined using the Relief from Royalty Method, and the fair value of customer relationships was determined using the Multi Period Excess Earnings Method.

The goodwill related to this transaction reflects the workforce and synergies expected from combining the operations of Crisp Results and is included in the Marketplace reportable segment. Goodwill is expected to be deductible for tax purposes. Intangible assets primarily consist of brand and customer relationships with an estimated useful life of seven years for brand and six years for customer relationships.

Aimtell, Aramis and PushPros

On February 1, 2021, the Company acquired Aimtell, Inc. ("Aimtell"), PushPros, Inc. ("PushPros") and Aramis Interactive ("Aramis", and together with Aimtell and PushPros, "AAP"). Aimtell and PushPros are leading providers of technology-enabled digital performance advertising solutions that connect consumers and advertisers within the home, auto, health and life insurance verticals. 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 upon closing of the transaction, consisting of $5.0 million in cash and approximately 1.29 million shares of Class A Common Stock valued at $15.0 million. The transaction also included up to $15.0 million in contingent consideration to be earned over the three years following the acquisition, subject to the achievement of certain milestones. The contingent consideration can be paid in cash or Class A Common Stock at the election of the Company.

Determining the fair value of assets acquired and liabilities assumed requires management's judgment and involves the use of significant estimates, including projections of future cash inflows and outflows, discount rates, asset lives and market multiples. As the result of the completed valuation of the assets acquired (including intangibles) and liabilities assumed, as well as the contingent consideration liabilities, as of the acquisition date, we recorded adjustments during the year ended December 31, 2021 related to further analysis of the forecast (for example, items that occurring in the pre-acquisition period that should have been factored into the forecast as of the acquisition date) and refinements to the significant assumptions in the valuation models used to value the intangibles and contingent consideration liabilities. As a result, we made adjustments to the initial and subsequent fair value of the intangible assets, goodwill, contingent consideration and working capital. Since December 31, 2021, there was a $0.1 million measurement period adjustment identified and recorded in Goodwill during the period ended March 31, 2022. Accounting for the acquisition was completed on March 31, 2022.

As of February 1, 2021, the acquisition date, the fair value of the contingent consideration earnout was $2.1 million. As of September 30, 2022, the contingent consideration earnout fair value total changed to $1.0 million, decreasing since December 31, 2021. The contingent consideration can be paid in cash or DMS Class A Common Stock at the election of the Company.

The Company primarily used Income Approach methodologies, 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 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, technology, customer relationships and non-competition agreements of the acquired business. Fair value of the Aimtell and PushPros technology was determined using the

Multi Period Excess Earnings Method; fair value of the AAP non-compete agreements was determined using a Discounted Cash Flow Approach; fair value of the AAP brand was determined using a Relief from Royalty Method; fair value of the Aramis customer relationships was determined using the Multi Period Excess Earnings Method; and fair value of the Aimtell and PushPros customer relationships was determined using the excess earnings method with distributor inputs.

The goodwill related to this transaction reflects the workforce and synergies expected from combining the operations of AAP and is included in the Brand Direct reportable segment. Goodwill is expected to be deductible for Aramis and PushPros for tax purposes. Intangible assets primarily consist of technology and customer relationships.

The acquisition date fair value of assets acquired and liabilities assumed from the AAP, Crisp Results and Traverse acquisitions consist of the following (in thousands):

	Expected Useful Life	AAP 2021	Crisp Results 2021	Traverse 2022
Cash		$ —	$ —	$ 232
Goodwill		9,761	21,894	282
Technology	4 to 5	3,900	—	2,490
Customer relationships	4 to 6	7,690	19,600	50
Accounts receivable, net		3,100	2,610	276
Brand	1 to 7	208	7,400	59
Non-competitive agreements	1 to 3	83	—	—
Property and equipment	3 to 5	250	220	—
Accounts payable		(2,887)	(1,593)	(232)
Other assets acquired and liabilities assumed, net [1]		740	1	7
Net assets and liabilities acquired		$ 22,845	$ 50,132	$ 3,164

(1) Other assets acquired and liabilities assumed, net includes prepaids and other current assets, partially offset by other current liabilities (e.g., Travel and expense payables, payroll liabilities, tax liabilities, and transition services payable).

The weighted average amortization period for AAP acquisition technology is 4 years, customer relationships is 4.1 years, brand is 2.1 years and non-compete agreements is 3 years. The weighted average amortization period for Crisp Results acquisition customer relationships is 6 years, and brand is 7 years. The weighted average amortization period for Traverse acquisition technology is 5 years, customer relationships is 5 years, brand is 3 years and non-compete agreements is 1 year. In total, the weighted average amortization period for AAP is 4 years, Crisp Results is 5.6 years and Traverse is 5 years.

The following schedule represents the amounts of net revenue and net loss from operations related to Traverse, AAP and Crisp Results acquisitions which have been included in the unaudited consolidated statements of operations for the periods indicated subsequent to the acquisition date in the period of acquisition (in thousands):

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	Traverse	Traverse
Net revenue	$ 709	$ 1,069
Net income from operations	$ 229	$ 299

	Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	AAP	Crisp Results	AAP	Crisp Results
Net revenue	$ 5,976	$ 6,407	$ 16,051	$ 13,374
Net income (loss) from operations	$ 94	$ 734	$ (526)	$ 579

Pro Forma Information

The following unaudited pro forma financial information represents the consolidated financial information as if the acquisitions had been included in our consolidated results beginning on the first day of the fiscal year prior to their respective acquisition dates (in thousands):

	Three Months Ended September 30, 2021				
	DMS	AAP	Crisp Results	Traverse	Pro Forma
Net revenue	$ 107,399	$ —	$ —	$ 664	$ 108,063
Net income from operations	$ 3,129	$ —	$ —	$ 38	$ 3,167

	Nine Months Ended September 30, 2022		
	DMS	Traverse	Pro Forma
Net revenue	$ 290,372	$ 999	$ 291,371
Net loss from operations	$ (17,075)	$ (417)	$ (17,492)

	Nine Months Ended September 30, 2021				
	DMS	AAP	Crisp Results	Traverse	Pro Forma
Net revenue	$ 309,281	$ 2,465	$ 8,284	$ 1,917	$ 321,947
Net income (loss) from operations	$ 10,556	$ 457	$ 2,296	$ (29)	$ 13,280

The pro forma results do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the acquisitions; the costs to combine the companies' operations; or the costs necessary to achieve these costs savings, operating synergies and revenue enhancements. The pro forma results do not necessarily reflect the actual results of operations of the combined companies under our ownership and operation.

NOTE 7. 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. The Company leases office space in various locations within the United States and Canada. The leases entered into by the Company consist of both long-term and short-term leases.

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 in the unaudited consolidated statements of operations.

Since the year ended December 31, 2020, due to the economic environment caused by the COVID-19 pandemic, the Company entered into negotiations with landlords to terminate certain lease agreements, which reduced cash needs by approximately $1.9 million over the remaining life of the original leases through April 30, 2025. As of September 30, 2022, the Company has four leased properties, representing 55,798 square feet of office space located in the United States. During the third quarter of 2022, the Company entered into an agreement with a third-party to sublease a substantial portion of one of the Company's leased properties. Income from the subleased property is used to offset the Company's restructuring costs.

Valuation adjustments related to the reserve and lease accretion are recorded in General and administrative expenses in the consolidated statements of operations. The change in liability for the restructuring costs reserve for the three and nine months ended September 30, 2022 and 2021, respectively, was as follows (in thousands):

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
Beginning balance	$ 2,498	$ 2,957
Valuation adjustments	(73)	(300)
Lease payments	(242)	(333)
Lease accretion	68	45
Ending balance	$ 2,251	$ 2,369
Current portion - Accrued expenses and other current liabilities	$ 830	$ 1,200
Long-term portion - Other non-current liabilities	$ 1,421	$ 1,169

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Beginning balance	$ 2,516	$ 3,653
Valuation adjustments	397	(219)
Lease payments	(826)	(1,203)
Lease accretion	164	138
Ending balance	$ 2,251	$ 2,369
Current portion - Accrued expenses and other current liabilities	$ 830	$ 1,200
Long-term portion - Other non-current liabilities	$ 1,421	$ 1,169

NOTE 8. 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. The carrying amounts of our cash and cash equivalents, accounts receivable, income taxes receivable, accounts payable, accrued expenses and income taxes payable, approximate fair value because of the short-term maturity of those instruments.

Private Placement Warrants

We record the fair value of the Private Placement Warrants as a liability in our consolidated balance sheet as of September 30, 2022 and 2021, respectively. The fair value of the Private Placement Warrants is considered a Level 3 valuation and is determined using the Black-Scholes-Merton valuation model. Changes in fair value of the Private Placement Warrants are presented under Change in the fair value of warrant liabilities on the Income Statement. As of September 30, 2022, the Company has approximately 4.0 million Private Placement Warrants outstanding.

The significant assumptions were as follows:

	September 30, 2022
Private Placement Warrants Fair Value Per Share	$ 0.37
Private Placement Warrant valuation inputs:	
Stock price - DMS Inc. Class A Common Stock	$ 1.92
Remaining contractual term in years	2.79
Estimated volatility	90.0 %
Dividend yield	0.0 %
Risk free interest rate	4.20 %

Contingent consideration payable related to acquisitions

The fair value of the contingent considerations payable for the AAP and Traverse acquisitions (described in *Note 6. Acquisitions*) were determined using a Monte Carlo fair value analysis and a scenario-based methodology, respectively, 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 “Change in fair value of contingent consideration liabilities” on the statement of operations.

The contingent consideration payable for the Crisp acquisition was finalized on April 1, 2022, the end of the earnout period. As the full target was met, the payment was made on July 1, 2022 in the form of Class A Common Stock. (See *Note 6. Acquisitions*).

The following table presents the contingent consideration assumptions.

	Aimtell / PushPros
Revenue Volatility	25 %
Iteration (actual)	100,000
Risk adjustment discount rate	10.25 %
Risk free / Credit risk	12.75 %
Days gap from period end to payment	90

	Aramis
CYE2022 Earnout Successful Probability	99.0 %
Iteration (actual)	100,000
Risk free / Credit risk	12.75 %
Days gap from period end to payment	90

	Traverse
CYE2023 Earnout Successful Probability	95.0 %
Risk free / Credit risk	12.75 %
Days gap from period end to payment	90

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

		September 30, 2022			
Category	**Balance Sheet Location**	**Level 1**	**Level 2**	**Level 3**	**Total**
Liabilities:					
Private Placement Warrant liabilities	Total liabilities	$ —	$ —	$ 1,480	$ 1,480
Contingent consideration - Aramis	Contingent consideration payable - current	—	—	933	933
Contingent consideration - Traverse	Contingent consideration payable - current	—	—	438	438
Contingent consideration - Aimtell/PushPros	Contingent consideration payable - non-current	—	—	31	31
Total		$ —	$ —	$ 2,882	$ 2,882

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

	Private Placement Warrants	Contingent Consideration
Balance, July 1, 2022	$ 480	$ 11,403
Additions	—	2
Changes in fair value	1,000	(3)
Settlements	—	(10,000)
Balance, September 30, 2022	$ 1,480	1,402

	Private Placement Warrants	Contingent Consideration
Balance, December 31, 2021	$ 3,960	$ 8,439
Additions	—	430
Changes in fair value	(2,480)	2,533
Settlements	—	(10,000)
Balance, September 30, 2022	$ 1,480	$ 1,402

NOTE 9. 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 and repurchase 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, are 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. The related costs were approximately $5.3 million and $4.0 million for the nine months ended September 30, 2022 and 2021, respectively, and are included in "Salaries and related costs" within the Consolidated Statement of Operations. Fair value of stock-based compensation is based on the closing trading price of the Company's stock on the grant date.

Restricted Stock Units
On April 12, 2022, the Board voted to award 762,000 RSUs consisting of 381,406 performance-based vesting RSUs ("PRSUs") and 381,406 time-based vesting RSUs ("TRSUs") to executive management and certain key employees under the 2020 Plan. On July 1, 2022, the Board voted to award 326,000 RSUs consisting of 163,000 PRSUs and 163,000 TRSUs to executive management under the 2020 Plan. The TRSU and PRSUs vest one-fourth each year based on four years of continuous service starting with January 1, 2022 through January 1, 2026.

Vesting of the PRSUs are also subject to certain performance metrics of the Company, which the Company re-evaluates the probability of achievement on a quarterly basis. The TRSU's related stock-based compensation expense is recognized on a straight-line basis over the vesting period. The PRSU awards' expense is recognized on an accelerated basis over the vesting period.

On August 4, 2022, the Board voted to award an aggregate of 52,545 RSUs to the Company's non-employee directors under the 2020 Plan. The RSUs will vest on the date of the annual shareholder's meeting or on the anniversary of the award, whichever occurs first, and the related stock-based compensation expense is recognized on a straight-line basis over the vesting period.

NOTE 10. INCOME TAXES

As a result of the Business Combination, the Company consists of DMS Inc. and its wholly-owned subsidiary, Blocker, which owns 60.8% 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 and Traverse, wholly-owned U.S. corporate subsidiaries 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 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 $0.46 million and $0.82 million for the three and nine months ended September 30, 2022, respectively. The blended effective tax rate for the three and nine months ended September 30, 2022 was 4.8% and 3.1%, respectively, which varies from our statutory U.S. tax rate due to taxable income or loss that is allocated to the non-controlling interest and impact of the valuation allowance on DMS, Inc. The Company recorded $0.4 million and $1.5 million income tax expense for the three and nine months ended September 30, 2021, respectively. The blended effective tax rate for the three and nine months ended September 30, 2021 was 6.6% and 13.1%, respectively, which varies from our statutory U.S. tax rate due to taxable income or loss that is allocated to the non-controlling interest.

Tax Receivable Agreement

In conjunction with the Business Combination, DMS Inc. and Blocker also entered into a Tax Receivable Agreement ("TRA") 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 of September 30, 2022 and December 31, 2021, the Company recorded a full valuation allowance on our deferred tax asset ("DTA") related to the TRA along with the entire DTA inventory at DMS, Inc. and Blocker. At September 30, 2022, the remaining current portion of Tax Receivable Agreement liability of $1.2 million is attributable to carryback claims. We will continue to evaluate the positive and negative evidence in determining the realizability of the Company's DTAs.

NOTE 11. 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 income effects of dilutive instruments by the weighted-average number of shares of Class A Common Stock outstanding adjusted to give effect to potentially dilutive elements.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings (loss) per share of Class A Common Stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income	$ (10,121)	$ 5,394	$ (27,365)	$ 10,121
Net (loss) income attributable to non-controlling interest	(4,010)	$ 1,858	(10,765)	4,217
Net (loss) income attributable to Digital Media Solutions, Inc. - basic	$ (6,111)	$ 3,536	$ (16,600)	$ 5,904
Add: Income effects of Class B convertible common stock	$ (4,010)	$ 1,858	$ —	$ 4,217
Net (loss) income attributable to Digital Media Solutions, Inc. - diluted	$ (10,121)	$ 5,394	$ (16,600)	$ 10,121
Denominator:				
Weighted average shares - basic	39,961	36,511	37,644	35,050
Add: dilutive effects of Class B convertible common stock	25,699	25,853	—	25,853
Add: dilutive effects of employee equity awards	—	267	—	515
Add: dilutive effects of public warrants	—	—	—	168
Add: dilutive effects of deferred consideration	—	690	—	402
Weighted average shares - diluted	65,660	63,321	37,644	61,988
Net earnings (loss) per common share:				
Basic	$ (0.15)	$ 0.10	$ (0.44)	$ 0.17
Diluted	$ (0.15)	$ 0.09	$ (0.44)	$ 0.16

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

For the three and nine months ended September 30, 2022, the Company excluded 4.0 million private warrants, 10.0 million public warrants, 5.0 million deferred consideration, 1.7 million stock options, 1.0 million RSUs, and 0.3 million PRSUs, respectively, as their effect would have been anti-dilutive. For the nine months ended September 30, 2022, the Company excluded the Class B convertible common stock, as their effect would have been anti-dilutive.

For the three months ended September 30, 2021, the Company excluded 4.0 million private warrants, 10.0 million public warrants, 1.9 million employee equity awards, as the effect was anti-dilutive. For the nine months ended September 30, 2021, the Company excluded 4.0 million private warrants and approximately 1.9 million employee equity awards, as their effect would have been anti-dilutive.

For the three and nine months ended September 30, 2021, the Company excluded contingent consideration issued in connection with Aramis, Aimtell and PushPros and Crisp Results acquisitions, which were payable in DMS common stock, as the necessary conditions to pay such consideration had not been satisfied by the end of the period.

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

OVERVIEW

The following Management’s Discussion and Analysis (“MD&A”) is intended to assist in an understanding of our financial condition and results of operations. This MD&A is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to, our Consolidated Financial Statements (Unaudited) and accompanying Notes appearing elsewhere in this Quarterly Report (the “Notes”). In addition, reference should be made to our Audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and Item 7: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2021 Form 10-K. Except for the historical information contained herein, the discussions in this MD&A contain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in this MD&A under “Forward-Looking Statements and Factors that May Affect Future Results”.

RECENT DEVELOPMENTS

Strategic Alternatives

On August 16, 2021, we commenced a process to evaluate potential strategic alternatives to maximize shareholder value, and as part of that process, have been evaluating a full range of strategic, operational and financial alternatives. On September 8, 2022, our board of directors received an offer from Prism Data, LLC, an investment vehicle affiliated with our CEO Joseph Marinucci and our COO Fernando Borghese, to acquire all of our outstanding Class A common stock of DMS for $2.50 per share in cash. Our board of directors is reviewing and considering the Prism Data proposal as part of the ongoing strategic review process. There can be no assurance that either the Prism Data proposal or the strategic review process will result in any strategic alternative, or any assurance as to its outcome or timing.

Auditor Change

On August 16, 2022, following a competitive selection process, the Company's Audit Committee approved the engagement of Grant Thornton LLP (“GT”) as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2022. Effective on that same date, the Company dismissed Ernst & Young (“EY”) from that role. For further information, please refer to our Current Report on Form 8-K filed with the SEC on August 19, 2022.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue by type:				
Customer acquisition	96.1 %	96.3 %	96.0 %	95.8 %
Managed services	2.2 %	2.9 %	2.8 %	3.4 %
Software services	1.7 %	0.8 %	1.2 %	0.8 %
Total net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Revenue by segment:				
Brand Direct	47.0 %	60.5 %	51.1 %	58.6 %
Marketplace	59.0 %	54.3 %	57.2 %	53.4 %
Technology Solutions	2.9 %	2.1 %	2.6 %	2.0 %
Intercompany eliminations	(8.9)%	(16.9)%	(10.9)%	(14.0)%
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue (exclusive of depreciation and amortization)	73.7 %	71.8 %	73.0 %	70.6 %
Gross profit	26.3 %	28.2 %	27.0 %	29.4 %
Salaries and related costs	13.0 %	11.6 %	13.3 %	11.0 %
General and administrative	10.1 %	9.5 %	11.2 %	8.7 %
Depreciation and amortization	7.9 %	6.7 %	7.4 %	6.4 %
Acquisition costs	*	0.4 %	0.1 %	0.6 %
Change in fair value of contingent consideration	*	(2.9)%	0.9 %	(0.8)%
(Loss) income from operations	(4.7)%	2.9 %	(5.9)%	3.5 %
Interest expense	5.1 %	3.5 %	4.2 %	3.4 %
Change in fair value of warrant liabilities	1.1 %	(6.0)%	(0.9)%	(4.5)%
Change in Tax Receivable Agreement liability	(0.1)%	— %	*	— %
Loss on debt extinguishment	— %	— %	— %	0.7 %
Net (loss) income before income taxes	(10.8)%	5.4 %	(9.2)%	3.9 %
Income tax expense	0.5 %	0.4 %	0.3 %	0.5 %
Net (loss) income	(11.3)%	5.0 %	(9.5)%	3.4 %
Net (loss) income attributable to non-controlling interest	(4.5)%	1.7 %	(3.7)%	1.4 %
Net (loss) income attributable to Digital Media Solutions, Inc.	(6.8)%	3.3 %	(5.8)%	2.0 %

* Less than one tenth of a percent.

Operating Results for the three and nine months ended September 30, 2022 and 2021

The following table presents the consolidated results of operations for the three and nine months ended September 30, 2022 and 2021 and the changes from the prior period (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	$ Change	% Change	2022	2021	$ Change	% Change
Net revenue	$ 90,066	$ 107,399	$ (17,333)	(16)%	$ 290,372	$ 309,281	$ (18,909)	(6)%
Cost of revenue (exclusive of depreciation and amortization)	66,378	77,063	(10,685)	(14)%	211,997	218,304	(6,307)	(3)%
Salaries and related costs	11,668	12,449	(781)	(6)%	38,612	34,426	4,186	12 %
General and administrative	9,076	10,237	(1,161)	(11)%	32,622	27,051	5,571	21 %
Depreciation and amortization	7,142	7,186	(44)	(1)%	21,377	19,649	1,728	9 %
Acquisition costs	14	420	(406)	(97)%	306	1,820	(1,514)	(83)%
Change in fair value of contingent consideration	(3)	(3,085)	3,082	(100)%	2,533	(2,525)	5,058	(200)%
(Loss) income from operations	$ (4,209)	$ 3,129	$ (7,338)	(235)%	$ (17,075)	$ 10,556	$ (27,631)	(262)%
Interest expense	4,570	3,756	814	22 %	12,072	10,635	1,437	14 %
Change in fair value of warrant liabilities	1,000	(6,400)	7,400	(116)%	(2,480)	(13,835)	11,355	(82)%
Change in Tax Receivable Agreement liability	(121)	—	(121)	(100)%	(121)	—	(121)	(100)%
Loss on debt extinguishment	—	—	—	100 %	—	2,108	(2,108)	(100)%
Net (loss) income before income taxes	$ (9,658)	$ 5,773	$ (15,431)	(267)%	$ (26,546)	$ 11,648	$ (38,194)	(328)%
Income tax expense	463	379	84	22 %	819	1,527	(708)	(46)%
Net (loss) income	$ (10,121)	$ 5,394	$ (15,515)	(288)%	$ (27,365)	$ 10,121	$ (37,486)	(370)%
Net (loss) income attributable to non-controlling interest	(4,010)	1,858	(5,868)	(316)%	(10,765)	4,217	(14,982)	(355)%
Net (loss) income attributable to Digital Media Solutions, Inc.	$ (6,111)	$ 3,536	$ (9,647)	(273)%	$ (16,600)	$ 5,904	$ (22,504)	(381)%

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 period:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	$ Change	% Change	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	$ Change	% Change
Brand Direct								
Customer acquisition	$ 41,381	$ 63,332	$ (21,951)	(35)%	$ 144,123	$ 174,341	$ (30,218)	(17)%
Managed services	937	1,667	(730)	(44)%	4,211	6,713	(2,502)	(37)%
Total Brand Direct	$ 42,318	$ 64,999	$ (22,681)	(35)%	$ 148,334	$ 181,054	$ (32,720)	(18)%
Marketplace								
Customer acquisition	$ 53,230	$ 58,278	$ (5,048)	(9)%	$ 166,128	$ 165,300	$ 828	1 %
Total Marketplace	$ 53,230	$ 58,278	$ (5,048)	(9)%	$ 166,128	$ 165,300	$ 828	1 %
Technology Solutions								
Managed services	1,076	1,471	(395)	(27)%	3,989	3,796	193	5 %
Software services	1,501	784	717	91 %	3,472	2,391	1,081	45 %
Total Technology Solutions	$ 2,577	$ 2,255	$ 322	14 %	$ 7,461	$ 6,187	$ 1,274	21 %
Corporate and Other								
Customer acquisition	$ (8,059)	$ (18,133)	$ 10,074	(56)%	$ (31,551)	$ (43,260)	$ 11,709	(27)%
Total Corporate and Other	$ (8,059)	$ (18,133)	$ 10,074	(56)%	$ (31,551)	$ (43,260)	$ 11,709	(27)%
Total Customer acquisition	$ 86,552	$ 103,477	$ (16,925)	(16)%	$ 278,700	$ 296,381	$ (17,681)	(6)%
Total Managed services	2,013	3,138	(1,125)	(36)%	8,200	10,509	(2,309)	(22)%
Total Software services	1,501	784	717	91 %	3,472	2,391	1,081	45 %
Total Net revenue	$ 90,066	$ 107,399	$ (17,333)	(16)%	$ 290,372	$ 309,281	$ (18,909)	(6)%

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 a decrease in Customer acquisition revenue of $22.0 million or 35% and $30.2 million or 17% during the three and nine months ended September 30, 2022, respectively. Customer acquisition revenue for Marketplace decreased by $5.0 million or 9% and increased by $0.8 million or 0.5% for the three and nine months ended September 30, 2022, respectively. The changes in both the Brand Direct and Marketplace segments were primarily due to macro challenges within the insurance industry which continue to apply downward pressure on cost per click (“CPC”) and cost per lead (“CPL”) pricing. In addition we’ve observed aggressive competitive activities within our publisher portfolio, as well as an adjustment in the health insurance model shifting non-enrollment ad spend which impacted our performance since Q2.

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 a slight decrease of $1.1 million or 36% and a decrease of $2.3 million or 22% during the three and nine months ended September 30, 2022. The changes were primarily driven by decreased media activity, resulting in lower agency fees.

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 during the three and nine months ended September 30, 2022.

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 September 30,			Nine Months Ended September 30,		
	2022	2021	PPTS Change	2022	2021	PPTS Change
Brand Direct	22.3 %	22.8 %	(0.5)	20.8 %	23.9 %	(3.1)
Marketplace	22.6 %	23.8 %	(1.2)	24.7 %	26.0 %	(1.3)
Technology Solutions	86.0 %	71.8 %	14.2	86.0 %	75.6 %	10.4
Total gross profit percentage	26.3 %	28.2 %	(1.9)	27.0 %	29.4 %	(2.4)

Gross profit for Brand Direct decreased for the three and nine months ended September 30, 2022, primarily driven by inflationary uncertainty within the auto industry leading to compressed pricing and decreased acquisition spending, timing of optimized media rebalancing, and monetization challenges within the DMS ecosystem.

Gross profit for Marketplace decreased for the three and nine months ended September 30, 2022, primarily driven by macro industry headwinds applying downward pricing pressure impacting revenue performance within our Insurance business as well as the shift in ad spend from non enrollment periods from some of our health insurance partners. The ad spend shift particularly affected the profitability of the Crisp business model due to the more stable nature of call center operations.

Gross profit for Technology Solutions increased for the three and nine months ended September 30, 2022, driven by the optimization of media purchasing activity which led to larger budgets and resulted in increased fees in addition to the Traverse acquisition which carries a higher margin profile.

Total gross profit decreased for the three and nine months ended September 30, 2022, primarily due to the unexpected impact of inflationary pressures within the insurance industry which led to a decline in click pricing and shifts in health insurance budgets culminating in monetization contraction within the DMS ecosystem.

Salaries and related costs. Total compensation includes salaries, commissions, bonuses, payroll taxes and retirement benefits.
Salaries and related costs decreased by $0.8 million or 6.3% for the three months ended September 30, 2022 due to higher than expected attrition; and increased $4.2 million or 12.2% for the nine months ended September 30, 2022 due to an increase in stock-based compensation and headcount as a result of required expansion of our workforce to support the Company, as well as the addition of FTEs from the Crisp Results and DMS Voice licensing.

General and administrative. General and administrative 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 decreased $1.2 million or 11.3% for the three months ended September 30, 2022 largely due to improved client collections and synergies within software and technology; and increased $5.6 million or 20.6% for the nine months ended September 30, 2022 due to acquisition related expenses across multiple categories including software, technology, and professional expenses as well as an overall increase in compliance fees.

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 decreased $0.0 million or 0.6% for the three months ended September 30, 2022 due to fewer fixed assets purchased during the current quarter versus prior year's quarter; and increased $1.7 million or 8.8%, during the for the nine months ended September 30, 2022 due to fixed assets acquired with Crisp Results and AAP, as well as continued investments in internally developed software, which were placed in service during 2021.

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

Acquisition costs changed $0.4 million or 96.7% and $1.5 million or 83.2% during the three and nine months ended September 30, 2022, respectively. The changes were primarily due to prior year costs related to the AAP and Crisp acquisitions (see *Note 6. Acquisitions*).

Interest expense. Interest expense for three and nine months ended September 30, 2022 was related primarily to our debt, which carries a variable interest rate based on multiple options at either LIBOR plus 5% or an alternate base rate, plus an agreed upon margin with Truist Bank, the Company's financial institution since May 25, 2021 (see *Note 5. Debt*).

Interest expense increased by $0.8 million or 21.7% and $1.4 million or 13.5%, during the three and nine months ended September 30, 2022, respectively. The increases for the three and nine months ended September 30, 2022, were primarily due to approximately 1.0% increase in our LIBOR rate as a result of current financial markets.

Income tax expense. The Company recorded income tax expense of $0.5 million and $0.8 million for the three and nine months ended September 30, 2022, respectively. The blended effective tax rate for the three and nine months ended September 30, 2022 was 4.8% and 3.1%, respectively, which varies from our statutory U.S. tax rate due to taxable income or loss that is allocated to the non-controlling interest and impact of the valuation allowance on DMS, Inc.

NON-GAAP FINANCIAL MEASURES

In addition to providing financial measurements based on accounting principles generally accepted in the United States of America ("GAAP"), this Quarterly Report includes additional financial measures that are not prepared in accordance with GAAP ("non-GAAP"), including 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, non-operational, extraordinary or 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 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 (loss) income, excluding (a) interest expense, (b) income tax expense, (c) depreciation and amortization, (d) change in fair value of warrant liabilities, (e) debt extinguishment, (f) stock-based compensation, (g) change in Tax Receivable Agreement liability, (h) restructuring costs, (i) acquisition costs, and (j) other expense.

In addition, we adjust to take into account estimated cost synergies related to our acquisitions. These adjustments are estimated based on cost-savings that are expected to be realized within our acquisitions over time as these acquisitions are fully integrated into DMS. These cost-savings result from the removal of cost and or service redundancies that already exist within DMS, technology synergies as systems are consolidated and centralized, headcount reductions based on redundancies, right-sized cost structure of media and service costs utilizing the most beneficial contracts within DMS and the acquired companies with external media and service providers. We believe that these non-synergized costs tend to overstate our expenses during the periods in which such synergies are still being realized.

Furthermore, in order to review the performance of the combined business over periods that extend prior to our ownership of the acquired businesses, we include the pre-acquisition performance of the businesses acquired. Management believes that doing so helps to understand the combined operating performance and potential of the business as a whole and makes it easier to compare performance of the combined business over different periods.

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 between Adjusted net income and Adjusted EBITDA, and Unlevered Free Cash Flow, from Net loss, the most directly comparable GAAP measure (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income	$ (10,121)	$ 5,394	$ (27,365)	$ 10,121
Adjustments				
Interest expense	4,570	3,756	12,072	10,635
Income tax expense	463	379	819	1,527
Depreciation and amortization	7,142	7,186	21,377	19,649
Change in fair value of warrant liabilities [1]	1,000	(6,400)	(2,480)	(13,835)
Change in Tax Receivable Agreement liability	(121)	—	(121)	—
Loss on debt extinguishment	—	—	—	2,108
Stock-based compensation expense	1,424	1,516	5,332	4,046
Restructuring costs	(13)	52	2,166	133
Acquisition costs [2]	14	420	306	1,820
Change in fair value of contingent consideration liabilities	(3)	(3,085)	2,533	(2,525)
Other expense [3]	708	887	3,940	4,123
Adjusted net income	$ 5,063	$ 10,105	$ 18,579	$ 37,802
Additional adjustments				
Pro forma cost savings - Reorganization [4]	$ —	$ —	$ —	$ 31
Pro forma cost savings - Acquisitions [5]	—	856	—	2,656
Acquisitions EBITDA [6]	—	—	—	2,711
Adjusted EBITDA	$ 5,063	$ 10,961	$ 18,579	$ 43,200
Less: Capital Expenditures	2,050	3,663	5,247	7,875
Unlevered free cash flow	$ 3,013	$ 7,298	$ 13,332	$ 35,325
Unlevered free cash flow conversion	59.5 %	66.6 %	71.8 %	81.8 %

(1) Mark-to-market warrant liability adjustments.

(2) Includes business combination transaction fees, acquisition incentive payments and pre-acquisition expenses.

(3) Includes legal fees associated with acquisitions and other extraordinary matters, costs related to philanthropic initiatives, and private warrant transaction related costs.

(4) Costs savings as a result of the Company reorganization initiated in Q2 2020.

(5) Cost synergies expected as a result of the full integration of the acquisitions.

(6) Pre-acquisition Adjusted EBITDA results from the AAP and Crisp Results acquisitions during the three and nine months ended September 30, 2021.

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Unlevered free cash flow	$ 3,013	$ 7,298	$ 13,332	$ 35,325
Capital expenditures	2,050	3,663	5,247	7,875
Adjusted EBITDA	$ 5,063	$ 10,961	$ 18,579	$ 43,200
Acquisitions EBITDA (1)	—	—	—	2,711
Pro forma cost savings - Reorganization (2)	—	—	—	31
Pro forma cost savings - Acquisitions (3)	—	856	—	2,656
Adjusted net income	$ 5,063	$ 10,105	$ 18,579	$ 37,802
Acquisition costs (4)	14	420	306	1,820
Change in fair value of contingent consideration liabilities	(3)	(3,085)	2,533	(2,525)
Other expenses (5)	708	887	3,940	4,123
Stock-based compensation	1,424	1,516	5,332	4,046
Restructuring costs	(13)	52	2,166	133
Change in fair value of warrant liabilities (6)	1,000	(6,400)	(2,480)	(13,835)
Loss on debt extinguishment	—	—	—	2,108
Subtotal before additional adjustments	$ 1,933	$ 16,715	$ 6,782	$ 41,932
Less: Interest expense	4,570	3,756	12,072	10,635
Less: Income tax expense	463	379	819	1,527
Less: Change in Tax Receivable Agreement liability - Consolidated statements of operations	(121)	—	(121)	—
Provision for bad debt	(34)	475	1,305	1,384
Lease restructuring charges	(169)	(255)	(167)	(81)
Loss on debt extinguishment	—	—	—	2,108
Stock-based compensation, net of amounts capitalized	1,424	1,446	5,332	3,976
Amortization of debt issuance costs	211	478	1,149	1,006
Deferred income tax provision, net	(375)	(1,220)	(1,160)	(856)
Change in fair value of contingent consideration	(3)	(3,085)	2,533	(2,525)
Change in fair value of warrant liability	1,000	(6,400)	(2,480)	(13,835)
Change in Tax Receivable Agreement liability - Consolidated statements of cash flows	(120)	—	(120)	—
Change in income tax receivable and payable	666	1,600	1,297	(728)
Change in accounts receivable	798	(2,994)	4,824	(7,324)
Change in prepaid expenses and other current assets	(1,465)	(2,343)	1,120	(2,121)
Change in accounts payable and accrued expenses	(4,066)	4,401	(5,341)	(2,367)
Change in other liabilities	(220)	(326)	(195)	(516)
Net cash provided by operating activities	$ (5,332)	$ 4,357	$ 2,109	$ 7,891

(1) Pre-acquisition Adjusted EBITDA results from the AAP and Crisp Results acquisitions during the three and nine months ended September 30, 2021.

(2) Costs savings as a result of the Company reorganization initiated in Q2 2020.

(3) Cost synergies expected as a result of the full integration of the acquisitions.

(4) Includes business combination transaction fees, acquisition incentive payments and pre-acquisition expenses.

(5) Includes legal fees associated with acquisitions and other extraordinary matters, costs related to philanthropic initiatives, and private warrant transaction related costs.

(6) Mark-to-market warrant liability adjustments.

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 loss attributable to Digital Media Solutions, Inc. adjusted for (x) costs associated with the change in fair value of warrant liabilities, debt extinguishment, 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income	$ (10,121)	$ 5,394	$ (27,365)	$ 10,121
Net (loss) income attributable to non-controlling interest	(4,010)	$ 1,858	(10,765)	4,217
Net (loss) income attributable to Digital Media Solutions, Inc. - basic	$ (6,111)	$ 3,536	$ (16,600)	$ 5,904
Add: Income effects of Class B convertible common stock	$ (4,010)	$ 1,858	$ —	$ 4,217
Net (loss) income attributable to Digital Media Solutions, Inc. - diluted	$ (10,121)	$ 5,394	$ (16,600)	$ 10,121
Denominator:				
Weighted average shares - basic	39,961	36,511	37,644	35,050
Add: dilutive effects of Class B convertible common stock	25,699	25,853	—	25,853
Add: dilutive effects of employee equity awards	—	267	—	515
Add: dilutive effects of public warrants	—	—	—	168
Add: dilutive effects of deferred consideration	—	690	—	402
Weighted average shares - diluted	65,660	63,321	37,644	61,988
Net earnings (loss) per common share:				
Basic	$ (0.15)	$ 0.10	$ (0.44)	$ 0.17
Diluted	$ (0.15)	$ 0.09	$ (0.44)	$ 0.16

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Numerator:				
Net (loss) income attributable to Digital Media Solutions, Inc. - basic	$ (6,111)	$ 3,536	$ (16,600)	$ 5,904
Net (loss) income attributable to Digital Media Solutions, Inc. - diluted	$ (10,121)	$ 5,394	$ (16,600)	$ 10,121
Add adjustments:				
Change in fair value of warrant liabilities	$ 1,000	$ (6,400)	$ (2,480)	$ (13,835)
Loss on debt extinguishment	—	—	—	2,108
Acquisition and related costs	14	420	306	1,820
Restructuring costs	(13)	52	2,166	133
Business combination expenses	—	856	—	2,656
Stock-based compensation expense	1,424	1,516	5,332	4,046
	$ 2,425	$ (3,556)	$ 5,324	$ (3,072)
Net income tax expense based on conversion of units	—	(337)	—	565
Adjusted net income (loss) attributable to Digital Media Solutions, Inc. - basic	$ (3,686)	$ (357)	$ (11,276)	$ 3,397
Adjusted net income (loss) attributable to Digital Media Solutions, Inc. - diluted	$ (7,696)	$ 2,175	$ (11,276)	$ 6,484
Denominator:				
Weighted-average shares outstanding - basic	39,961	36,511	37,644	35,050
Weighted-average LLC Units of DMSH, LLC that are convertible into Class A common stock	25,699	36,511	24,109	35,050
	65,660	73,022	61,753	70,100
Adjusted EPS - basic	$ (0.06)	$ —	$ (0.18)	$ 0.05
Adjusted EPS - diluted	$ (0.12)	$ 0.03	$ (0.18)	$ 0.09

LIQUIDITY AND CAPITAL RESOURCES

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

	September 30, 2022	December 31, 2021	$ Change	% Change
Cash	$ 18,271	$ 26,394	$ (8,123)	(31)%
Availability under revolving credit facility	$ 50,000	$ 50,000	$ —	— %
Total Debt	$ 217,088	$ 217,755	$ (667)	— %

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.

Borrowings under the Revolving Facility bear interest, at our option, at either (i) adjusted LIBOR plus 4.25% or (ii) a base rate (which is equal to the highest of (a) the administrative agent’s prime rate, (b) the federal funds rate, as in effect from time to time, plus 0.50%, (c) one-month LIBOR plus 1.00%, and (d) 1.75% (the “Base Rate”)), plus 3.25%. The Term Loan bears interest at our option, at either (i) adjusted LIBOR plus 5.00% or (ii) the Base Rate plus 4.00%. Under the Revolving Facility, DMS LLC pays a 0.50% per annum commitment fee in arrears on the undrawn portion of the revolving commitments. Since

May 25, 2021 our interest rate is based on LIBOR plus 5.00%. For the three and nine months ended September 30, 2022, the effective interest rate was 7.25%. On October 4, 2022, the Company drew $5.0 million on the Revolving Facility.

The Term Loan, which was issued at an original issue discount of 1.80% or $4.2 million, is subject to payment of 1.0% of the original aggregate principal amount per annum paid quarterly, with a bullet payment at maturity. The Term Loan will mature, and the revolving credit commitments under the Revolving Facility will terminate, on May 25, 2026, when any outstanding balances will become due.

As of September 30, 2022 and December 31, 2021, respectively, we were in material compliance with all financial covenants. If the Company fails to comply with its financial covenants, an event of default under the Credit Facility would be triggered and the Company's obligations under the Credit Facility may be accelerated. Management is monitoring the Company's compliance and future ability to comply with all financial covenants, which management estimates may not be met within one year of issuance of these consolidated financial statements. Management is prepared to take certain steps to ensure compliance, including requesting waivers from or entering into amendments with the Lenders.

Cash flows from operating activities
Net cash provided by operating activities was $2.1 million for the nine months ended September 30, 2022 as compared to $7.9 million provided by operating activities in the nine months ended September 30, 2021. The decrease is primarily attributable to an increase in accounts receivable collections, and a decrease in accounts payable and current accrued expenses due to timing of vendor payments.

Cash flows from investing activities
Net cash used in investing activities for the nine months ended September 30, 2022 decreased by $24.9 million or 76% to $7.8 million from $32.7 million for the nine months ended September 30, 2021, primarily due to the timing of the acquisition of AAP and Crisp Results made during the first half of 2021.

Cash flows from financing activities
Net cash (used in) provided by financing activities for the nine months ended September 30, 2022 was $(2.4) million, reflecting an increase of $14.6 million or 120%, as compared to $12.1 million for the nine months ended September 30, 2021. This increase was due to higher required repayments of borrowings of long-term debt and notes payable in the prior year under the Monroe Credit Facility and Insurance Premium Financial Service arrangements.

For the nine months ended September 30, 2022, our Unlevered Free Cash Flow conversion rate decreased 10% due to lower business performance.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Refer to Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operation in our 2021 Form 10-K, for further information on our critical and other significant accounting policies.

RECENTLY ISSUED ACCOUNTING STANDARDS

Refer to *Note 1. Business, Basis of Presentation and Summary of Significant Accounting Policies* in the Notes to Consolidated Financial Statements (Unaudited), 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

For our disclosures about market risk, please see Part II, Item 7A: Quantitative and Qualitative Disclosures about Market Risk in our 2021 Form 10-K.

Interest Rate Risk
As of September 30, 2022, we had total debt outstanding of $217.1 million (net of $5.1 million of unamortized discount and debt issuance costs), which was comprised of amounts outstanding under our original Term Loan of $225 million. Substantially all this debt bears interest at floating rates. Changes in interest rates affect the interest expense we pay on our floating rate debt. A hypothetical 1% (100 basis points) increase in interest rates would increase our interest expense by approximately $2.3 million annually, based on the debt outstanding at September 30, 2022.

Item 4. Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation as of September 30, 2022, the principal executive officer and principal financial officer of the Company have concluded that during the period covered by this Quarterly Report, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were not effective because of the material weakness in our internal control over financial reporting described in our 2021 Form 10-K. 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.

Management's Report on Internal Control Over Financial Reporting

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on our evaluation under the framework in Internal Control - Integrated Framework, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2021, as a material weakness existed. 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 consolidated financial statements could occur but will not be prevented or detected on a timely basis.

In this regard, in connection with our implementation of policies and procedures with respect to accounts receivable, including the allowance for doubtful accounts, and associated revenue, we previously discovered a material error in a customer receivable account, related to a duplicate billing of a customer in fiscal years 2020 and 2021. As a result of these matters, we determined that our controls around revenue and accounts receivable policies and procedures were not effective as of December 31, 2021. The errors related to these matters have been corrected and are properly reflected in our consolidated financial statements for the year ended December 31, 2021.

We continue to analyze our aged receivables and have not identified any additional material errors similar to the items identified above. We are monitoring our processes and controls around evaluating the collectability of customer receivables along with assessing the loss rates used to calculate the reserve for potential uncollectible receivables. We believe our ongoing efforts will be sufficient to remediate the identified material weakness.

We will not consider the material weakness remediated until the remedial controls operate for a sufficient period of time and we have concluded, through testing, that these controls are effectively designed and operating effectively. We will continue to assess throughout 2022.

Changes in Internal Control Over Financial Reporting
Except as disclosed above, there have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

The Company’ s business, results of operations, and financial condition are subject to various risks and uncertainties, including those described below and in Part I, Item 1A: Risk Factors in our 2021 Form 10-K.

We have entered into, and may in the future enter into, credit facilities which may contain operating and financial covenants that restrict our business and financing activities.

We have entered into, and may in the future enter into, credit facilities which contain restrictions that limit our flexibility in operating our business. Our credit facility contains, and any future credit facility may contain, various covenants and ratios that limit our ability to engage in specific types of transactions. For example, under our credit facility, we have a net leverage ratio covenant of 5:1, which will reduce to 4.5:1 as of December 31, 2022. Subject to limited exceptions, these covenants and ratios limit our ability to, among other things:

- sell assets or make changes to the nature of our business;
- engage in mergers or acquisitions;
- incur, assume or permit additional indebtedness;
- make restricted payments, including paying dividends on, repurchasing, redeeming or making distributions with respect to our capital stock;
- make specified investments;
- engage in transactions with our affiliates; and
- make payments in respect of subordinated debt.

Our obligations under our credit facility are collateralized by a pledge of substantially all of our assets, including accounts receivable, deposit accounts, intellectual property, and investment property and equipment. The covenants in our credit facility may limit our ability to obtain future financing, make needed capital expenditures, withstand a downturn in our business or economy in general or otherwise conduct necessary corporate activities. We may also be prevented from taking advantage of business opportunities that arise because of the limitations that the restrictive covenants under the credit facility impose on us. In the event that we breach one or more covenants, our lenders may choose to declare an event of default and require that we immediately repay all amounts outstanding, terminate the commitment to extend further credit and foreclose on the collateral granted to them to collateralize such indebtedness, which includes our intellectual property. Although we are currently in compliance with these covenants, if we anticipate non-compliance with certain financial covenants and ratios, we may be forced to request waivers from or enter into amendments with our lenders to avoid default. We cannot assure you that we will be able to negotiate a change to our credit facilities to allow us to amend these covenants or that any such amendment will be available to us on favorable terms. An inability on our part to amend the financial covenants could limit our ability to take advantage of the benefits described above related to our ability to engage in specific types of transactions and could decrease our earnings, if any, which would have an adverse effect on our results of operations and the value of our shares of common stock. In addition, if we fail to meet the required covenants and ratios, we will not have access to further draw-downs under our credit facility.

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).
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.INS*	Inline XBRL Instance Document
101.SCH*†	Inline XBRL Taxonomy Extension Schema
101.CAL*†	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF*†	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB*†	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE*†	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

† Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement for purposes of Section 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these section

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: November 9, 2022

Digital Media Solutions, Inc.

/s/ Joseph Marinucci

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

/s/ Richard Rodick

Name:	Richard Rodick
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

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 September 30, 2022 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: November 9, 2022	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, Richard Rodick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 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: November 9, 2022

By: /s/ Richard Rodick
Richard Rodick
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 September 30, 2022, 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: November 9, 2022

/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 September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard Rodick, 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: November 9, 2022

/s/ Richard Rodick

Name:	Richard Rodick
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)