

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of  
**Propel Media, Inc. and Subsidiaries**

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Propel Media, Inc. and Subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, changes in stockholders’ deficit and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

Marcum LLP

A handwritten signature in black ink that reads "Marcum LLP". The letters are cursive and fluid, with the "M" and "L" being particularly prominent.

We have served as the Company's auditor since 2015.

Melville, NY  
April 25, 2019

**Propel Media, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

	<b>As of December 31,</b>	
<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current assets		
Cash	\$ 2,162,000	\$ 5,081,000
Accounts receivable, net	7,482,000	9,502,000
Prepaid expenses and other current assets	1,882,000	1,157,000
<b>Total current assets</b>	11,526,000	15,740,000
Property and equipment, net	5,303,000	3,315,000
Intangible assets, net	937,000	1,201,000
Goodwill	6,028,000	6,028,000
Deferred tax assets, net	16,835,000	18,932,000
Other assets	344,000	137,000
<b>Total assets</b>	\$ 40,973,000	\$ 45,353,000
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities		
Accounts payable	\$ 3,565,000	\$ 4,419,000
Accrued expenses	2,901,000	4,252,000
Advertiser deposits	1,441,000	2,137,000
Current portion of long-term debt	9,862,000	6,181,000
<b>Total current liabilities</b>	17,769,000	16,989,000
Long-term debt, less current portion, net	36,489,000	60,725,000
Obligations to transferors, net	4,881,000	15,203,000
Other non-current liabilities	1,121,000	-
<b>Total liabilities</b>	60,260,000	92,917,000
<b>Stockholders' Deficit</b>		
Preferred Stock, \$0.0001 par value, authorized 1,000,000 shares, no shares issued or outstanding	-	-
Common Stock, \$0.0001 par value, authorized 500,000,000 shares, issued and outstanding 250,010,162 at December 31, 2018 and 2017	25,000	25,000
Additional paid-in capital	8,778,000	3,717,000
Accumulated deficit	(28,087,000)	(51,306,000)
Accumulated other comprehensive income	(3,000)	-
<b>Total stockholders' deficit</b>	(19,287,000)	(47,564,000)
<b>Total liabilities and stockholders' deficit</b>	\$ 40,973,000	\$ 45,353,000

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

**Propel Media, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Other Comprehensive Income**

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues	\$ 82,019,000	\$ 88,667,000
Cost of revenues	21,484,000	32,800,000
Gross profit	60,535,000	55,867,000
Operating expenses:		
Salaries, commissions, benefits and related expenses	17,300,000	14,986,000
Technology, development and maintenance	6,745,000	4,021,000
Sales and marketing	380,000	143,000
General and administrative	3,248,000	4,103,000
Professional services	1,123,000	1,042,000
Depreciation and amortization	2,267,000	1,660,000
Impairment of software and intangible assets	-	20,000
Operating expenses	31,063,000	25,975,000
Operating income	29,472,000	29,892,000
Other income (expense):		
Interest expense, net	(8,027,000)	(12,216,000)
Gain from extinguishment of debt	6,861,000	-
Other (expense) income	83,000	106,000
Total other expense	(1,083,000)	(12,110,000)
Income before income tax expense	28,389,000	17,782,000
Income tax expense	(5,170,000)	(18,145,000)
Net income (loss)	23,219,000	(363,000)
Other comprehensive income		
Foreign exchange loss	(3,000)	-
Comprehensive income	\$ 23,216,000	\$ (363,000)
Net (loss) income per common share, basic and diluted	\$ 0.09	\$ (0.00)
Weighted average number of common shares outstanding, basic and diluted	250,010,162	250,010,162

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

**Propel Media, Inc. and Subsidiaries**  
**Consolidated Statement of Stockholders' Deficit**

	<u>Common stock</u>		<u>Additional Paid - In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, January 1, 2017	250,010,162	\$ 25,000	\$ 2,757,000	\$ (50,943,000)	\$ -	\$ (48,161,000)
Stock based compensation - amortization of stock options	-	-	960,000	-	-	960,000
Net income	-	-	-	(363,000)	-	(363,000)
Balance, December 31, 2017	250,010,162	\$ 25,000	\$ 3,717,000	\$ (51,306,000)	\$ -	\$ (47,564,000)
Stock based compensation - amortization of stock options	-	-	920,000	-	-	920,000
Reduction of obligation to Transferors	-	-	4,141,000	-	-	4,141,000
Foreign exchange loss	-	-	-	-	(3,000)	(3,000)
Net income	-	-	-	23,219,000	-	23,219,000
Balance, December 31, 2018	250,010,162	\$ 25,000	\$ 8,778,000	\$ (28,087,000)	\$ (3,000)	\$ (19,287,000)

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

**Propel Media, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows From Operating Activities</b>		
Net (loss) income	\$ 23,219,000	\$ (363,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	458,000	1,779,000
Stock-based compensation	920,000	960,000
Depreciation and amortization	2,267,000	1,660,000
Gain from fair value adjustment of contingent liability	(62,000)	-
Gain on sale of Health Guru	-	(47,000)
Gain from extinguishment of debt	(6,861,000)	-
Loss from disposal of fixed assets	11,000	-
Accretion of debt premium	1,038,000	3,056,000
Amortization of debt discount	394,000	692,000
Amortization of debt issuance costs	131,000	219,000
Amortization of discount due to Transferors	259,000	634,000
Impairment of intangible assets and software	-	20,000
Deferred income taxes	2,097,000	12,337,000
Changes in assets and liabilities:		
Accounts receivable	1,562,000	(4,314,000)
Prepaid expenses and other current assets	(688,000)	(593,000)
Other assets	(77,000)	(44,000)
Accounts payable	(854,000)	2,451,000
Accrued expenses	(1,420,000)	226,000
Advertiser deposits	(696,000)	305,000
Other non-current liabilities	166,000	(143,000)
<b>Net cash provided by operating activities</b>	<b>21,864,000</b>	<b>18,835,000</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(2,919,000)	(3,262,000)
Disposal of property and equipment	2,000	-
Acquisition of DeepIntent	-	(4,166,000)
<b>Net cash used in investing activities</b>	<b>(2,917,000)</b>	<b>(7,428,000)</b>
<b>Cash Flows From Financing Activities</b>		
Net proceeds from New Term Loan	49,000,000	(9,149,000)
Net proceeds of Borrowing from New Line of Credit	6,860,000	-
Deferred financing costs for New Term Loan	(401,000)	-
Repayment of New Term Loan	(2,500,000)	-
Repayment of New Line of Credit	(7,000,000)	-
Prepayment of Old Term Loan	(58,382,000)	-
Borrowing from Old Line of Credit	37,954,000	37,954,000
Repayment of Old Line of Credit	(37,954,000)	(37,954,000)
Repayment of back end fees of Old Term Loan	(3,000,000)	-
Payment to transferors	(6,440,000)	-
<b>Net cash used in financing activities</b>	<b>(21,863,000)</b>	<b>(9,149,000)</b>
<b>Effect of foreign exchange rate on cash</b>	<b>(3,000)</b>	<b>-</b>
Net increase in cash	(2,919,000)	2,258,000
Cash		
Beginning of period	5,081,000	2,823,000
End of period	<b>\$ 2,162,000</b>	<b>\$ 5,081,000</b>

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

**Propel Media, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

	<b>For the Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 6,303,000	\$ 7,610,000
Income taxes	\$ 3,964,000	\$ 7,365,000
Supplemental non-cash investing and financing activity::		
Non-cash consideration consisted of:		
Fair value of earnout obligation	\$ -	\$ 62,000
Reduction in Obligation to Transferors	\$ 4,141,000	\$ -
Landlord paid improvements to office	\$ 1,085,000	\$ -

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

## **Propel Media, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **Note 1 - Organization and Description of Business**

Propel Media, Inc. (“Propel”), a Delaware corporation, is a diversified online advertising company. Propel generates revenues through the sale of advertising to advertisers who want to reach consumers in the United States and internationally to promote their products and services. Propel is a holding company for Propel Media LLC (“Propel Media”), a California limited liability company, Kitara Media Corp. (“Kitara”), a Delaware corporation, and DeepIntent Technologies, Inc. (“DeepIntent”), a Delaware corporation. Propel, Propel Media, Kitara, DeepIntent and their respective subsidiaries are collectively referred to herein as the “Company”.

Propel delivers advertising via its real-time, bid-based, online advertising platform called Propel Media Platform. This technology platform allows advertisers to target users and deliver video, display and text based advertising. Propel and its Propel Media Platform provide advertisers with an effective way to serve, manage and maximize the performance of their online advertising purchasing. Propel offers both a self-serve platform and a managed services option that give advertisers diverse solutions to reach online users and acquire customers.

Propel primarily serves its advertising to users who are part of its owned and operated member-based network. Propel provides its user base with access to its premium content for free and obtains the users’ permission to serve advertising to them while they peruse content on the web. In the owned and operated model, advertising units are served directly to users through a browser extension or other software installed on the user’s computer.

Propel’s offerings to its advertising customers will increasingly leverage DeepIntent’s integrated data and programmatic buying platform. This platform provides a data-driven approach to programmatic advertising that integrates into its data management platform traditional first-party data (such as client CRM data) and cookie-based third-party user data in order to build an enriched profile of a brand’s target audiences. Leveraging DeepIntent’s artificial intelligence tools, these profiles are supplemented with real-time consumer interest data using DeepIntent’s proprietary Natural Language Processing (NLP) algorithms. With a holistic view of each user’s interests and behaviors, DeepIntent’s demand side platform provides tools to accurately price the value of each user with respect to the goals of the advertiser while simultaneously providing brands with the confidence that their ads will appear in a “brand safe” environment. Additionally, the acquisition of DeepIntent gives the Company the ability to offer its advertisers programmatic inventory across all screens, including desktop, mobile, tablet and connected TV.

Propel also provides solutions to advertisers through its publisher business model with a channel of direct publishers, networks and exchanges. These supply channels expand the Company’s ability to serve advertising. In this model, the advertising units are served to users through a website, and the Company serves advertising units to the user in coordination with the publisher, network or exchange.

#### **Note 2 – Liquidity and Capital Resources**

As of December 31, 2018, the Company’s cash on hand was \$2,162,000. As of December 31, 2018, the Company had a working capital deficit of \$6,243,000. The deficit in working capital was principally attributable to the obligation of \$5,181,000 to fund the March 2019 excess cash flow prepayment sweep to its lender. For the year ended December 31, 2018, the Company recorded net income of \$23,219,000 and an income tax expense of \$5,170,000. The Company has historically met its liquidity requirements through operations.

As further discussed in Note 8, on May 9, 2018, the Company entered into an amendment to the agreement with the Company’s former term loan lenders which resulted in a payment to the Lenders of \$3,000,000 in full satisfaction of the \$12,500,000 Deferred Fee obligation. Also, as further discussed in Note 8, on May 30, 2018, the Company entered into a new term loan and revolver with a maturity date of May 30, 2023 and in connection therewith, fully satisfied all obligations under the existing term loan and revolving loan.

As of December 31, 2018, the outstanding balance under the Revolving Loan was \$0, leaving \$7,000,000 available to be drawn under the arrangement.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 2 – Liquidity and Capital Resources, continued**

Cash flows used in financing activities for the year ended December 31, 2018 were \$21,863,000 and were most significantly impacted by the refinancing of the term and revolving loans, consisting of net proceeds of \$49,000,000 and \$6,860,000 from the Company's MGG Term Loan and MGG Revolving Loan, respectively. These proceeds were offset by \$401,000 of cash refinancing costs, the payoff of \$58,382,000 and \$3,000,000 of the principal balance and Deferred Fee, respectively, under the former term loan. Furthermore, cash of \$6,440,000 was used to satisfy a portion of the outstanding obligations to the Transferors (See Note 5). Since the refinancing, the Company made principal payments of \$2,500,000 towards the MGG Term Loan and made repayments in the aggregate amount of \$7,000,000 towards the MGG Revolving Loan, resulting in a remaining balance of \$0 at December 31, 2018. Pursuant to the Financing Agreement, the Company is subject to a leverage ratio requirement as of the end of each calendar quarter. The Company was in compliance with such leverage ratio requirement as of December 31, 2018.

The Company's operating cash flows are currently heavily dependent upon being able to cost effectively acquire and maintain a base of user audience to whom the Company serves advertising from its customers. On June 12, 2018, Google announced policy changes that affect how developers of Chrome extensions, such as our company, can acquire users. These policy changes were implemented in two phases. Effective as of June 12, 2018, all new Chrome extensions must be installed from the Chrome Web Store ("CWS") rather than using the inline installation method which the Company utilized and which allows the user to install the extension directly from the Company's website landing pages. This means that a developer of Chrome extensions, such as our company, is required to promote its content on the web and drive a new user to the CWS for the final installation of the extension instead of allowing the user to install the extension from the developer's landing page promoting the extension. As of September 12, 2018, all existing Chrome extensions were required to be installed from the CWS and no inline installations were allowed. These policy changes have made it more difficult for potential users to install the Company's extensions, resulting in reduced user counts and increased costs to acquire those users. These reduced user counts have resulted in lower revenues and higher per user acquisition costs.

Based upon the Company's current projections, including its best estimates of the impact of the Google policy changes discussed above, and its remediation and/or responses to such matters, management believes that the Company's cash balances on hand and cash flows expected to be generated from operations and borrowings available under the Company's Revolving Loan will be sufficient to fund the Company's net cash requirements at least through the next 12 months following the date of the report.

**Note 3 – Business Acquisition**

*Acquisition of DeepIntent*

On June 21, 2017 ("DeepIntent Closing Date"), pursuant to a stock purchase agreement ("DeepIntent Acquisition Agreement") with the former stockholders of DeepIntent, Propel purchased 100% of the equity interests of DeepIntent, consisting of the issued and outstanding shares of Class A common stock, Class B common stock and Class C common stock of DeepIntent. The purchase price, which is subject to an adjustment for working capital, consisted of \$4,000,000 paid at closing, \$500,000 paid on December 21, 2017 and, \$500,000 paid on June 21, 2018 (collectively, the "DeepIntent Deferred Payments"). In addition, the sellers had an opportunity to earn up to an aggregate of \$3,000,000 of additional consideration upon the achievement of certain performance levels during the years ending December 31, 2019 and 2020 (collectively, the "Earnouts"). The aggregate purchase price was \$4,228,000, consisting of a \$4,000,000 purchase price, an estimated working capital adjustment of \$166,000 and the fair value of the Earnout of \$62,000. The Company prepared forecasts of expected results for DeepIntent under expected, less than expected and greater than expected scenarios for the Earnout years of 2018, 2019 and 2020. These scenarios were analyzed and then weighted in order to determine the fair value of the Earnouts.

The assets and liabilities of DeepIntent have been recorded in the Company's consolidated balance sheet at their fair values at the date of acquisition. As part of the purchase of DeepIntent, the Company acquired an identifiable intangible asset representing developed technology. This intangible asset was assigned a fair value of \$1,320,000, has a definite life and will be amortized over a period of five years. The goodwill acquired of, \$3,159,000, will not be deductible for income tax purposes.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 3 – Business Acquisition, continued**

*Acquisition of DeepIntent, continued*

The following details the allocation of the purchase price for the acquisition of DeepIntent:

	Fair Value
Accounts Receivable	\$ 371,000
Security deposit	4,000
Intangible Asset - Developed Technology	1,320,000
Goodwill	3,159,000
Accounts payable	(107,000)
Accrued expenses	(98,000)
Deferred tax liability, net	(421,000)
Net fair value assigned to assets acquired and liabilities assumed	\$ 4,228,000

The following presents a summary of the purchase price consideration for the purchase of DeepIntent:

Cash	\$ 4,166,000
Fair value of earnout	62,000
Total purchase price consideration	\$ 4,228,000

The Company accounted for the acquisition of DeepIntent as a business combination. The contingent DeepIntent Deferred Payments were accounted for as compensation for financial reporting purposes and were accreted ratably over the deferred period. During the years ended December 31, 2018 and 2017, accretion of these DeepIntent Deferred Payments were \$449,000 and \$551,000, respectively, and is reflected within salaries, commissions, benefits and related expenses within the consolidated statements of operations and other comprehensive income. On June 21, 2018, the Company fully paid its DeepIntent Deferred Payment obligation.

Propel entered into employment agreements for the period from the DeepIntent Closing Date through December 31, 2020 and restrictive covenant agreements through June 20, 2021 with DeepIntent’s founders and former principal shareholders. Propel’s obligation to remit the DeepIntent Deferred Payments was contingent upon the continued employment of both of DeepIntent’s founders through the date that any such DeepIntent Deferred Payment was required to be made. One of the founder’s resigned from his position as CTO of DeepIntent effective April 4, 2019.

The results of DeepIntent have been included within the Company’s consolidated financial statements since June 21, 2017. Included within the Company’s results for the year ended December 31, 2018, DeepIntent generated revenues of \$3,491,000 and incurred an operating loss of \$4,298,000. Included within the Company’s results for the year ended December 31, 2017, DeepIntent generated revenues of \$831,000 and incurred an operating loss of \$1,860,000.

As of December 31, 2018, the Company determined that it was more likely than not that certain performance levels will not be met and accordingly reversed the \$62,000 liability previously recorded for the fair value of the Earnout, which is reflected within other (expense) income within the consolidated statements of operations and other comprehensive income.

On February 21, 2018, DeepIntent formed a wholly owned subsidiary, DeepIntent India Private Ltd., from which DeepIntent will conduct a material portion of the software development for its advertising platform and data analysis.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3 – Business Acquisition, continued

##### *Unaudited Pro Forma Information*

The following table provides unaudited pro forma information for the year ended December 31, 2017 as if DeepIntent had been acquired as of January 1, 2017. The pro forma results do not include any anticipated cost synergies or other effects of the integration of DeepIntent or recognition of compensation expense or fair value of the Earnouts. Pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on the dates indicated, nor are they indicative of the future operating results of the combined company.

	For the Year Ended December 31, 2017
Pro forma revenues	\$ 89,135,000
Pro forma net loss	\$ (929,000)
Pro forma net income per share	\$ 0.00

#### Note 4 - Summary of Significant Accounting Policies

##### *Basis of Presentation*

The accompanying consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America.

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in the accompanying consolidated financial statements.

##### *Use of Estimates*

The Company's consolidated financial statements are prepared in conformity with US GAAP, which requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates. The Company's most significant estimates relate to the accounts receivable allowance, the forfeiture of customer deposits, the valuation allowance on deferred tax assets, valuation of goodwill and intangibles, recognition of revenue, and the valuation of stock-based compensation.

##### *Accounts Receivable*

Accounts receivable are stated at a gross invoice amount less an allowance for doubtful accounts.

The Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the Company's customers may have an inability to meet financial obligations, such as customer payment history, credit worthiness and receivable amounts outstanding for an extended period beyond contractual terms. The Company uses assumptions and judgment, based on the best available facts and circumstances, to record an allowance to reduce the receivable to the amount expected to be collected. These allowances are re-evaluated and adjusted as additional information is received.

The allowance for doubtful accounts as of December 31, 2018 and December 31, 2017 was \$309,000 and \$256,000, respectively.

##### *Property and Equipment*

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful lives of the assets, generally, three years for computer equipment and purchased software, three to five years for furniture and equipment, the shorter of the useful life and the term of the lease for leasehold improvements.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 4 - Summary of Significant Accounting Policies, continued

##### *Intangible Assets*

The Company's long-lived intangible assets, other than goodwill, are assessed for impairment when events or circumstances indicate there may be an impairment. These assets were initially recorded at their estimated fair value at the time of acquisition and assets not acquired in acquisitions were recorded at historical cost. However, if their estimated fair value is less than the carrying amount, other intangible assets with indefinite life are reduced to their estimated fair value through an impairment charge to our consolidated statements of income.

Intangible assets as of December 31, 2018 and December 31, 2017 were \$937,000 and \$1,201,000, respectively. Intangible assets at December 31, 2018 consisted of the DeepIntent intellectual property of \$1,320,000 net of accumulated amortization of \$403,000 and the Propel Media trade name at a cost of \$20,000. Amortization expense was \$264,000 and \$139,000 for the years ended December 31, 2018 and 2017, respectively.

The following is an annual schedule of approximate future amortization of the Company's intangible assets:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	264,000
2020	264,000
2021	264,000
2022	125,000
	<u>\$ 917,000</u>

##### *Capitalization of Internally Developed Software*

The Company capitalizes certain costs related to its software developed or obtained for internal use in accordance with ASC 350-40. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal and external costs incurred during the application development stage, including upgrades and enhancements representing modifications that will result in significant additional functionality, are capitalized. Software maintenance and training costs are expensed as incurred. Capitalized costs are recorded as part of property and equipment and are amortized on a straight-line basis over the software's estimated useful life ranging from 12 months to 36 months. The Company evaluates these assets for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. Based upon management's assessment of capitalized software, the Company recorded impairment charges of \$0 and \$20,000 for the years ended December 31, 2018 and 2017, respectively, to write off the book value of certain internally developed capitalized software. These impairment charges were included in the impairment of software and intangible assets within the consolidated statements of income.

##### *Revenue Recognition*

Propel generates revenue from advertisers by serving their ads to a user base consisting of the Company's owned and operated network, users of our third-party application partners' properties and users from our publisher driven traffic, as well as from advertising sold through the Company's demand-side platform.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update "ASU" No. 2014-09, Revenue from Contracts with Customers (Topic 606) which was subsequently amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. A full retrospective or modified retrospective approach is required. The Company has adopted ASU No. 2014-09 effective January 1, 2018.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 4 - Summary of Significant Accounting Policies, continued

##### *Revenue Recognition, continued*

Pursuant to ASC 606, revenue is recognized when (or as) the Company satisfies performance obligations. Performance obligations are satisfied when an advertisement is served by the Company or when a user action occurs based on the advertisement the Company served (i.e., a view, a click, a conversion action, etc.). There is a specific transaction that triggers a billable instance for fulfillment of that performance obligation. Revenue is measured at the transaction price which is based on the amount of consideration that the Company expects to receive in exchange for the serving of advertising. Contracts with advertising customers typically consist of insertion orders or other written contracts. Within the Company's business model, customer orders are fulfilled at a point in time and not over a period of time.

The Company has elected to apply the modified retrospective method and the impact was determined to be immaterial on the consolidated financial statements. Accordingly, the new revenue standard has been applied prospectively in our consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

The Company has performed an analysis and identified its revenues and costs that are within the scope of the new guidance. The Company determined that its methods of recognizing revenues have not been significantly impacted by the new guidance.

The amounts on deposit from customers are recorded as an advertiser deposit liability in the accompanying consolidated balance sheets.

The following table presents our revenues disaggregated by geographical region:

	For the Year ended December 31,	
	2018	2017
Americas	\$69,078,000	\$74,909,000
Europe	\$4,151,000	\$6,444,000
Middle East	\$3,313,000	\$2,287,000
Other	\$5,477,000	\$5,027,000
<b>Total</b>	<b>\$82,019,000</b>	<b>\$88,667,000</b>

##### *Cost of Revenues*

Costs of revenue consists of marketing expenses to obtain new users for the Company's owned and operated properties, publisher costs of third-party networks and properties, transaction costs and revenue-sharing costs to third party application developer partners, as well as costs of advertising purchased through the Company's demand-side platform.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 4 - Summary of Significant Accounting Policies, continued**

*Concentration of Credit Risk and Significant Customers*

The Company's concentration of credit risk includes its concentrations from key customers and vendors. The details of these significant customers and vendors are presented in the following table for the years ended December 31, 2018 and 2017:

	<b>For the year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
The Company's largest customers are presented below as a percentage of the Company's aggregate:		
Revenue	None over 10%	None over 10%
Accounts receivable	11% of accounts receivable from one customer	11% of accounts receivable from one customer
The Company's largest vendors are presented below as a percentage of the Company's aggregate:		
The Company's largest vendors reported in cost of revenues are presented as a percentage of the Company's aggregate cost of revenues	43% and 13% of cost of revenues, or 56% of cost of revenues in the aggregate	18%, 16%, and 14% of cost of revenue, or 48% of cost of revenues in the aggregate
The Company's largest vendors reported as a percentage of accounts payable	40% of accounts payable from one vendor	27% and 10% of accounts payable, or 37% of accounts payable in the aggregate

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. Cash is deposited with a limited number of financial institutions. The balances held at any one financial institution may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. Accounts are insured by the FDIC up to \$250,000. As of December 31, 2018 and 2017, the Company held cash balances in excess of federally insured limits.

The Company extends credit to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts and sales credits.

## **Propel Media, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **Note 4 - Summary of Significant Accounting Policies, continued**

##### ***Income Taxes***

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction.

A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in the Company's tax returns that do not meet these recognition and measurement standards. As of December 31, 2018 and 2017, no liability for unrecognized tax benefits was required to be reported. The guidance also discusses the classification of related interest and penalties on income taxes. The Company's policy is to record interest and penalties on uncertain tax positions as a component of income tax expense.

##### ***Net Income (Loss) per Share***

Earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants. For the year ended December 31, 2018, the Company excluded potential common shares resulting from the exercise of stock options (15,463,438 potential common shares) and of warrants (6,363,636 potential common shares) as their inclusion would be anti-dilutive. For the year ended December 31, 2017, the Company excluded potential common shares resulting from the exercise of stock options (20,490,000 potential common shares) and of warrants (6,363,636 potential common shares) as their inclusion would be anti-dilutive.

##### ***Foreign Currency Translation***

The reporting currency of the Company, including its subsidiaries, is the United States dollar. The financial statements of subsidiaries located outside of the U.S. are measured in their functional currency, which is the local currency. The functional currency of the parent is the United States dollar. Monetary assets and liabilities of these subsidiaries are translated at the exchange rates at the balance sheet date. Income and expense items are translated using average monthly exchange rates. Non-monetary assets are translated at their historical exchange rates. Translation adjustments are included in accumulated other comprehensive income (loss) in the consolidated balance sheets.

##### ***Subsequent events***

The Company has evaluated events that occurred subsequent to December 31, 2018 through the date these consolidated financial statements were issued. Management has concluded that there were no subsequent events that required disclosure in these consolidated financial statements.

##### ***Recent Accounting Standards***

In February 2016, the FASB issued ASU 2016-02—Leases (Topic 842) ("ASU-2016-02"), which requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the effect this guidance will have on its consolidated financial statements and related disclosure, and anticipates the guidance to result in increases in its

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 4 - Summary of Significant Accounting Policies, continued

##### *Recent Accounting Standards, continued*

assets and liabilities as most of its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and lease liabilities.

In January 2017, the FASB issued ASU No. 2017-04 “Intangibles-Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The provisions of this update are effective for annual and interim periods beginning on or after December 15, 2019. Based upon the Company’s preliminary assessment, the adoption of this new standard is not expected to have a material impact on the Company’s consolidated financial position or its results of operations.

In May 2017, the FASB issued ASU No. 2017-09 “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all of the following are met: The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company has adopted ASU 2017-09 effective January 1, 2018 and such adoption did not have a material impact on the Company’s consolidated financial position or its results of operations.

In June 2018, the FASB issued ASU 2018-07 Compensation-Stock Compensation (Topic 718) (“ASU 2018-07”). The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. ASU 2018-07 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. Based upon the Company’s preliminary assessment, the adoption of this new standard is not expected to have a material impact on the Company’s consolidated financial position or its results of operations.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 4 - Summary of Significant Accounting Policies, continued

##### *Recent Accounting Standards, continued*

In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, Leases (Topic 842) (“ASU-2018-10”), which contains amendments (related to Update 2016-02) to the Codification regarding leases. Fourteen areas of improvement where amendments were applied include the following:

- Residual Value Guarantees
- Rate implicit in the lease
- Lessee reassessment of lease classification
- Lessor reassessment of lease term and purchase option
- Variable lease payments that depend on index or a rate
- Investment tax credits
- Lease term and purchase option
- Transition guidance for amounts previously recognized in business combinations
- Certain transition adjustments
- Transition guidance for leases previously classified as capital leases under Topic 840
- Transition guidance for modifications to leases previously classified as direct financing or sales-type leases under topic 840
- Transition guidance for sale and lease back transactions
- Impairment of net investment in lease
- Unguaranteed residual asset

ASU 2018-10 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the effect that this guidance will have on its consolidated financial position and its results of operations.

In July 2018, the FASB issued ASU 2018-11-Leases (Topic 842) (“ASU-2018-11”), which requires an entity to separate lease components from nonlease components (for example, maintenance services or other activities that transfer a good or service to the customer other than the right to use the underlying asset) in a contract. The lease components shall be accounted for in accordance with the new leases standard. An entity should account for the nonlease components in accordance with other Topics (for example, Topic 606, Revenue from Contracts with Customers, for lessors). The consideration in the contract is allocated to the lease and nonlease components on a relative standalone price basis (for lessees) or in accordance with the allocation guidance in the new revenue standard (for lessors). The new leases standard also provides lessees with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component. If a lessee makes that accounting policy election, it is required to account for the nonlease components together with the associated lease component as a single lease component and to provide certain disclosures. Lessors are not afforded a similar practical expedient. The amendments in this Update address stakeholders’ concerns about the requirement for lessors to separate components of a contract by providing lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. However, the lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (1) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (2) the lease component, if accounted for separately, would be classified as an operating lease. The amendments in this Update also clarify which Topic (Topic 842 or Topic 606) applies for the combined component. Specifically, if the nonlease component or components associated with the lease component are the predominant component of the combined component, an entity should account for the combined component in accordance with Topic 606. Otherwise, the entity should account for the combined component as an operating lease in accordance with Topic 842. An entity that elects the lessor practical expedient also should provide certain disclosures. ASU 2018-11 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the effect that this guidance will have on its consolidated financial position and its results of operations. The Company is currently evaluating the effect this guidance will have on its consolidated financial statements and related disclosure, and anticipates the guidance to result in increases in its assets and liabilities as most of its operating lease commitments will be subject to the new standard and recognized as right-of-use assets and lease liabilities.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 5 – Reverse Business Combination and Recapitalization

##### *The Transactions and Merger Agreement*

On January 28, 2015, Propel consummated the “reverse merger” (the “Reverse Merger” or the “Transactions”) as contemplated by (i) the Agreement and Plan of Reorganization (the “Merger Agreement”), dated as of October 10, 2014, by and among Kitara, Propel, which was previously a wholly-owned subsidiary of Kitara, and Kitara Merger Sub, Inc. (“Merger Sub”), which was previously a wholly-owned subsidiary of Propel, and (ii) the Unit Exchange Agreement (the “Exchange Agreement”), dated as of October 10, 2014 and amended as of December 23, 2014, April 29, 2015, January 26, 2016, May 9, 2018, May 30, 2018 and August 13, 2018 by and among Kitara, Propel, Propel Media and the former members of Propel Media (“Transferors”).

Pursuant to the Exchange Agreement, and as discussed in further detail below, the Company incurred deferred payment obligations to the Transferors, consisting of (i) \$10,000,000 (“Deferred Obligation”) and (ii) \$6,000,000 payable in cash immediately after the payment of certain fees to the Lenders on or about January 28, 2019 (the “Deferred Payment to Transferors”).

The amendment to the Exchange Agreement dated May 30, 2018, provided that \$5,000,000 of the Deferred Obligation shall be paid to such Transferors in cash on or prior to June 13, 2018 and that the remaining \$5,000,000 of the Deferred Obligation shall be repaid in connection with an equity capital raise, which the Company shall use its reasonable best efforts to complete prior to June 30, 2023 (the “Equity Financing Period”), out of the Company’s earnings, as permitted under the Facility (See Note 8), or out of the Company’s available working capital as determined by the Company’s board of directors in its sole discretion, provided any applicable consent of the Company’s lenders is obtained. On May 31, 2018, the Company satisfied this obligation with a \$5,000,000 cash payment to the Transferors. Furthermore, with regard to the remaining \$5,000,000 obligation, the Company’s board of directors, at least two times per year during the Equity Financing Period, is obligated to determine, in its sole and absolute discretion, the amount, if any, of the Company’s working capital available to be used to pay all or a portion of the \$5,000,000 Deferred Obligation in cash, taking into account such factors as it may deem relevant. If the Company’s board of directors determines that there is available working capital to pay all or a portion of the \$5,000,000 Deferred Obligation, the Company must use its reasonable best efforts to promptly obtain any required lender consent and, if such consent is obtained, must promptly pay to the Transferors an amount in cash equal to such available working capital. Jared Pobre, one of the former members of Propel Media, on behalf of the Transferors, is permitted to elect, during the ten-day period following each December 31st during the Equity Financing Period, commencing December 31, 2016, to receive any unpaid amount of the \$5,000,000 Deferred Obligation in shares of the Company’s common stock (“Election”). Pursuant to the amendment on August 13, 2018, the Transferors have agreed to waive their right to the Election during the ten day period following December 31, 2018. Furthermore, for any such Election after December 31, 2019 and through the Equity Financing Period, and for shares issued and delivered to the Transferors on the last day of the Equity Financing Period (if any), if the Company’s common stock is not registered and the Company is not reporting with the SEC, the Transferors and the Company will mutually select a valuation consultant who will determine the fair value of the shares of common stock for such exchange.

Pursuant to an amendment to the Exchange Agreement dated May 9, 2018, the Transferors and the lenders agreed that the Company could fully satisfy the obligation of \$6,000,000 for the Deferred Payment to Transferors with a cash payment of \$1,440,000. This cash payment of \$1,440,000 was made on May 9, 2018, which fully satisfied the obligation for the Deferred Payment to Transferors. Of the Company’s liability, net of discount, to Transferors for the Deferred Payment to Transferors, in the amount of \$5,581,000 as of May 9, 2018, \$4,141,000 was forfeited by the Transferors and the amount of \$1,440,000 was paid in cash to the Transferors. The full satisfaction of the Deferred Payment to the Transferors was accounted for as an extinguishment, and as such, the gain on extinguishment of \$4,141,000 was credited to additional paid-in capital, representing an adjustment of the distribution to the Transferors, as former owners of the Company. Accordingly, the Company recorded \$418,595 as accelerated original issue discount.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 5 – Reverse Business Combination and Recapitalization, Continued

##### *The Transactions and Merger Agreement, continued*

The following represents the obligations to Transferors under the Exchange Agreement:

	December 31, <u>2018</u>	<u>As of</u>	December 31, <u>2017</u>
Deferred Obligation	\$ 5,000,000		\$ 10,000,000
Deferred Payment to Transferors	<u>-</u>		<u>6,000,000</u>
Total, gross	5,000,000		16,000,000
Less: discount	<u>(119,000)</u>		<u>(797,000)</u>
Total, net	4,881,000		15,203,000
Less: current portion	<u>-</u>		<u>-</u>
Long-term portion	<u>\$ 4,881,000</u>		<u>\$ 15,203,000</u>

As a result of the Transactions, immediately after the closing, the Transferors collectively owned 154,125,921 shares of Propel common stock, representing 61.7% of Propel's outstanding common stock, and the former stockholders of Kitara owned the remaining 95,884,241 shares of Propel common stock, representing 38.3% of Propel's outstanding common stock.

During the year ended December 31, 2018 and 2017, the Company recorded discount amortization of \$66,000 and \$634,000, respectively. The balance of unamortized discount was \$119,000 as of December 31, 2018 and \$797,000 as of December 31, 2017.

#### Note 6 – Property and Equipment, Net

Property and equipment, net, consists of the following:

	December 31, <u>2018</u>	<u>As of</u>	December 31, <u>2017</u>
Leasehold improvements	\$ 1,433,000		\$ 751,000
Furniture and equipment	329,000		2,266,000
Computer Software	9,651,000		7,539,000
Equipment and construction in progress	<u>3,666,000</u>		<u>1,768,000</u>
Total, gross	15,079,000		12,324,000
Less: Accumulated depreciation	<u>(9,776,000)</u>		<u>(9,009,000)</u>
Total, net	<u>\$ 5,303,000</u>		<u>\$ 3,315,000</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$2,003,000 and \$1,521,000, respectively.

#### Note 7 – Intangibles, Net

Intangible assets consisted of the value received in conjunction with the acquisition of DeepIntent, which included DeepIntent's intellectual property and software as well as the Propel media trade name.

	December 31, <u>2018</u>	<u>As of</u>	December 31, <u>2017</u>
Propel Media trade name (indefinite life)	\$ 20,000		\$ 20,000
DeepIntent software & technology (60 months)	<u>1,320,000</u>		<u>1,320,000</u>
Total, gross	1,340,000		1,340,000
Less: Accumulated amortization	<u>(403,000)</u>		<u>(139,000)</u>
Total, net	<u>\$ 937,000</u>		<u>\$ 1,201,000</u>

Amortization expense for the years ended December 31, 2018 and 2017 was \$264,000 and \$139,000, respectively.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8 - Financing Agreements**

*January 2015 Financing Agreement*

On January 28, 2015, in connection with the closing of the Reverse Merger, Propel, Kitara and Propel Media as “Borrowers” and certain of their subsidiaries as “Guarantors” entered into a financing agreement (“Financing Agreement”) with certain financial institutions as “Lenders.”

The Financing Agreement provided the Borrowers with (a) a term loan in the aggregate principal amount of \$81,000,000 (the “Term Loan”) and (b) a revolving credit facility in an aggregate principal amount not to exceed \$15,000,000 at any time outstanding (the “Revolving Loan” and, together with the Term Loan, the “Loans”). Pursuant to their terms, the Loans were originally scheduled to mature on January 28, 2019 (“Final Maturity Date”). As discussed below, the Loans were repaid and refinanced with new loans on May 30, 2018.

The Financing Agreement provided for certain fees to be paid, including (i) a closing fee of \$2,880,000 (“Closing Fee”) which was withheld from the proceeds of the Term Loan and was accounted for as an original issue discount and was amortized to interest expense using the interest method over the term of the Term Loan and (ii) a (“Deferred Fee”) of \$12,500,000 which was due upon the fourth anniversary of the inception of the Term Loan, the obligation of which the Company has been accreting using the effective interest method as a finance charge over the term of the Loans. In addition, the Company incurred debt issuance costs of \$916,000 in connection with the Loans which has been accounted for as debt discount and was amortized using the effective interest method over the term of the Term Loan.

On May 9, 2018, the Company and the Lenders agreed to reduce to \$3,000,000 the Deferred Fee and on May 9, 2018, the Company paid to the Lenders \$3,000,000 in full satisfaction of the Deferred Fee obligation. The accreted obligation for the Deferred Fee was \$10,438,000 as of May 9, 2018. See explanation and table below showing the components of the gain on extinguishment. Also, on May 9, 2018, the Company made a voluntary principal prepayment of the Term Loan in the amount of \$2,000,000.

Accounting Analysis of the Reduction of the Deferred Fee

The obligation for the Deferred Fee was considered a component of the original obligation under the terms of the January 2015 Financing Agreement. As such, upon the Final Maturity Date, the Company would be obligated to remit to the Lenders the sum of the remaining outstanding principal on the Term Loan, along with the full amount of Deferred Fee.

As of May 9, 2018, the Company evaluated the discounted cash flows under the terms of the obligations for the Term Loan, both before and after the effect of the reduction in the Deferred Fee in order to determine whether this change should be accounted for as a loan extinguishment (deemed repayment of the original loan and entering into a new modified loan) or as a modification (for which the new terms would be accounted for prospectively). The Company determined that the transaction was an extinguishment, since the difference between the discounted cash flows of approximately \$8,173,000 exceeded 10%. Accordingly, pursuant to the guidance for extinguishment accounting, the Company deemed the existing term loan to have been fully extinguished and then to have entered into a new loan for the remaining contractual term.

For purposes of this accounting analysis, the \$2,000,000 decrease in principal and the \$3,000,000 payment of the Deferred Fee were reflected as a day-one cash outflows for the deemed new debt in the 10% test.

Upon recording the extinguishment, the unamortized Closing Fee and debt issuance costs, as well as the accreted Deferred Fee were expensed.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 8 - Financing Agreements, continued

##### Debt extinguishment

The components of the gain on extinguishment of \$6,861,000 are presented below:

	<u>Original Terms</u>	<u>Amended Terms</u>	<u>Gain on Extinguishment</u>
Remaining term loan payments	\$ 53,160,000	\$ 53,160,000	\$ -
Deferred fee	10,438,000	3,000,000	7,438,000
Closing fee	(440,000)	-	(440,000)
Debt issuance costs	(137,000)	-	(137,000)
Total	<u>\$ 63,021,000</u>	<u>\$ 56,160,000</u>	<u>\$ 6,861,000</u>

The Company recorded amortization through the extinguishment date of the closing fee as interest expense of \$228,000 and \$692,000, for the years ended December 31, 2018 and 2017, respectively. The Company recorded as interest expense through the extinguishment date accretion of the Deferred Fee of \$1,038,000 and \$3,056,000, for the years ended December 31, 2018 and 2017, respectively.

The Company recorded as interest expense amortization of the debt issuance costs through the extinguishment date of \$72,000 and \$219,000 for the years ended December 31, 2018 and 2017, respectively.

##### *May 2018 MGG Term and Revolving Loans*

On May 30, 2018, the Company entered into a new senior secured credit facility (the "Facility") with certain affiliates of MGG Investment Group, LP ("MGG"). The Facility provides for a senior secured term loan in the aggregate principal amount of \$50,000,000 (the "MGG Term Loan") and a revolving credit facility in an aggregate principal amount not to exceed \$7,000,000 at any time outstanding (the "MGG Revolver"). In connection with the closing of the Facility, the Company terminated all outstanding commitments and paid all outstanding loans under that certain Financing Agreement dated as of January 28, 2015.

Upon the closing of the Facility, the MGG Term Loan, in the aggregate principal amount of \$50,000,000 was borrowed in full and \$7,000,000 was also borrowed in full under the MGG Revolving Loan. The proceeds of these Loans were used (i) to repay existing debt under the Existing Financing Agreement, (ii) to pay fees and expenses related to the Facility and the transactions contemplated therein, (iii) to pay \$5,000,000 to the Transferors (as defined below) and (iv) for general working capital purposes.

The Facility matures five years from the closing date. The Company may borrow, repay, and re-borrow the MGG Revolving Loan prior to maturity, subject to the terms, provisions, and limitations set forth in the Facility.

The Company's obligations under the Facility are secured by first priority security interests granted to MGG on substantially all of the Company's tangible and intangible assets.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 8 - Financing Agreement, continued

##### *May 2018 MGG Term and Revolving Loan, continued*

The Facility provides for certain fees to be paid, including (i) a closing fee of \$1,000,000 (“MGG Closing Fee”) which was withheld from the proceeds of the MGG Term Loan and was accounted for as an original issue discount and is being amortized to interest expense using the effective interest method over the term of the MGG Term Loan and (ii) a closing fee of \$140,000 which was withheld from the proceeds of the MGG Revolving Loan and was accounted for as deferred financing costs and is presented within other assets on the consolidated balance sheet. The closing fee for the MGG Revolving Loan is being amortized to interest expense using the straight-line method over the term of the MGG Revolving Loan. In addition, the Company incurred legal, accounting, and other fees, attributable to the (i) MGG Term Loan of \$352,000 which were accounted for as debt discount and are being amortized to interest expense using the effective interest method over the term of the MGG Term Loan and (ii) MGG Revolving Loan of approximately \$49,000 which were accounted for as deferred financing costs and are presented within other assets on the consolidated balance sheet. These fees and expenses are being amortized to interest expense using the straight-line method over the term of the MGG Revolving Loan.

The Company recorded amortization of the MGG Closing Fee as interest expense under the MGG Term Loan and MGG Revolving Loan of \$167,000 for the year ended December 31, 2018. The balance of the MGG Closing Fee attributable to the MGG Term Loan and accounted for as original issue discount was \$850,000 as of December 31, 2018, and is reflected within the Term Loan obligations on the consolidated balance sheet. The balance of the MGG Closing Fee attributable to the MGG Revolving Loan and accounted for as deferred financing cost was \$124,000 as of December 31, 2018 and is reflected within other assets within the consolidated balance sheet.

The Company recorded as interest expense amortization of deferred financing costs under the MGG Term Loan and MGG Revolving Loan of \$59,000 for the year ended December 31, 2018. The balance of the deferred financing costs charged to debt discount and presented within Term Loan obligations and deferred financing costs presented within other assets, were \$298,000 and \$43,000, respectively, within the consolidated balance sheets as of December 31, 2018.

The Facility and related loan documents contain customary representations and warranties and affirmative and negative covenants, including covenants that restrict the Company’s ability to, among other things, create certain liens, make certain types of borrowings, engage in certain mergers, acquisitions, consolidations, or asset sales, make capital expenditures, enter into affiliate transactions, pay dividends or other distributions, and make certain payments affecting subsidiaries. The covenants require the Company to maintain a Total Leverage Ratio as of each calendar quarter end. Total Leverage Ratio is defined as the ratio of certain debt on such date to Adjusted EBITDA, as defined, for the trailing 12-month period.

Under this covenant, the Company is required to maintain a total leverage ratio of no more than 2.25:1.00 as of December 31, 2018. The Company’s total leverage ratio as of such date was 1.35:1.00. The total leverage ratio that the Company must maintain remains at 2.25:1.00 through March 31, 2019, decreasing to 2.00:1.00 as of June 30, 2019 and remains at 2.00:1.00 for each quarter thereafter. The Facility also provides that the Company is subject to annual mandatory prepayments apart from the scheduled quarterly principal payments based on the Company’s excess cash flow. Commencing December 31, 2018, the Company shall prepay 75% of its excess cash flow during that fiscal year (which decreases to 50% of excess cash flow when the leverage ratio is less than 1.25:1.00). The Facility provides for customary events of default, including, among other things, if a change of control of the Company occurs. The maturity of the Facility may be accelerated upon the occurrence of an event of default. On March 7, 2019, the Company remitted an excess cash flow pre-payment of approximately \$5,181,000, of which \$5,181,000 was reflected within the current portion of long-term debt within the consolidated balance sheet.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 8 - Financing Agreement, Continued**

*May 2018 MGG Term and Revolving Loan, continued*

The outstanding principal amount of the MGG Term Loan shall be repayable in consecutive quarterly installments of \$1,250,000 on the last day of each March, June, September, and December commencing on September 30, 2018. The remainder of the MGG Term Loan is due and payable on the maturity date, except in certain limited circumstances.

Subject to the terms of the Facility, the MGG Term Loan or any portion thereof shall bear interest on the principal amount thereof from time to time outstanding, from the date of the Term Loan until repaid, at a rate per annum equal to the London Interbank Offered Rate (“LIBOR”) rate (but not less than 1% or more than 5%) for the interest period in effect for the Term Loan (or such portion thereof) plus 9.00%.

The following represents the Company’s term loan obligations:

	As of	
	December 31, 2018	December 31, 2017
		2015 Lenders Term Loan (paid off May 2018)
Principal	\$ 47,500,000	\$ 58,382,000
Discounts	(1,149,000)	(877,000 )
Accreted value of the Deferred Fee (\$12,500,000)	-	9,401,000
Net	46,351,000	66,906,000
Less: Current portion	(9,862,000)	(6,181,000)
Long-term portion	\$ 36,489,000	\$ 60,725,000

For the years ended December 31,	Term Loan
2019	10,181,000
2020*	5,000,000
2021*	5,000,000
2022*	5,000,000
Thereafter*	22,319,000
Total, gross	47,500,000
Less: debt discount	(1,149,000)
Total, net	46,351,000
Less: current portion	(9,862,000)
Long-term debt	\$ 36,489,000

\* Does not include prepayment of 75% of its excess cash flow during that fiscal year and prepayment decreases to 50% of excess cash flow when the leverage ratio is less than 1.25:1.00

***MGG Revolving Loan***

The outstanding principal amount of advances under the MGG Revolving Loan may not at any time exceed \$7,000,000.

Subject to the terms of the Facility, each MGG Revolving Loan shall bear interest on the principal amount thereof from time to time outstanding, from the date of such Loan until repaid, at a rate per annum equal to the three month LIBOR rate for the interest period in effect for such Loan plus 9.00%. As of December 31, 2018, the balance of the revolving loan was \$0.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 9 - Related-Party Transactions

The Company has outsourced technology development services and other administrative services to a technology company in Eastern Europe (“Technology Vendor”). The Technology Vendor is owned by an individual who is affiliated with a trust, which is a shareholder of the Company. The technology development services and other administrative services provided to the Company by the Technology Vendor during the year ended December 31, 2018 and 2017, totaled \$5,601,000 and \$4,042,000, respectively. These amounts were included in property and equipment and operating expenses, as applicable, in the accompanying consolidated balance sheets and consolidated statements of operations and other comprehensive income. Certain of the costs incurred for the technology development services described above were for the development of internal-use software, which were capitalized and amortized over the estimated useful life of the application. The Company had amounts due to this entity of \$73,000 and \$7,500 as of December 31, 2018 and December 31, 2017, respectively, which are reported within accrued expenses in the consolidated balance sheets.

During the years December 31, 2018 and 2017, the Company has incurred a total of \$180,000 and \$181,000, respectively, to a firm owned by the Company’s Interim Chief Financial Officer for financial advisory and accounting services provided to the Company. There was no balance due to this firm as of December 31, 2018 and December 31, 2017.

#### Note 10 – Commitments and Contingencies

##### *Employment Agreements*

On June 21, 2018, the Company entered into new employment agreements with each of Marv Tseu, the Company’s Chief Executive Officer, and David Shapiro, the Company’s Chief Operating Officer, and, on June 22, 2018, the Company entered into an employment agreement with Daniela Nabors, the Company’s Chief Revenue Officer (each an “Executive” and together, the “Executives” and as to all or each Executive, the “Employment Agreement”). The Employment Agreements are effective as of April 1, 2018.

Each of the Employment Agreements is for a term of three years. The Employment Agreements provide for a base salary and an annual performance bonus, with annual target amounts determined pursuant to the Cash Bonus Plan (see Note 15) as determined by the Company’s board of directors (the “Board”). The Executives also are eligible to receive long-term incentive awards from the Company, as well as salary and bonus compensation, and continued health care coverage, upon termination, under certain circumstances. With respect to these agreements, at December 31, 2018, aggregated annual base salaries were \$1,600,000 on an annualized basis.

Each of the Employment Agreements restricts the Executive from disclosing confidential information concerning the business of the Company.

##### *Operating leases*

On November 21, 2017, the Company entered into a non-cancelable lease agreement for its new Irvine location, which commences on November 1, 2018 and expires December 31, 2026. The lease agreement for the new office facility provides for increases in future minimum annual rental payments. The agreement requires the Company to pay its portion of certain executory costs (real estate taxes, insurance, and repairs). Based on the agreement, the Company will not be obligated to pay any rent during the nine month period commencing on the first day of the first month of the lease term resulting in a long term deferred rent liability of \$210,035 as of December 31, 2018. The landlord provided an improvement allowance of the premises which was \$1,085,000. The Company accounted for the landlord paid leasehold improvement in fixed assets with a net book value of \$1,042,000 as of December 31, 2018 with long term deferred liability of \$912,000 and short term deferred liability of \$130,000 as of December 31, 2018. The leasehold improvements fixed assets and deferred obligation are amortized in the monthly amount of \$11,000 on straight-line basis over the period of the lease.

Rent expense totaled \$598,000 and \$464,000 for the year ended December 31, 2018 and 2017, respectively. The following is a schedule of approximate future minimum rental payments required under the Company’s current and expiring lease agreement and its new lease agreement (the reduced amount in 2019 is due to the effect of the nine-month deferral for the start of rent payments under the November 2017 lease):

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 10 – Commitments and Contingencies, continued**

Years Ending December 31,	Amount
2019	\$ 419,000
2020	651,000
2021	670,000
2022	690,000
Thereafter	2,975,000
	<u>\$ 5,405,000</u>

**Litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of our operations in the normal course of business. Other than as set forth below, at December 31, 2018, there were no material pending legal proceedings to which the Company was a party or to which any of its property was subject that were expected, individually or in the aggregate, to have a material adverse effect on us.

In December 2013, an action entitled Intrepid Investments, LLC (“Intrepid”) v. Selling Source, LLC (“Selling Source”), et al., Index No. 654291/2013 was filed in the Supreme Court of the State of New York, County of New York. This is an action commenced by Intrepid against Selling Source and a number of other defendants, including Kitara Media LLC (“Kitara Media”), one of the Company’s subsidiaries, to collect on a Junior Secured Promissory Note signed by Selling Source in the original principal sum of \$28,700,000 (the “Note”). Kitara Media was a subsidiary of Selling Source at the time the Note was issued. Kitara Media is not a signatory to the Note, but like all of the subsidiaries of Selling Source at such time, on August 31, 2010 Kitara Media pledged all of its assets as collateral for all of the indebtedness of Selling Source, including the Note, which is the most junior obligation in Selling Source's capital structure. In connection with the merger of Kitara Media into a subsidiary of Kitara, with Kitara Media surviving as a wholly owned subsidiary of Kitara, the senior lenders of Selling Source exercised their authority to release all liens on the assets of Kitara Media, including the liens associated with the Note.

In the action, Intrepid seeks to foreclose on the security interest. Both Selling Source’s and Kitara Media’s obligations to Intrepid under the Note and Security Agreement were subordinate to obligations Selling Source had to two groups of prior lenders (“Senior Lenders”). The right of Intrepid to compel payments under the Note and/or foreclose the lien created by the Security Agreement was subject to an Intercreditor Agreement by and between the Senior Lenders and Intrepid. Under the terms of the Intercreditor Agreement, Intrepid could not take steps to compel Selling Source to make payment on the Note or foreclose the Security Agreement so long as the obligations to the Senior Lenders remained outstanding. In addition, under the terms of the Intercreditor Agreement, the Senior Lenders had the right to have the lien released on any of the collateral pledged as security under the Security Agreement. In the New York action, Intrepid has challenged the Senior Lenders’ authority to release the lien and also challenged the enforceability of the Intercreditor Agreement generally. The Court has not yet ruled on the merits of that challenge, but discovery on this lawsuit has been completed and Intrepid and the defendants have each filed cross-motions for summary judgment. The Court heard argument on the summary judgment motions in January 2019, but has not yet issued its ruling on the motions. In addition, Selling Source’s obligations to the Senior Lenders remains outstanding.

The second matter is Intrepid Investments, LLC v. Selling Source, LLC et al., Index No. 654309/2013, which was filed in the Supreme Court of the State of New York, County of New York. This matter was originally limited to claims asserted by Intrepid against Selling Source regarding an earn-out calculation entered into between it and Selling Source, and confirmed by an arbitrator earlier in 2013. In August, 2014, Intrepid amended its complaint to include various breach of contract claims against a variety of those defendants, including Kitara. The new defendants, including Kitara, answered the amended complaint on November 7, 2014, denying liability for all claims. On February 19, 2015, the Court entered an order granting Selling Source’s motion to affirm the arbitration results. On March 3, 2015, Selling Source filed a motion for partial summary judgment seeking dismissal of eleven of Intrepid’s remaining claims, and, in September 2015, the New York Supreme Court granted this motion for summary judgment. The claims asserted against Kitara were not among those addressed in Selling Source’s motion.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 10 – Commitments and Contingencies, continued

##### Litigation, continued

Early in 2019, Intrepid filed another case in the Supreme Court of the State of New York against Selling Source and other defendants, including Kitara Media, seeking to collect on the same note, Index No. 650641/2019. This third matter has been consolidated with the first matter of Index No. 654291/2013 and the Company believes that this new case is subject to many of the same defenses. The parties have agreed to stay active litigation of the new case pending resolution of the motions for summary judgment in case number 654291/2013.

Based on these facts, Propel believes Intrepid's claims are without merit and intends to defend them vigorously. In any event, Selling Source has acknowledged an obligation to indemnify and defend Kitara Media from any liability to Intrepid arising out of the Note and Security Agreement. Selling Source owns 22.5 million shares of the common stock of Propel and the Chairman of Propel's board of directors is also a director of Selling Source.

#### Note 11 - Defined Contributions Plans

The Company maintains a defined contribution plan under Section 401(k) of the Internal Revenue Code (the "Plan"). Participating employees may defer a percentage of their eligible pre-tax earnings up to the Internal Revenue Service's annual contribution limit. All full-time employees of the Company are eligible to participate in the Plan.

The Plan does not permit investment of participant contributions in the Company's common stock. The Company's matching contributions to the Plan are discretionary. The Company recorded contribution expense of \$256,000 and \$257,000 during the year ended December 31, 2018 and 2017, respectively, which is recorded in salaries, commissions, benefits and related expenses on the consolidated statements of operations.

#### Note 12 – Income Taxes

Federal and State Income tax expense is as follows:

	For the Year Ended December 31,	
	2018	2017
Current		
Federal	\$ 2,561,000	\$ 5,429,000
State	509,000	378,000
Foreign	3,000	0
Total current	<u>3,073,000</u>	<u>5,807,000</u>
Deferred		
Federal	2,082,000	11,255,000
State	15,000	1,083,000
Total deferred	<u>2,097,000</u>	<u>12,338,000</u>
Total Income Tax Expense	<u>\$ 5,170,000</u>	<u>\$ 18,145,000</u>

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 12 – Income Taxes, continued**

The difference between the Company's effective income tax rate and the federal statutory corporate tax rate is as follows:

	For the Year Ended December 31,	
	2018	2017
Statutory federal tax rate	21.0%	34.0%
State taxes, net of federal benefit	1.5%	1.6%
Permanent differences:		
Deferred Payments to Transferors – Basis Step Up	-4.8%	
Change in expected state rate for reversal of deferred tax benefit	-%	3.8%
Change in future federal tax rate	-%	60.4%
Other	0.7%	2.2%
Total	<u>18.4%</u>	<u>102.0%</u>

Significant components of deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	For the Year Ended December 31,	
	2018	2017
Deferred tax assets		
Intangible – Propel Media step-up	\$ 15,517,000	\$ 15,242,000
Net operating loss carryforward	956,000	998,000
Accrued vacation	158,000	122,000
Non-qualified stock options	814,000	753,000
Bad debt	71,000	58,000
Debt amortization	-	2,134,000
Depreciation	239,000	15,000
Interest expense carryforward	105,000	-
Others	118,000	-
Gross deferred tax assets	<u>17,978,000</u>	<u>19,322,000</u>
Deferred tax liabilities		
Amortization of intangibles	(12,000)	(51,000)
Tenant improvement liability	(1,074,000)	(331,000)
Other	(57,000)	(8,000)
Gross deferred tax liabilities	<u>(1,143,000)</u>	<u>(390,000)</u>
Net deferred tax assets	<u>\$ 16,835,000</u>	<u>\$ 18,932,000</u>

The U. S. Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. Among other things, the Tax Act reduced the US statutory corporate income tax rate to 21% effective January 1, 2018. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period which the new legislation is enacted. Consequently, the Company has recorded a provisional decrease in its deferred tax assets and liabilities of \$10,748,000 with a corresponding net adjustment to deferred income tax expense for the year ended December 31, 2017.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the initial accounting for certain income tax effects of the Tax Act. This allowed time for the Company to collect and prepare necessary data and interpret the Tax Act and any additional guidance issued by the U.S. Treasury

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 12 – Income Taxes, continued

Department, the IRS, and other standard-setting bodies. Those adjustments could have materially impacted our provision for income taxes and effective tax rate in the period in which the adjustments are made. The Company's accounting for the tax effects of the Tax Act was completed and fully presented, without material adjustment, within the consolidated financial statements as of and for the year ended December 31, 2018.

As of December 31, 2018, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$4,553,000, which were acquired in connection with the acquisition of Kitara. Internal Revenue Code ("IRC") Section 382 limits the utilization of net operating loss carryforwards upon a change in control of a company. Pursuant to IRC Section 382, changes in control occur when the stock ownership of one or more 5% shareholders (shareholders owning 5% or more of the Company's outstanding capital stock) has increased on a cumulative basis by more than 50 percentage points. Management cannot control the ownership changes occurring as a result of public trading of the Company's Common Stock. Accordingly, there is a risk of an ownership change beyond the control of the Company that could trigger a limitation of the use of the loss carryover. In connection with the acquisition of Kitara, the Company prepared an analysis under IRC Section 382 and determined that (i) there was a more than 50% ownership change on January 28, 2015 and (ii) that of the \$8,200,000 acquired net operating losses, only \$6,535,000 would be eligible for carryover to future periods. The net operating losses are expected to expire in the years 2029 through 2034.

## Propel Media, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 13 - Stock-Based Compensation

##### *Equity Incentive Plans*

###### 2014 Long-Term Incentive Equity Plan

On October 9, 2014, Propel and its then sole stockholder approved the 2014 Long-Term Incentive Plan (“2014 Plan”), pursuant to which a total of nine percent of the fully-diluted shares of the Company’s common stock outstanding as of the closing of the Transactions (or 26,172,326 shares) became available for awards under the plan upon such closing. Kitara’s stockholders approved the plan as of January 26, 2015.

###### 2012 and 2013 Long-Term Incentive Equity Plans

On May 14, 2012 and December 3, 2013, Kitara adopted the 2012 Long-Term Incentive Equity Plan (“2012 Plan”) and the 2013 Long-Term Incentive Equity Plan (“2013 Plan”), respectively. The 2012 Plan and 2013 Plan provide for the grant of stock options, stock appreciation rights, restricted stock and other stock-based awards to, among others, the officers, directors, employees and consultants of the Company.

Effective January 28, 2015, Propel assumed the 2012 Plan and 2013 Plan, and all outstanding stock options thereunder. Propel amended the plans so that no further awards may be issued under such plans after the closing of the Reverse Merger.

##### *Stock Option Award Activity*

The following table is a summary of stock option awards:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2017	20,490,000	\$ 0.49	\$ 0.27	5.69	\$ -
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited, expired or canceled	5,026,562	0.29	0.17	-	-
Outstanding at December 31, 2018	<u>15,463,438</u>	\$ 0.55	\$ 0.30	5.91	\$ -
Exercisable at December 31, 2018	<u>14,734,382</u>	\$ 0.55	\$ 0.30	5.89	\$ -

The aggregate intrinsic value is calculated as the difference between the weighted average exercise price of the underlying outstanding stock options and the fair value of the Company’s common stock, based upon the closing price of the Company’s common stock as reported on the OTC Pink Market on December 31, 2018. The Black-Scholes method option pricing model was used to estimate the fair value of the option awards using the following range of assumptions. The simplified method was used to determine the expected life of grants to employees, as these granted options were determined to be “plain-vanilla” options. The full term was used for the expected life for options granted to consultants.

**Propel Media, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 13 - Stock-Based Compensation, continued**

*Stock Option Award Activity, continued*

	<b>Weighted Average Mark-to-Market Adjustments for the Year Ended <u>December 31, 2018</u></b>
Average Stock Price	\$ 0.20
Average Exercise Price	\$ 0.55
Average Dividend Yield	0%
Average Expected Volatility	55.1%
Average Risk-free interest rate	2.8%
Average Expected Life (in years)	6.90

The fair value of stock options is amortized on a straight-line basis over the requisite service periods of the respective awards. Stock based compensation expense related to stock options was \$920,000 and \$960,000 for the years ended December 31, 2018 and 2017, respectively. The expense was reflected in selling, general and administrative expenses on the accompanying consolidated statements of operations. As of December 31, 2018, the unamortized value of options was \$160,000. As of December 31, 2018, the unamortized portion will be expensed through November 2019 and the weighted average remaining amortization period was 0.2 years.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 14 - Equity**

*Preferred Stock*

The Company has no preferred stock issued. The Company's amended and restated certificate of incorporation and amended and restated bylaws include provisions that allow the Company's Board of Directors to issue, without further action by the stockholders, up to 1,000,000 shares of undesignated preferred stock.

*Warrant*

On April 29, 2014 in connection with a private placement of shares of Kitara's common stock, the Company issued warrants to purchase an aggregate of 6,363,636 shares of common stock, including to certain of the Company's directors and/or their affiliates. The warrants are exercisable at a price of \$0.825 per share and expire on April 30, 2019.

*Common Stock*

The Company has one class of common stock outstanding with a total number of shares authorized of 500,000,000. As of December 31, 2018, the Company had outstanding 250,010,162 shares of common stock.

**Note 15 – Executive Bonus Plan**

On June 21, 2018, the Company also adopted an Incentive Cash Bonus Plan (the "Cash Bonus Plan"), pursuant to which the Company may grant performance cash bonuses to its employees. Each participant in the Cash Bonus Plan have an annual target bonus as established by the Board. The bonuses are paid on a quarterly basis. Effective on April 1, 2018, the Cash Bonus Plan replaced the Propel Media Executive Bonus Plan (the "Executive Bonus Plan"). Bonus expense for earned bonuses under the Cash Bonus Plan and the Executive Bonus Plan amounted to \$1,561,000 and \$1,894,000 for the years ended December 31, 2018 and 2017, respectively. The bonuses are included in salaries, commissions, benefits and related expenses within the Company's consolidated statements of operations. At December 31, 2018 and December 31, 2017, the accrued executive bonuses were \$331,000 and \$511,000, respectively, and the amounts were included in accrued expenses within the consolidated balance sheets.