

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

**FORM 10-Q**

**(Mark One)**

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

For the quarterly period ended March 31, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **000-55360**

**PROPEL MEDIA, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**47-2133177**

(I.R.S. Employer  
Identification Number)

**2010 Main Street, Suite 900  
Irvine, California**

(Address of Principal Executive Offices)

**92614**

(Zip Code)

**(949) 251-0640**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ? No ?

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

Large accelerated filer	?	Accelerated filer	?
Non-accelerated filer	?	Smaller reporting company	?
(Do not check if a Smaller reporting company)		Emerging growth company	?

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

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

As of May 12, 2017, there were 250,010,162 shares of common stock, \$.0001 par value per share, outstanding.



**PROPEL MEDIA, INC.**  
**FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2017**

**TABLE OF CONTENTS**

<b>PART I – FINANCIAL INFORMATION</b>	<b>1</b>
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets (Unaudited)	1
Condensed Consolidated Statements of Operations (Unaudited)	2
Condensed Consolidated Statements of Stockholders’ Deficit (Unaudited)	3
Condensed Consolidated Statements of Cash Flows (Unaudited)	4
Notes to the Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 4. Control and Procedures	27
<b>PART II – OTHER INFORMATION</b>	<b>28</b>
Item 1. Legal Proceedings	28
Item 6. Exhibits	28
<b>SIGNATURES</b>	<b>29</b>

---

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Propel Media, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(unaudited)**

	<b>As of</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets		
Cash	\$ 5,601,000	\$ 2,823,000
Accounts receivable, net	7,307,000	6,595,000
Prepaid expenses & other current assets	439,000	564,000
<b>Total current assets</b>	<b>13,347,000</b>	<b>9,982,000</b>
Property and equipment, net	1,454,000	1,594,000
Intangible assets	20,000	20,000
Goodwill	2,869,000	2,869,000
Deferred tax assets, net	31,497,000	31,691,000
Other assets	83,000	89,000
<b>Total assets</b>	<b>\$ 49,270,000</b>	<b>\$ 46,245,000</b>
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities		
Accounts payable	\$ 3,073,000	\$ 1,861,000
Accrued expenses	4,149,000	3,914,000
Advertiser deposits	1,427,000	1,832,000
Current portion of long-term debt	6,112,000	6,089,000
<b>Total current liabilities</b>	<b>14,761,000</b>	<b>13,696,000</b>
Long-term debt, less current portion, net	65,228,000	65,999,000
Obligations to transferors	14,720,000	14,569,000
Other non-current liabilities	95,000	142,000
<b>Total liabilities</b>	<b>94,804,000</b>	<b>94,406,000</b>
<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 March 31, 2017 and December 31, 2016	25,000	25,000
Additional paid-in capital	2,986,000	2,757,000
Accumulated deficit	(48,545,000)	(50,943,000)
<b>Total stockholders' deficit</b>	<b>(45,534,000)</b>	<b>(48,161,000)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 49,270,000</b>	<b>\$ 46,245,000</b>

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

**Propel Media, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
(unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenues	\$ 18,632,000	\$ 15,323,000
Cost of revenues	6,933,000	6,792,000
Gross profit	11,699,000	8,531,000
<b>Operating expenses:</b>		
Salaries, commissions, benefits and related expenses	3,085,000	3,737,000
Technology, development and maintenance	817,000	1,106,000
Marketing and promotional	17,000	18,000
General and administrative	353,000	389,000
Professional services	276,000	324,000
Depreciation and amortization	397,000	621,000
Impairment of software and video library	20,000	183,000
Operating expenses	4,965,000	6,378,000
Operating income	6,734,000	2,153,000
<b>Other expense:</b>		
Interest expense, net	(2,911,000)	(3,236,000)
Total other expense	(2,911,000)	(3,236,000)
Income (loss) before income tax expense	3,823,000	(1,083,000)
Income tax (expense) benefit	(1,425,000)	420,000
Net income (loss)	\$ 2,398,000	\$ (663,000)
Net income (loss) per common share, basic and diluted	\$ 0.01	\$ (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 condensed consolidated financial statements.

**Propel Media, Inc. and Subsidiaries**  
**Condensed Consolidated Statement of Stockholders' Deficit**  
(unaudited)

	<u>Common stock</u>		<u>Additional Paid - In Capital</u>	<u>Accumulated Deficit</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	-	-	229,000	-	229,000
Net income	-	-	-	2,398,000	2,398,000
Balance, March 31, 2017	<u>250,010,162</u>	<u>\$ 25,000</u>	<u>\$ 2,986,000</u>	<u>\$ (48,545,000)</u>	<u>\$ (45,534,000)</u>

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

**Propel Media, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ 2,398,000	\$ (663,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	4,000	(72,000)
Stock-based compensation	229,000	314,000
Depreciation and amortization	397,000	621,000
Accretion of debt premium	769,000	817,000
Amortization of debt discount	177,000	199,000
Amortization of debt issuance costs	56,000	63,000
Interest accrued on amount due to Transferors	152,000	202,000
Impairment of intangible assets and software	20,000	183,000
Deferred income taxes	194,000	(420,000)
Changes in assets and liabilities:		
Accounts receivable	(716,000)	939,000
Prepaid income taxes	134,000	(213,000)
Prepaid expenses	(9,000)	(100,000)
Other assets	6,000	-
Accounts payable	1,212,000	(1,620,000)
Accrued expenses	235,000	700,000
Advertiser deposits	(405,000)	(230,000)
Other non-current liabilities	(47,000)	(46,000)
<b>Net cash provided by operating activities</b>	<b>4,806,000</b>	<b>674,000</b>
<b>Cash Flows From Investing Activities</b>		
Restricted cash	-	1,000
Purchase of property and equipment	(278,000)	(312,000)
<b>Net cash used in investing activities</b>	<b>(278,000)</b>	<b>(311,000)</b>
<b>Cash Flows From Financing Activities</b>		
Repayment of long-term debt	(1,750,000)	(1,750,000)
Repayment under line of credit	(15,726,000)	(17,949,000)
Borrowing under line of credit	15,726,000	18,802,000
<b>Net cash used in financing activities</b>	<b>(1,750,000)</b>	<b>(897,000)</b>
Net increase (decrease) in cash	2,778,000	(534,000)
<b>Cash</b>		
Beginning of period	2,823,000	1,629,000
End of period	<u>\$ 5,601,000</u>	<u>\$ 1,095,000</u>

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

**Propel Media, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	<u>\$ 1,756,000</u>	<u>\$ 1,960,000</u>
Income taxes	<u>\$ 20,000</u>	<u>\$ 182,000</u>

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



**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**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 for 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, and Kitara Media Corp. (“Kitara”), a Delaware corporation (Propel, Propel Media and Kitara and their respective subsidiaries, together, 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 audiences 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 audiences and acquire customers. Propel has more than 1,400 advertiser customers and serves millions of ads per day.

Propel primarily serves its advertising to users who are part of its owned and operated member-based network or the member-based networks of its third party application partners. Propel provides its audience 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. Under the third party application model, Propel serves advertising through its partners who are providing a variety of applications free of charge in exchange for the ability to serve ads to their users.

Propel has also developed a publisher business model with a channel of direct publishers, networks and exchanges. These supply channels expand our ability to serve advertising. In this model, the advertising units are served to users through a website, and we serve advertising units to the user in coordination with the publisher, network or exchange.

Propel was formed on October 7, 2014. On January 28, 2015, Propel consummated the “reverse business combination” (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 and January 26, 2016 by and among Kitara, Propel, Propel Media and the former members of Propel Media (“Transferors”) (See Note 4 – Reverse Business Combination and Recapitalization). Prior to the Transactions, Kitara was a public operating company and Propel Media was a private operating company. Upon the closing of the Transactions, Propel became the new public company and Kitara and Propel Media became wholly-owned subsidiaries of Propel.

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”). The Loans will mature on January 28, 2019 (“Final Maturity Date”).

Immediately following the Reverse Merger, the Transferors collectively owned 61.7% of the merged company and the former stockholders of Kitara owned 38.3% of the merged company.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1 - Organization and Description of Business, continued**

As a result of the Reverse Merger, the Transferors acquired a majority of Propel's common stock and both Propel Media's and Kitara's officers became the officers and directors of Propel, including the Company's prior Chief Executive Officer, Mr. Robert Regular, who later left the Company on April 30, 2016. For accounting purposes, the Reverse Merger has been treated as an acquisition of Kitara by Propel Media whereby Propel Media was deemed to be the accounting acquirer. The historical consolidated financial statements prior to January 28, 2015 are those of Propel Media. In connection with the Reverse Merger, the equity accounts of Propel Media have been restated on a recapitalization basis so that all equity accounts are now presented as if the member interest exchanged for shares of Propel Media common stock had occurred at the beginning of the earliest period presented.

**Note 2 - Liquidity and Capital Resources**

As of March 31, 2017, the Company's cash on hand was \$5,601,000. The Company had working capital deficits of \$1,414,000 and \$3,714,000 as of March 31, 2017 and December 31, 2016, respectively. The Company recorded net income of \$2,398,000 for the three months ended March 31, 2017. The net income for the three months ended March 31, 2017 reflected an income before income tax of \$3,823,000 and an income tax expense of \$1,425,000. The Company has historically met its liquidity requirements through operations.

As of March 31, 2017, the borrowing base and outstanding balance under the Revolving Loan were approximately \$4,896,000 and \$0, respectively, leaving \$4,896,000 available to be drawn under the arrangement.

Cash flows used in financing activities for the three months ended March 31, 2017 consisted of a \$1,750,000 principal repayment on the Company's Term Loan.

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 March 31, 2017.

Management believes that the Company's cash balances on hand, 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 through May 2018.

**Note 3 - Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding unaudited interim financial information. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's condensed consolidated balance sheets, statements of operations and cash flows for the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of the results of operations to be expected for the full year due to seasonal and other factors. Certain information and footnote disclosures normally included in the condensed consolidated financial statements in accordance with US GAAP have been omitted in accordance with the rules and regulations of the SEC. Accordingly, these unaudited interim condensed consolidated financial statements and footnotes should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2017.

***Principles of Consolidation***

The unaudited condensed 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 unaudited condensed consolidated financial statements.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 3 - Summary of Significant Accounting Policies, continued**

*Use of Estimates*

The Company's unaudited condensed 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 condensed 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 options.

*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 March 31, 2017 and December 31, 2016 was \$269,000 and \$266,000, 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. Depreciation and amortization expense for the three months ended March 31, 2017 and 2016 was \$397,000 and \$582,000, respectively.

*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 condensed consolidated statements of operations

Intangible assets as of March 31, 2017 and December 31, 2016 consist of the Propel Media trade name at a cost of \$20,000. Amortization expense was \$0 and \$39,000 for the three months ended March 31, 2017 and 2016, respectively.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 3 - Summary of Significant Accounting Policies, continued**

***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 postimplementation 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 straightline 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 an impairment charge of \$20,000 for the three months ended March 31, 2017, to write off the book value of certain internally developed capitalized software.

***Debt Issuance Costs***

Debt issuance costs (principally legal and other fees) are charged as debt discounts and are amortized over the term of the related loan using the effective interest method. Amortization of debt issuance costs amounted to \$56,000 and \$63,000 for the three months ended March 31, 2017 and 2016, respectively, and is included in interest expense on the accompanying condensed consolidated statements of operations.

***Revenue Recognition***

Propel generates revenue from advertisers by serving their ads to a user audience consisting of the Company's owned and operated network, users of our third party application partners' properties and users from our publisher driven traffic. In all cases, our revenue is generated when an advertisement is served by us or when a user action occurs based on the advertisement we served (i.e., a view, a click, a conversion action, etc.). There is a specific transaction that triggers a billable instance.

The Company recognizes revenue in accordance with ASC Topic 605, "Revenue Recognition" ("ASC 605"). Accordingly, the Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, no significant Company obligations remain, collection of the related receivable is reasonably assured and the amounts are fixed and determinable. The gross advertising campaign revenue is recognized in the period that the advertising impressions, clicks or actions occur, provided that all other revenue recognition criteria have been met. The Company's agreements do not require a guaranteed minimum number of impressions, clicks or actions. With respect to advertising campaign activities, the Company acts as a principal in that it is the primary obligor to the advertiser customer.

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

***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.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 3 - 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 three months ended March 31, 2017 and 2016:

	For the Three Months Ended March 31,	
	2017	2016
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	10% 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	21% and 18% and 14% of cost of revenues, or 53% of cost of revenues in the aggregate	20% and 11% of cost of revenues, or 31% of cost of revenues in the aggregate
The Company's largest vendors reported as a percentage of accounts payable	31% of accounts payable from one vendor	None over 10%

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 March 31, 2017 and December 31, 2016, 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 Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 3 - Summary of Significant Accounting Policies, continued**

*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 three months ended March 31, 2017, the Company excluded potential common shares resulting from the exercise of stock options (23,330,000 potential common shares) and of warrants (6,363,636 potential common shares) as their inclusion would be anti-dilutive. For the three months ended March 31, 2016, the Company excluded potential common shares resulting from the exercise of stock options (28,315,000 potential common shares) and of warrants (6,363,636 potential common shares) as their inclusion would be anti-dilutive.

*Subsequent events*

The Company has evaluated events that occurred subsequent to March 31, 2017 through the date these condensed consolidated financial statements were issued. Management has concluded that other than as disclosed in Note 11, there were no subsequent events that required disclosure in these condensed consolidated financial statements.

*Recent Accounting Pronouncements*

On February 25, 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842). This update will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance will also require additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. The provisions of this update are effective for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this ASU will have on the condensed consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718). This update requires that all excess tax benefits and tax deficiencies arising from share-based payment awards should be recognized as income tax expense or benefit on the condensed consolidated statements of operations. The amendment also states that excess tax benefits should be classified along with other income tax cash flows as an operating activity. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or account for forfeitures as they occur. The provisions of this update are effective for annual and interim periods beginning or after December 15, 2016. The Company has adopted ASU 2015-16 effective January 1, 2017 and such adoption did not have a material impact on the Company’s condensed consolidated financial position and results of operations.

In April 2016, the FASB issued Accounting Standards Update ASU No. 2016-10 Revenue from Contracts with Customers (Topic 606), “Identifying Performance Obligations and Licensing” (“ASU 2016-10”). ASU 2016-10 clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its condensed consolidated financial statements.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 3 - Summary of Significant Accounting Policies, continued**

*Recent Accounting Pronouncements, continued*

In May 2016, the FASB issued Accounting Standards Update ASU No. 2016-12 “Revenue from Contracts with Customers (Topic 606)”, “Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”). The core principal of ASU 2016-12 is the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update ASU No. 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”). The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of period and end-of-period total amounts shown on the statement of cash flows. The provisions of this update are effective for annual and interim periods beginning after December 15, 2017, with early application permitted. The amendments in this update do not provide a definition of restricted cash or restrict cash equivalents. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update ASU No. 2017-04 “Intangibles-Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2014-04”). 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.

Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The provisions of this update are effective for annual and interim periods beginning after December 15, 2019, with early application permitted after January 1, 2017. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 4 - Reverse Business Combination and Recapitalization**

*The Transactions and Merger Agreement*

On January 28, 2015, Propel, Propel Media and Kitara consummated the Transactions.

Pursuant to the Exchange Agreement, as amended, the Members exchanged all of the outstanding Propel Media limited liability company interests for (i) \$80,000,000 in cash, (ii) 154,125,921 shares of Propel common stock, (iii) the right to receive performance-based “earn out” payments that enables the Members to receive up to an additional \$40,000,000 in cash or stock consideration based on Propel Media reaching certain earnings before interest, taxes, depreciation and amortization (“EBITDA”) levels during the 2015 to 2018 fiscal years, (iv) \$10,000,000 deferred payment (the “Deferred Obligation”) in cash and/or shares of Propel common stock (as outlined below), and (v) immediately after the payment of certain fees to Highbridge on or about January 28, 2019, the \$6,000,000 Deferred Payment in cash (the “Exchange”).

Pursuant to the Exchange Agreement, as amended on January 26, 2016, the \$10,000,000 Deferred Obligation is payable in cash and/or stock not later than, June 30, 2019. The Company can pay the \$10,000,000 Deferred Obligation from the raising of capital via an equity financing or from available working capital. The Company is required to use its reasonable best efforts to complete equity financings that would raise sufficient net proceeds to pay the \$10,000,000 Deferred Obligation in cash to the Transferors on or before June 30, 2019 (the “Equity Financing Period”). In addition, 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 \$10,000,000 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 \$10,000,000 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. Finally, 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 \$10,000,000 Deferred Obligation in shares of the Company’s common stock. For such issuance, each share of the Company’s common stock will be valued at the closing market price of the Company’s common stock as reported on NASDAQ or such other national securities exchange on which the Company’s Common Stock is listed (or if not so listed, the bid price on the OTC Pink Market) on the date prior to the date on which such shares are issued to the Transferors.

The Company recorded the obligations for the \$10,000,000 Deferred Payment and the \$6,000,000 Deferred Payment, (in the aggregate, “Deferred Payments to Transferors”) to Transferors at fair value. Fair value was determined by recording the fixed obligations at their net present value, discounted at an interest rate of 10% per annum. The discount rate used was based upon the interest rate of the Term Loan. The Company is amortizing the discount utilizing the interest method over the periods for which future amounts are due. On January 28, 2015, upon the consummation of the Exchange, the Company recorded the fair value of the Deferred Payments to Transferors of \$12,696,000, reflecting a discount of \$3,304,000. As discussed above, on January 26, 2016, pursuant to the Exchange Agreement, the Transferors agreed to defer receipt of the \$10,000,000 until June 2019. This extension of the timing to remit payment was evaluated for extinguishment accounting. The amendment was determined to be a modification for accounting purposes, and as such, the unamortized discount for the \$10,000,000 obligation on the date of the amendment was \$418,000, which will be amortized over the remaining term of the obligation. As a result, subsequent to the amendment date, the effective interest rate on the obligation was reduced to 1.25%.

During the three months ended March 31, 2017 and 2016, the Company recorded discount amortization of \$152,000 and \$202,000, respectively. The unamortized discount was \$1,280,000 as of March 31, 2017 and \$1,431,000 as of December 31, 2016.



**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
(Unaudited)

**Note 4 - Reverse Business Combination and Recapitalization, continued**

*The Transactions and Merger Agreement, continued*

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

	As of,	
	March 31, 2017	December 31, 2016
Amount due on or before June 30, 2019	\$ 10,000,000	\$ 10,000,000
Amount due January 28, 2019	6,000,000	6,000,000
Total, gross	16,000,000	16,000,000
Less: discount	(1,280,000)	(1,431,000)
Total, net	<u>\$ 14,720,000</u>	<u>\$ 14,569,000</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.

**Note 5 - Financing Agreement**

Upon the closing of Transactions, the Term Loan, in the aggregate principal amount of \$81,000,000 was borrowed in full and \$7,500,000 was borrowed under the Revolving Loan. The proceeds of the Loans were used (a) to pay off and refinance the revolver obligation with Wells Fargo Bank which was assumed from Kitara in the Reverse Merger (b) to pay fees and expenses related to the Financing Agreement, (c) to finance the cash consideration under the Exchange Agreement and (d) for general working capital purposes of the Borrowers.

The obligations of the Borrowers under the Financing Agreement are secured by first priority security interests granted to the Lenders on all of the Borrowers' and Guarantors' tangible and intangible property, including accounts receivable, intellectual property, shares and membership interests of the Borrowers (other than Propel) and the Guarantors.

The Financing Agreement provided for certain fees to be paid, including (i) a closing fee of \$2,880,000 which was withheld from the proceeds of the Term Loan and was accounted for as an original issue discount and is being amortized to interest expense using the interest method over the term of the Term Loan and (ii) a ("Deferred Fee") of \$12,500,000 payable to the Lenders and due upon the fourth anniversary of the inception of the Term Loan. The Company is accreting the Deferred Fee as a finance charge over the term of the Term Loan. The Company recorded amortization of the closing fee as interest expense of \$177,000 and \$199,000, for the three months ended March 31, 2017 and 2016, respectively. The balance of the closing fee original issue discount was \$1,183,000 and \$1,360,000 as of March 31, 2017 and December 31, 2016, respectively, and is reflected within the Term Loan obligations on the condensed consolidated balance sheets. The Company recorded as interest expense accretion of the Deferred Fee of \$769,000 and \$817,000, for the three months ended March 31, 2017 and 2016, respectively. The balance of the accreted Deferred Fee as of March 31, 2017 and December 31, 2016 was \$7,113,000 and \$6,344,000, respectively, and is reflected within the Term Loan obligations on the condensed consolidated balance sheets.

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 is being amortized using the effective interest method over the term of the Term Loan. The Company recorded as interest expense amortization of the debt issuance costs of \$56,000 and \$63,000 for the three months ended March 31, 2017 and 2016, respectively. The balance of the unamortized debt issuance costs of \$371,000 and \$428,000, respectively, is reflected within the Term Loan obligations on the condensed consolidated balance sheets as of March 31, 2017 and December 31, 2016, respectively.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 5 - Financing Agreement, continued**

The Financing Agreement and other loan documents contain customary representations and warranties and affirmative and negative covenants, including covenants that restrict the Borrowers' ability to, among other things, create certain liens, make certain types of borrowings and engage in certain mergers, acquisitions, consolidations, asset sales and affiliate transactions. The Company is also subject to a leverage ratio requirement as of the end of each calendar quarter. The Financing Agreement provides for customary events of default, including, among other things, if a change of control of Propel occurs. The Loans may be accelerated upon the occurrence of an event of default. As of March 31, 2017, the Company was in compliance with the covenants and the leverage ratio requirement under the Finance Agreement.

***Term Loan***

The outstanding principal amount of the Term Loan shall be repayable in consecutive quarterly installments in equal amounts of \$1,750,000 on the last day of each March, June, September and December commencing on March 31, 2015, except that the payment due on March 31, 2015 was \$1,219,000. The remainder of the Term Loan is due and payable on the maturity date, except in certain limited circumstances.

As of March 31, 2017, the Company was in compliance with the covenants under the Financing Agreement.

Subject to the terms of the Financing Agreement, the 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 9.00% plus either (i) the London Interbank Offered Rate ("LIBOR") (but not less than 1% and not more than 3%) for the interest period in effect for the Term Loan (or such portion thereof), or (ii) the bank's reference rate. For each interest period, the Company may choose to pay interest under either the LIBOR or reference rate method. During the three months ended March 31, 2017, interest on the Term Loan bore an effective interest rate of approximately 10.0% per annum.

The following represents the obligations outstanding under the Term Loan:

	As of	
	March 31, 2017	December 31, 2016
Principal	\$ 65,781,000	\$ 67,531,000
Discounts	(1,554,000)	(1,787,000)
Accreted value of the Deferred Fee (\$12,500,000)	7,113,000	6,344,000
Net	71,340,000	72,088,000
Less: Current portion	(6,112,000)	(6,089,000)
Long-term portion	<u>\$ 65,228,000</u>	<u>\$ 65,999,000</u>

The future minimum payments on the Company's Term Loan are as follows:

For the years ended December 31,	Term Loan
2017 (nine months)	5,250,000
2018	7,000,000
2019	53,531,000
Total, gross	65,781,000
Less: debt discount	(1,554,000)
Plus: accreted value through March 31, 2017 of the Deferred Fee (\$12,500,000)	7,113,000
Total, net	71,340,000
Less: current portion	(6,112,000)
Long-term debt	<u>\$ 65,228,000</u>

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 5 - Financing Agreement, continued**

*Revolving Loan*

As of March 31, 2017, the outstanding balance of the Revolving Loan was \$0, with \$4,896,000 available for future borrowing.

Subject to the terms of the Financing Agreement, the Company may have multiple revolving loans under the revolving loan arrangement. Each 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 6.00% plus either (i) the LIBOR for the interest period in effect for such Loan (but not less than 1%) (7.0% during the three months ended March 31, 2017), or (ii) the bank's reference rate (9.5% during the three months ended March 31, 2017). For each revolving loan, the Company can choose to borrow either at the LIBOR or the reference rate.

**Note 6 - Related-Party Transactions**

The Company has outsourced technology development services and other administrative services to a technology company in Eastern Europe ("Technology Vendor"). This technology company 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 this related party during the three months ended March 31, 2017 and 2016, totaled \$859,000 and \$737,000 respectively. These amounts were included in property and equipment and operating expenses, as applicable, in the accompanying condensed consolidated balance sheets and condensed consolidated statements of operations. 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. In addition, the Company had amounts due to this entity of \$7,000 and \$7,000 as of March 31, 2017 and December 31, 2016, respectively, which are reported within accrued expenses in the condensed consolidated balance sheets.

During the three months ended March 31, 2017 and 2016 the Company has incurred a total of \$45,000 and \$58,000 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 March 31, 2017 and December 31, 2016.

**Note 7 - Commitments and Contingencies**

*Operating leases*

Rent expense totaled \$106,000 and \$195,000 during the three months ended March 31, 2017 and 2016, respectively. The following is an annual schedule of approximate future minimum rental payments required under the operating lease agreement for the Company's Irvine, California lease location:

Years Ending December 31,	Amount
2017 (nine months)	447,000
2018	458,000
	<u>\$ 905,000</u>

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 7 - Commitments and Contingencies, continued**

*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 March 31, 2017, 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. 65429/2013 was filed in the Supreme Court of the State of New York, County of New York. This is an action commenced by Intrepid to collect on a Junior Secured Promissory Note signed by Selling Source in the original principal sum of \$28,700,000 (the “Note”). The Company is not a signatory to the Note but Kitara Media did sign an August 31, 2010 Security Agreement (“Security Agreement”) pledging all of its accounts, cash and cash equivalents, chattel paper, contracts, deposit accounts, documents, equipment, fixtures, general intangibles, all other goods, all shares of capital stock of any companies it owned, all instruments including all promissory notes, all intellectual property, all insurance policies and all proceeds thereof, all inventory, all other investment property, all letter of credit rights, all other tangible and intangible personal property and all proceeds of any of the foregoing, as security for the Note. At the time Kitara Media signed the Security Agreement, it was wholly-owned by Selling Source. On July 1, 2013, Kitara Media merged with one of Kitara’s then wholly-owned subsidiaries, with Kitara Media surviving the merger and becoming a wholly-owned subsidiary of Kitara. Accordingly, it is no longer wholly-owned by Selling Source, although it is still an affiliate of Selling Source.

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. 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. In August, 2014, Intrepid amended its complaint to include various breach of contractor 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.

Based on these facts, Propel believes Intrepid’s claims are without merit and intend 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. The parties have exchanged pleadings and Selling Source has provided documents and written interrogating responses to Intrepid.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 8 - 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 \$73,000 and \$77,000 during the three months ended March 31, 2017 and 2016, respectively.

**Note 9 - Income Taxes**

The Company's income tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter the Company updates its estimate of the annual effective tax rate and, if the Company's estimated tax rate changes, it makes a cumulative adjustment in that period.

The effective income tax rate for the three months ended March 31, 2017 and 2016 was 37.3% and 38.8%, respectively, resulting in a \$1,425,000 and (\$420,000) income tax expense (benefit), respectively. The income tax expense for the three months ended March 31, 2017 and 2016 differs from the amount that would be expected after applying the statutory U.S. federal income tax rate primarily due to the effect of state income taxes, which can differ from period to period. The effective income tax rate for the three months ended March 31, 2017 is lower than the effective income tax rate for the three months ended March 31, 2016, on account of differences in state income tax rates.

**Note 10 - 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"). 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.

**Propel Media, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 10 - Stock-Based Compensation, continued**

*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, 2016	23,351,875	\$ 0.49	\$ 0.27	6.9	\$ -
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited, expired or canceled	21,875	0.55	0.29	-	-
Outstanding at March 31, 2017	<u>23,330,000</u>	\$ 0.49	\$ 0.27	6.6	\$ -
Exercisable at March 31, 2017	<u>14,949,703</u>	\$ 0.46	\$ 0.25	5.9	\$ -

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 March 31, 2017. 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.

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 \$229,000 and \$314,000 for the three months ended March 31, 2017 and 2016, respectively, and was reflected in selling, general and administrative expenses on the accompanying condensed consolidated statements of operations. As of March 31, 2017, the unamortized value of options was \$1,729,000. As of March 31, 2017, the unamortized portion will be expensed through November 2019 and the weighted average remaining amortization period was 1.7 years.

**Note 11 - Executive Bonus Plan**

Effective January 1, 2016, Propel Media Executive Bonus Plan (the "Executive Bonus Plan") became effective for certain employees of the Company. The Executive Bonus Plan provides for bonuses based on the performance of the Company. Bonus expense for earned bonuses under the Executive Bonus Plan amounted to \$290,000 and \$146,000 for the three months ended March 31, 2017 and 2016, respectively. The bonuses are included in salaries, commissions, benefits and related expenses within the Company's condensed consolidated statements of operations. At March 31, 2017 and December 31, 2016, the accrued executive bonuses were \$287,000 and \$268,000, respectively, and the amounts were included in accrued expenses within the condensed consolidated balance sheets. On May 8, 2017, the Company's Board of Directors approved a change to the Executive Bonus Plan. Pursuant to this change, the Company will pay an additional executive bonus of approximately \$96,000 with respect to performance for the three months ended March 31, 2017.

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

References herein to "Propel," the "Company" and "we," "our" and "us" are to Propel Media, Inc. and its subsidiaries. References herein to "Propel Media" are to Propel Media LLC, a wholly owned subsidiary of Propel, and its subsidiaries. References herein to "Kitara" are to Kitara Media Corp., a wholly owned subsidiary of Propel, and its subsidiaries.

### CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q (this "Form 10-Q") includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. These forward-looking statements include, but are not limited to, statements relating to Propel's strategy, its future financial and operating results and its plans, objectives, expectations and intentions and all other statements that are not historical facts. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission filings, as well as the following factors: inability to protect our intellectual property; inability to comply with the covenants in our credit facility; inability to obtain necessary financing; inability to effectively manage our growth; inability to effectively comply with the policies and procedures of Google, Microsoft and other leading industry companies; failure to effectively integrate the operations of acquired businesses; competition; loss of key personnel; increases of costs of operations; continued compliance with government regulations; and general economic conditions. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report.*

## Overview

### General

Propel is a holding company for Propel Media and Kitara.

Propel is a diversified online advertising company. Propel generates revenues through the sale of advertising for advertisers who want to reach consumers in the United States and internationally to promote their products and services.

Propel delivers advertising, including via its real-time, bid-based, online advertising platform called Propel Media Platform. This technology platform allows advertisers to target audiences 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 audiences and acquire customers. Propel has over 1,400 advertiser customers and serves millions of ads per day.

Propel primarily serves its advertising to users who are part of our owned and operated member-based network or the member-based networks of our third party application partners. Propel provides its audience 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 this model, Propel also serves advertising through partners who acquire users by providing a variety of applications free of charge in exchange for the ability to serve ads to their users. In this model, advertising units are served directly to users through a browser extension or other software installed on the user's computer.

Propel has also developed a publisher business model with a channel of direct publishers, networks and exchanges. These supply channels expand our ability to serve advertising. In this model, the advertising units are served to users through websites, and we serve the advertising in coordination with the publisher, network or exchange.

Propel's principal executive office is located at 2010 Main Street, Suite 900, Irvine, CA 92614. Its telephone number at that location is (949) 251-0640.

#### Reverse Merger with Kitara

On January 28, 2015, Propel consummated the transactions (the "Transactions") 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 and January 26, 2016, by and among Kitara, Propel, Propel Media and the former members of Propel Media (the "Transferors"). Prior to the Transactions, Kitara was a public operating company and Propel Media was a private operating company. Upon the closing of the Transactions, Propel became the new public company and Kitara and Propel Media became wholly-owned subsidiaries of Propel.

In connection with the closing of the Transactions, Propel, Kitara and Propel Media, as "Borrowers," and certain of their subsidiaries, as "Guarantors," entered into a financing agreement, dated as of January 28, 2015 and amended on December 23, 2016 ("Financing Agreement"), with certain financial institutions as "Lenders," HPS Investment Partners, LLC (formerly known as Highbridge Principal Strategies, LLC), as collateral agent for the Lenders, and PNC Bank, National Association, as a Lender and administrative agent for the Lenders. The Financing Agreement provides for a credit facility that consists of a term loan (the "Term Loan") and a revolving loan (the "Revolving Loan").



Results of Operations

**Comparison of the Three Months Ended March 31, 2017 and 2016**

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenues	\$ 18,632,000	\$ 15,323,000
Cost of revenues	6,933,000	6,792,000
Gross profit	11,699,000	8,531,000
<b>Operating expenses:</b>		
Salaries, commissions, benefits and related expenses	3,085,000	3,737,000
Technology, development and maintenance	817,000	1,106,000
Sales and marketing	17,000	18,000
General and administrative	353,000	389,000
Professional services	276,000	324,000
Depreciation and amortization	397,000	621,000
Impairment of software and video library	20,000	183,000
Operating expenses	4,965,000	6,378,000
Operating income	6,734,000	2,153,000
<b>Other expense:</b>		
Interest expense, net	(2,911,000)	(3,236,000)
Total other expense	(2,911,000)	(3,236,000)
Income (loss) before income tax (expense) benefit	3,823,000	(1,083,000)
Income tax (expense) benefit	(1,425,000)	420,000
Net income (loss)	<u>\$ 2,398,000</u>	<u>\$ (663,000)</u>
<b>Adjusted EBITDA (a non-GAAP measure)</b>		
Net income (loss)	\$ 2,398,000	\$ (663,000)
Depreciation and amortization	397,000	621,000
Impairment charges	20,000	183,000
Interest expense, net	2,911,000	3,236,000
Stock-based compensation expense	229,000	314,000
Taxes	1,427,000	(420,000)
Bank fees (credits)	27,000	(56,000)
Merger and other one-time expenses	-	13,000
Adjusted EBITDA (a non-GAAP measure)	<u>\$ 7,409,000</u>	<u>\$ 3,228,000</u>

### ***Three Months Ended March 31, 2017 and 2016***

#### Revenue

Consolidated revenue for the three months ended March 31, 2017 increased by \$3,309,000, or 22%, to \$18,632,000 as compared to \$15,323,000 for the three months ended March 31, 2016. The increase was principally on account of improvements in the overall return we earn from the user audience to which we serve advertisements. During the three months ended March 31, 2017, revenue from our owned and operated user base increased by \$5,117,000, or 49% to \$15,616,000 as compared to \$10,498,000 for the three months ended March 31, 2016. The revenue growth from our owned and operated properties was based, first, upon our significant emphasis placed on media buying efforts and related enhanced content offers to draw users deemed highly desirable to our advertisers to our properties and, second, upon effectively serving more targeted advertising to those users. We have realized higher advertiser demand for our owned and operated user audience, and as a result, we have been able to realize a greater overall return, or higher lifetime value, from our media buy spend to acquire these users. This growth in our owned and operated user audience has lessened our dependency on the lower lifetime value users from our third party application partners. The increases in revenue resulting from our owned and operated properties was offset by declines in revenue from our third party application partners. Third party application partners' users were largely concentrated in international markets and our international revenue decreased due to the decrease in users in such markets. The decline in the third party application user base was principally on account of policy changes regarding the distribution of applications instituted by those who operate the marketplace's largest web browsers, which significantly impacted the user acquisition strategy of our third party application partners and limited the ability of those third party application partners to acquire users. Lastly, there was decline in revenue from our publisher-based video syndication business, where we narrowed our offerings to reposition and improve the profitability of this publisher-based sector of our business. As of March 31, 2017, we believe that our revenue trend is stable to positive and that it continues to provide a good foundation for our growth in 2017.

#### Gross profit

Gross profit for the three months ended March 31, 2017 increased by \$3,168,000, or 37% to \$11,699,000 as compared to \$8,531,000 for the three months ended March 31, 2016. Gross profit percentage improved to 63% for the three months ended March 31, 2017 as compared to 56% for the three months ended March 31, 2016. This increase in gross profit and gross margin percentage was attributable principally to the higher yield, or life time value, earned on our user audience, by a reduction during the three months ended March 31, 2017 of approximately \$642,000 in media and publisher costs, on account of the April 2016 sale of our Health Guru operation and our changes made in the video syndication business. As our user audience has shifted substantially to that of our owned and operated properties, and away from that of our third party application partners, our costs of revenues and gross profit are increasingly sensitive to our media buy spending (to draw user audience to our owned and operated properties), rather than the costs of commissions paid to the third party application partners based directly on ads served by us to the users from the third party application partners.

#### Operating income

Operating income for the three months ended March 31, 2017 increased by \$4,581,000, or 213% to \$6,734,000 as compared to \$2,153,000 for the three months ended March 31, 2016. Operating income as a percentage of revenue increased to 36% for the three months ended March 31, 2017 as compared to 14% for the three months ended March 31, 2016. The increase in operating income was principally on account of the increase in gross profit of \$3,168,000 and the decrease of \$1,413,000 in operating expenses. The decrease in operating expenses was due principally to the April 2016 operating restructuring and related workforce reductions.

#### Cost of revenues

Cost of revenues for the three months ended March 31, 2017 increased by \$141,000, or 2%, to \$6,933,000 as compared to \$6,792,000 for the three months ended March 31, 2016. Costs of revenues consists principally of the costs incurred to acquire our user audience. As compared to the three months ended March 31, 2016, our spending on user acquisition during the three months ended March 31, 2017 consisted principally of spending toward growing our owned and operated properties and away from commissions paid to third party application partners as well as video publisher ad serving costs.

#### Salaries, commissions, benefits and related expenses

Salaries, commissions, benefits and related expenses for the three months ended March 31, 2017 decreased by \$652,000, or 17%, to \$3,085,000 as compared to \$3,737,000 for the three months ended March 31, 2016. The decrease for the three months ended March 31, 2017 was primarily due to reductions in salary, related benefits and severance, principally in connection with the April 2016 operating restructuring and related workforce reductions.

#### Technology, development and maintenance expenses

Technology, development and maintenance expenses for the three months ended March 31, 2017 decreased by \$289,000, or 26%, to \$817,000 as compared to \$1,106,000 for the three months ended March 31, 2016. The decrease was principally due to an optimization of technology resources to support our revenue and media buying initiatives.

#### Other costs and operating expenses

Other costs and operating expenses (sales and marketing, general and administrative, and professional services) for the three months ended March 31, 2017 decreased by \$85,000, or 12%, to \$646,000 as compared to \$731,000 for the three months ended March 31, 2016. The decrease was principally due to an \$85,000 decrease in rent attributable principally to our April 2016 operational restructuring and the closing of our offices in New York and New Jersey.

#### Depreciation and amortization

Depreciation and amortization expenses for the three months ended March 31, 2017 decreased by \$224,000, or 36%, to \$397,000 as compared to \$621,000 for the three months ended March 31, 2016. The decrease was principally a result of certain capitalized software items becoming fully amortized during 2016.

#### Impairment of software and intangible assets

Impairment charges for the three months ended March 31, 2017 decreased by \$163,000, or 89% to \$20,000 as compared to \$183,000 for the three months ended March 31, 2016. The decrease was a result of a reduced impairment charge during 2017. The impairment charge of \$20,000 for the three months ended March 31, 2017 was to impair a capitalized software component that we ceased using during the three months ended March 31, 2017.

#### Interest Expense

Interest expense for the three months ended March 31, 2017 decreased by \$325,000 or 10% to \$2,911,000 as compared to \$3,236,000 for the three months ended March 31, 2016. The decrease in interest expense was primarily on account of the principal reductions of \$1,750,000 per calendar quarter on the Term Loan and the reduction in the balance outstanding on the Revolving Loan.

#### Net income (loss)

Net income for the three months ended March 31, 2017 increased by \$3,061,000 to \$2,398,000, as compared to a net loss of \$663,000 for the three months ended March 31, 2016. Income (loss) before income tax was \$3,823,000 and \$(1,083,000) for the three months ended March 31, 2017 and 2016, respectively. The increase in the income before income tax of \$4,906,000 was principally on account of an increase in operating income of \$4,581,000. Income tax (expense) benefit was \$(1,425,000) and \$420,000 for the three months ended March 31, 2017 and 2016, respectively.

#### Adjusted EBITDA (a non-GAAP measure)

In addition to the results presented in accordance with generally accepted accounting principles, or GAAP, we present Adjusted EBITDA, which is a non-GAAP measure. Adjusted EBITDA, which is based upon the adjusted EBITDA which we report to our lenders, and is a key measurement monitored by management, is determined by taking net (loss) income and adding interest, taxes, depreciation, amortization, impairment charges, stock based compensation, bank fees, losses from extraordinary, unusual or nonrecurring items, noncash items, merger and other onetime expenses and severance. We believe that this non-GAAP measure, viewed in addition to and not in lieu of our reported GAAP results, provides useful information to investors by providing a more focused measure of operating results. The non-GAAP measure presented herein may not be comparable to similarly titled measures presented by other companies. Please refer to page 22 for a reconciliation of Adjusted EBITDA to net income.



Adjusted EBITDA for the three months ended March 31, 2017 increased by \$4,181,000, or 130%, to \$7,409,000 as compared to \$3,228,000 for the three months ended March 31, 2016. This increase is principally on account of an increase in gross margin of \$3,168,000 and the reduction in operating expenses of \$1,413,000.

### ***Liquidity and Capital Resources***

As of March 31, 2017, our cash on hand was \$5,601,000 and we had a working capital deficit of \$1,414,000. Our improvement in our working capital deficit was principally attributable to the improved cash level at March 31, 2017, resulting from improvements in operating performance. We recorded net income of \$2,398,000 for the three months ended March 31, 2017.

We have relied on cash flows provided by operations to fund operations and operating obligations. We have been growing our owned and operated user audience, which has contributed to the growth of our revenues and gross profit. In addition, our restructuring in 2016 resulted in lowering our operating costs. As a result, our adjusted EBITDA has improved over the last five calendar quarters. We also maintain a credit facility pursuant to the Financing Agreement.

As of March 31, 2017, we had indebtedness and other commitments that principally consisted of \$65,781,000 for our Term Loan (bearing interest at approximately 10% per annum) and \$0 for our Revolving Loan (bearing interest at 7.0% per annum for loans based upon Libor and 9.5% per annum for reference rate loans). In addition, under the Exchange Agreement, we have deferred payment obligations to the Transferors of \$10,000,000 (which can be satisfied with cash or stock as per the terms of the agreement) and \$6,000,000 (which can be satisfied only with cash as per the terms of the agreement). 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, to receive any unpaid amount of such \$10,000,000 deferred payment obligation in shares of the Company's common stock. For such issuance, each share of the Company's common stock will be valued at the closing price of the Company's common stock as reported on NASDAQ or such other national securities exchange on which the Company's Common Stock is listed (or if not so listed, the bid price on the OTC Pink Market, operated by OTC Market Group) on the date prior to the date on which such shares are issued to the Transferors. In addition, we have a \$12,500,000 obligation due to the Lenders pursuant to the Financing Agreement. We are obligated under our Financing Agreement to fund a principal reduction of \$1,750,000 at the end of each calendar quarter. Our Term Loan matures in January 2019. Amounts due to the Transferors are due in 2019, as well as the \$12,500,000 payment due to the Lenders pursuant to the Financing Agreement.

As of March 31, 2017, the borrowing base and outstanding balance under the Revolving Loan were approximately \$4,896,000 and \$0, respectively, leaving \$4,896,000 available to be drawn under the arrangement.

The Financing Agreement contains a financial covenant that requires us 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, we were required to maintain a total leverage ratio of no more than 2.70:1.00 as of March 31, 2017. Our total leverage ratio as of such date was 2.52:1.00. The balance of our Term Loan decreases at the end of each calendar quarter as we remit a principal reduction of \$1,750,000 each quarter. The Total Leverage Ratio that we must maintain decreases in each of the next four quarters, from 2.60:1.00 as of June 30, 2017 to 2.30:1.00 for March 31, 2018 and remains at 2:30:1.00 for each quarter thereafter. The Financing Agreement also contains negative covenants that, among other things, (i) limit the amount we may invest in capital improvements; (ii) limit the amount we may incur in additional debt; and (iii) require the delivery of certain periodic financial statements and an operating budget.

We are currently in compliance, and, as of March 31, 2017, we were in compliance with all covenants under the Financing agreement and other loan documents. However, our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, any one or more of which could, directly or indirectly, cause us to fail meet such covenants. Readers are cautioned to review the risks set forth in the section titled “Risk Factors” in our Annual Report on Form 10-K filed on March 30, 2017 for information relating to the risks surrounding our continued compliance with such covenants.

Management believes that the Company’s cash balances on hand, cash flows expected to be generated from operations and borrowings available under our Revolving Loan will be sufficient to fund the Company’s net cash requirements through May 31, 2018.

*Net cash provided by operating activities*

Net cash provided by operating activities was \$4,806,000 for the three months ended March 31, 2017, compared to \$674,000 for the three months ended March 31, 2016. Cash provided by operating activities for the three months ended March 31, 2017 was primarily the result of net income of \$2,398,000, an increase in accounts payable of \$1,212,000 and non-cash charges of \$1,998,000. These were partially off-set by an increase of \$716,000 in accounts receivable. Cash provided by operating activities for the three months ended March 31, 2016 was the result of a net loss of \$663,000, plus non-cash charges of \$1,907,000 and a decrease of accounts receivable of \$939,000, offset by an increase of \$1,620,000 in accounts payable.

*Net cash used in investing activities*

Net cash used in investing activities was \$278,000 for the three months ended March 31, 2017, compared to \$311,000 used by investing activities for the three months ended March 31, 2016. The net cash used in investing activities for the three months ended March 31, 2017 and 2016 is principally attributable to the purchases of property and equipment, primarily for internally developed software and computer equipment.

*Net cash used in financing activities*

Net cash used in financing activities was \$1,750,000 for the three months ended March 31, 2017, as compared to \$897,000 for the three months ended March 31, 2016. During the three months ended March 31, 2017, cash flows used in financing activities consisted of a \$1,750,000 repayment of the Term Loan. Cash used in financing activities for the three months ended March 31, 2016 consisted of a \$1,750,000 repayment of the Term Loan off-set by net borrowings under the Revolving Loan of \$853,000.

***Off-Balance Sheet Arrangements***

The Company does not have any off-balance sheet arrangements.

***Critical Account Policies and Estimates***

See accounting policies in Note 3 of the condensed consolidated financial statements included in Part I, Item 1 of this report.

#### **Item 4. Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, our management, with the participation of our principal executive officer and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on the evaluation of our disclosure controls and procedures, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of March 31, 2017, to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (b) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure.

##### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

We are involved in various claims, legal actions and regulatory proceedings arising from time to time in the ordinary course of business. Other than the matter described in Note 7 to our unaudited interim condensed consolidated financial statements appearing elsewhere in this quarterly report on Form 10-Q, which description is incorporated herein by reference, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

### Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
--------------------	--------------------

31.1	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32	<a href="#">Certification of Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROPEL MEDIA, INC.

Date: May 12, 2017

By: /s/ Marv Tseu

Marv Tseu  
Chief Executive Officer  
(Principal executive officer)

Date: May 12, 2017

By: /s/ Howard R. Yeaton

Howard R. Yeaton  
Interim Chief Financial Officer  
(Principal financial and accounting officer)