

**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 **December 31, 2018**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number **001-35958**

DIGITAL TURBINE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

111 Nueces Street, Austin TX
(Address of Principal Executive Offices)

22-2267658

(I.R.S. Employer
Identification No.)

78701
(Zip Code)

(512) 387-7717

(Registrant's Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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, or an emerging growth company. See definitions of a "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One)

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer (do not check if smaller reporting company)

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 Securities Exchange Act). Yes No

As of January 28, 2019, the Company had 78,570,520 shares of its common stock, \$0.0001 par value per share, outstanding.

Digital Turbine, Inc.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED December 31, 2018

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Digital Turbine, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except par value and share amounts)

	December 31, 2018 (Unaudited)	March 31, 2018
ASSETS		
Current assets		
Cash	\$ 10,100	\$ 12,720
Restricted cash	431	331
Accounts receivable, net of allowances of \$937 and \$512, respectively	24,221	17,050
Deposits	161	151
Prepaid expenses and other current assets	1,314	750
Current assets held for disposal	3,434	8,753
Total current assets	39,661	39,755
Property and equipment, net	3,300	2,757
Deferred tax assets	439	596
Intangible assets, net	226	1,231
Goodwill	42,266	42,268
TOTAL ASSETS	\$ 85,892	\$ 86,607
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 22,552	\$ 19,895
Accrued license fees and revenue share	11,491	8,232
Accrued compensation	1,614	2,966
Short-term debt, net of debt issuance costs of \$78 and \$205, respectively	1,522	1,445
Other current liabilities	1,802	1,142
Current liabilities held for disposal	5,430	12,726
Total current liabilities	44,411	46,406
Convertible notes, net of debt issuance costs and discounts of \$1,402 and \$1,827, respectively	3,298	3,873
Convertible note embedded derivative liability	3,113	4,676
Warrant liability	3,135	3,980
Other non-current liabilities	182	—
Total liabilities	54,139	58,935
Stockholders' equity		
Preferred stock		
Series A convertible preferred stock at \$0.0001 par value; 2,000,000 shares authorized, 100,000 issued and outstanding (liquidation preference of \$1,000)	100	100
Common stock		
\$0.0001 par value: 200,000,000 shares authorized; 78,459,070 issued and 77,704,471 outstanding at December 31, 2018; 76,843,278 issued and 76,108,822 outstanding at March 31, 2018	10	10
Additional paid-in capital	321,297	318,066
Treasury stock (754,599 shares at December 31, 2018 and March 31, 2018)	(71)	(71)
Accumulated other comprehensive loss	(323)	(325)
Accumulated deficit	(289,260)	(290,108)
Total stockholders' equity	31,753	27,672
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 85,892	\$ 86,607

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

Digital Turbine, Inc. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income / (Loss) (Unaudited)

(in thousands, except per share amounts)

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Net revenues	\$ 30,411	\$ 22,732	\$ 76,377	\$ 53,790
Cost of revenues				
License fees and revenue share	19,195	14,887	50,213	34,344
Other direct cost of revenues	538	437	1,553	1,276
Total cost of revenues	19,733	15,324	51,766	35,620
Gross profit	10,678	7,408	24,611	18,170
Operating expenses				
Product development	2,428	3,120	8,174	7,535
Sales and marketing	1,962	1,623	5,711	4,044
General and administrative	3,832	4,152	9,215	11,061
Total operating expenses	8,222	8,895	23,100	22,640
Income / (loss) from operations	2,456	(1,487)	1,511	(4,470)
Interest and other income / (expense), net				
Interest expense	(194)	(446)	(648)	(1,815)
Foreign exchange transaction gain / (loss)	(2)	49	7	(61)
Change in fair value of convertible note embedded derivative liability	(1,476)	(1,658)	1,096	(6,310)
Change in fair value of warrant liability	(1,651)	(898)	845	(2,526)
Loss on extinguishment of debt	(10)	(285)	(25)	(1,167)
Other expense	(43)	(154)	(169)	(73)
Total interest and other income / (expense), net	(3,376)	(3,392)	1,106	(11,952)
Income / (loss) from continuing operations before income taxes	(920)	(4,879)	2,617	(16,422)
Income tax benefit / (provision)	216	(84)	157	(937)
Net income / (loss) from continuing operations, net of taxes	(1,136)	(4,795)	2,460	(15,485)
Income / (loss) from discontinued operations	(212)	996	(1,612)	1,053
Net income / (loss) from discontinued operations, net of taxes	(212)	996	(1,612)	1,053
Net income / (loss)	\$ (1,348)	\$ (3,799)	\$ 848	\$ (14,432)
Foreign currency translation adjustment	(5)	—	(5)	(5)
Comprehensive income / (loss)	\$ (1,353)	\$ (3,799)	\$ 843	\$ (14,437)
Basic and diluted net income / (loss) per common share				
Continuing operations	\$ (0.01)	\$ (0.07)	\$ 0.03	\$ (0.23)
Discontinued operations	—	0.01	(0.02)	0.02
Net income / (loss)	\$ (0.01)	\$ (0.06)	\$ 0.01	\$ (0.21)
Weighted-average common shares outstanding, basic	77,645	72,148	76,977	68,575
Weighted-average common shares outstanding, diluted	77,645	75,442	79,371	70,252

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

Digital Turbine, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine months ended December 31,	
	2018	2017
Cash flows from operating activities		
Net income / (loss) from continuing operations, net of taxes	\$ 2,460	\$ (15,485)
Adjustments to reconcile net income / (loss) to net cash used in operating activities:		
Depreciation and amortization	2,145	1,958
Change in allowance for doubtful accounts	425	231
Amortization of debt discount and debt issuance costs	251	875
Stock-based compensation	1,416	2,136
Stock-based compensation for services rendered	365	223
Change in fair value of convertible note embedded derivative liability	(1,096)	6,310
Change in fair value of warrant liability	(845)	2,526
Loss on extinguishment of debt	25	1,167
(Increase) / decrease in assets:		
Accounts receivable	(7,626)	(12,707)
Deposits	(10)	(34)
Deferred tax assets	157	(244)
Prepaid expenses and other current assets	(551)	(53)
Increase / (decrease) in liabilities:		
Accounts payable	2,657	7,033
Accrued license fees and revenue share	3,258	3,674
Accrued compensation	(1,345)	2,355
Accrued interest	107	165
Other current liabilities	681	133
Other non-current liabilities	55	(628)
Net cash provided by / (used in) operating activities - continuing operations	2,529	(365)
Net cash provided by / (used in) operating activities - discontinued operations	(3,436)	851
Net cash provided by / (used in) operating activities	(907)	486
Cash flows from investing activities		
Capital expenditures	(1,781)	(1,220)
Net cash used in investing activities - continuing operations	(1,781)	(1,220)
Net cash used in investing activities - discontinued operations	—	(92)
Net cash used in investing activities	(1,781)	(1,312)
Cash flows from financing activities		
Proceeds from short-term borrowings	—	2,500
Options exercised	223	259
Repayment of debt obligations	(50)	(848)
Payment of debt issuance costs	—	(346)
Net cash provided by financing activities	173	1,565
Effect of exchange rate changes on cash	(5)	(5)
Net change in cash	(2,520)	734
Cash and restricted cash, beginning of period	13,051	6,480
Cash and restricted cash, end of period	\$ 10,531	\$ 7,214
Supplemental disclosure of cash flow information		
Interest paid	\$ 290	\$ 770
Supplemental disclosure of non-cash financing activities		
Common stock of the Company issued for extinguishment of debt	\$ 1,190	\$ 9,510

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

Digital Turbine, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
December 31, 2018
(in thousands, except share and per share amounts)

1. Description of Business

Digital Turbine, Inc., through its subsidiaries, innovates at the convergence of media and mobile communications, delivering an end-to-end platform solution for mobile operators, application developers, device original equipment manufacturers ("OEMs"), and other third parties to enable them to effectively monetize mobile content and generate higher-value user acquisition. The Company currently operates one reporting segment – Advertising.

The Company's Advertising business consists of Operator and OEM ("O&O"), an advertiser solution for unique and exclusive carrier and OEM inventory, which is comprised of services including:

- Ignite™ ("Ignite"), a mobile device management platform with targeted application distribution capabilities, and
- Other products and professional services directly related to the Ignite platform.

Prior to the sale of the A&P Assets described below under Note 4. "Discontinued Operations", the O&O reporting segment also included the A&P Assets as an operating segment within O&O.

With global headquarters in Austin, Texas and offices in Durham, North Carolina; San Francisco, California; Singapore; and Tel Aviv, Israel, Digital Turbine's solutions are available worldwide.

Unless the context otherwise indicates, the use of the terms "we," "our," "us," "Digital Turbine," "DT," or the "Company" refer to the collective business and operations of Digital Turbine, Inc. through its operating and wholly-owned subsidiaries: Digital Turbine USA, Inc. ("DT USA"), Digital Turbine (EMEA) Ltd. ("DT EMEA"), Digital Turbine Australia Pty Ltd ("DT APAC"), Digital Turbine Singapore Pte. Ltd. ("DT Singapore"), Digital Turbine Luxembourg S.a.r.l. ("DT Luxembourg"), Digital Turbine Germany, GmbH ("DT Germany"), and Digital Turbine Media, Inc. ("DT Media"), which we acquired on March 6, 2015. We refer to all the Company's subsidiaries collectively as "wholly-owned subsidiaries."

2. Liquidity

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which contemplate continuation of the Company as a going concern.

Our primary sources of liquidity have historically been issuance of common stock, preferred stock, and debt. As of December 31, 2018, we had cash and restricted cash totaling approximately \$10,531.

On September 28, 2016, the Company closed a private placement of \$16,000 aggregate principal amount of 8.75% Convertible Senior Notes due 2020 (the "Notes"), netting cash proceeds to the Company of \$14,316, after deducting the initial purchaser's discounts and commissions and the estimated offering expenses payable by Digital Turbine. The net proceeds from the issuance of the Notes were used to repay and retire indebtedness, and were otherwise used for general corporate purposes and working capital. Please refer to Note 8. "Debt" for more details.

On May 23, 2017, the Company entered into a Business Finance Agreement (the "Credit Agreement") with Western Alliance Bank (the "Bank"). The Credit Agreement provides for a \$5,000 total facility. Please refer to Note 8. "Debt" for more details.

The Company anticipates that its primary sources of liquidity will continue to be cash on hand, cash provided by operations, and the remaining credit available under the Credit Agreement. In addition, the Company may raise additional capital through future equity or, subject to restrictions contained in the indenture for the Notes and the Credit Agreement, debt financing to provide for greater flexibility to make acquisitions, make new investments in under-capitalized opportunities, or invest in organic opportunities. Additional financing may not be available on acceptable terms or at all. If the Company issues additional equity securities to raise funds, the ownership percentage of its existing stockholders would be reduced. New investors may demand rights, preferences, or privileges senior to those of existing holders of common stock.

The Company believes that it has sufficient cash and capital resources to operate its business for at least the next twelve months from the issuance date of this quarterly report on Form 10-Q.

3. Summary of Significant Accounting Policies

Interim Consolidated Financial Information

The accompanying consolidated financial statements of Digital Turbine, Inc. and its subsidiaries should be read in conjunction with the consolidated financial statements and accompanying notes filed with the U.S. Securities and Exchange Commission ("SEC") in Digital Turbine, Inc.'s Annual Report on Form 10-K for the fiscal year ended March 31, 2018. The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of Digital Turbine, Inc. and its consolidated subsidiaries at December 31, 2018, the results of its operations and corresponding comprehensive loss for the three and nine months ended December 31, 2018 and 2017, and its cash flows for the nine months ended December 31, 2018 and 2017. The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019.

The significant accounting policies and recent accounting pronouncements were described in Note 4 of the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended March 31, 2018. There have been no significant changes in or updates to the accounting policies since March 31, 2018. Only significant new accounting pronouncements, pertinent to the Company, issued and adopted subsequent to the issuance of our Annual Report are described below. Accounting pronouncements issued and adopted not described in either the Annual Report or in this quarterly report have been determined to either not apply or to have an immaterial impact on our business and related disclosures.

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted upon its issuance. The amendments in this update will be applied prospectively. The Company is currently determining an adoption date but does not expect the impact of the future adoption of this standard to have a material impact on its consolidated results of operations, financial condition and cash flows.

In August 2018, the FASB issued Accounting Standard Update 2018-13: Fair Value Measurement (Topic 820). The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, as a result of the FASB's final deliberations of the financial reporting concepts pursuant to the March 4, 2014 issued FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, as they relate to fair value measurement disclosures. This guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted upon its issuance. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company will adopt ASU 2018-13 during the quarter ended June 30, 2019, and is currently assessing the impact of the future adoption of this standard on its consolidated results of operations, financial condition and cash flows.

In June 2018, the FASB issued Accounting Standard Update 2018-07: Compensation—Stock Compensation - Improvements to Non-employee Share-Based Payment Accounting. This update aligns the accounting for share-based payment awards issued to employees and non-employees. The existing employee guidance will apply to nonemployee share-based transactions with some exceptions. In addition, the contractual term will be able to be used in lieu of an expected term in the option-pricing model for non-employee awards. This guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted upon its issuance. The amendments in this update should be applied prospectively. The Company will adopt ASU 2018-07 during the quarter ended June 30, 2019, and is currently assessing the impact of the future adoption of this standard on its consolidated results of operations, financial condition and cash flows.

Other authoritative guidance issued by the FASB (including technical corrections to the FASB Accounting Standards Codification), the American Institute of Certified Public Accountants, and the SEC did not, or are not expected to have a material effect on the Company's consolidated financial statements.

Accounting Pronouncements Adopted During the Period

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. GAAP. Additionally, ASU 2014-09 requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In July 2015, the FASB decided to delay the effective date of ASU 2014-09 by one year. The deferral resulted in the new revenue standard being effective for the Company for fiscal years, and interim periods within those years, beginning April 1, 2018. ASU 2014-09, as amended, is effective using either the full retrospective or modified retrospective transition approach, and the Company has elected to use the modified retrospective approach. FASB has issued several accounting standards updates to clarify certain topics within ASU 2014-09. The Company has adopted ASU 2014-09, and its related clarifying amendments (collectively known as ASC 606), effective on April 1, 2018. Please see section included below within Note 3 titled "Revenue from Contracts with Customers" for the required disclosures related to the impact of adopting this standard and a discussion of the Company's updated policies related to revenue recognition and accounting for costs to obtain and fulfill a customer contract.

Revenue from Contracts with Customers

The Company adopted ASC 606 on April 1, 2018, and ASC 606 is effective from the period beginning April 1, 2016 using the modified retrospective method for all contracts not completed as of the effective date. For contracts that were modified before the effective date, the Company reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with practical expedient ASC 606-10-65-1-(f)-4, which did not have a material effect on the adjustment to accumulated deficit. The reported results for fiscal year 2017 reflect the application of ASC 606 guidance while the reported results for fiscal year 2016 were prepared under the guidance of ASC 605, Revenue Recognition (ASC 605), which is also referred to herein as "legacy GAAP" or the "previous guidance". The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services.

To achieve this core principle, the Company applied the following five steps:

1) Identify the contract with a customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. None of the Company's contracts contain financing or variable consideration components.

4) Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) Recognize revenue when or as the Company satisfies a performance obligation

The Company satisfies performance obligations at a point in time as discussed in further detail under "Disaggregation of Revenue" below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised service to a customer.

Disaggregation of Revenue

All of the Company's performance obligations, and associated revenue, are generally transferred to customers at a point in time.

O&O Services

The Company's advertising business consists of O&O, an advertiser solution for unique and exclusive carrier and OEM inventory, which is comprised of services including:

- Ignite, a mobile application management software that enables mobile operators and OEMs to control, manage, and monetize applications installed at the time of activation and over the life of a mobile device. Ignite allows mobile operators to personalize the application activation experience for customers and monetize their home screens via Cost-Per-Install or CPI arrangements, Cost-Per-Placement or CPP arrangements, and/or Cost-Per-Action or CPA arrangements with third party advertisers. There are several different delivery methods available to operators and OEMs on first boot of the device: Wizard, Silent, or Software Development Kit ("SDK"). Optional notification features are available throughout the life-cycle of the device, providing operators additional opportunity for advertising revenue streams.
- Other products and professional services directly related to the Ignite platform.

Carriers and OEMs

The Company generally offers these services under a vendor contract revenue share model or under a customer contract per device license fee model with carriers and OEMs for a two to four year software as a service ("SaaS") license agreement. These agreements typically include the following services: the access to the SaaS platform, hosting fees, solution features, and general support and maintenance. The Company has concluded that each promised service is delivered concurrently with all other promised service over the contract term and, as such, has concluded these promises are a single performance obligation that includes a series of distinct services that have the same pattern of transfer to the customer. Consideration for the Company's license arrangements consist of fixed and usage based fees, invoiced monthly or quarterly. The Company's contracts do not include advance non-refundable fees. Monthly license fees are based on the number of devices on a per device license fee basis. Monthly hosting and maintenance fees are generally fixed. These monthly fees are subject to a service level agreement ("SLA"), which requires that the services are available to the customer based on a predefined performance criteria. If the services do not meet these criteria, monthly fees are subject to adjustment or refund. The Company satisfies its performance obligation by providing access to its SaaS platform over time and processing transactions. For non-usage based fees, the period of time over which the Company performs its obligations is inherently commensurate with the contract term. The performance obligation is recognized on time elapsed basis, by month for which the services are provided. For usage-based fees, revenue is recognized in the month in which the Company provides the usage to the customer.

Third-Party Advertisers

The Company generally offers these services under a customer contract Cost-Per-Install or CPI arrangements, Cost-Per-Placement or CPP arrangements, and/or Cost-Per-Action or CPA arrangements with third-party advertisers and developers, as well as advertising aggregators, generally in the form of insertion orders that specify the type of arrangement (as detailed above) at particular set budget amounts/restraints. These advertiser customer contracts are generally short term in nature at less than one year as the budget amounts are typically spent in full within this time period. These agreements typically include the delivery of applications through partner networks, defined as carriers or OEMs, to home screens of devices. The Company has concluded that the delivery of the advertisers application is delivered at a point in time and, as such, has concluded these deliveries are a single performance obligation. The Company invoices fees which are generally variable based on the arrangement, which would typically include the number of applications delivered at a specified price per application. For applications delivered, revenue is recognized in the month in which the Company delivers the application to the end consumer.

Professional Services

The Company offers professional services that support the implementation of its Ignite platform for carriers and OEMs, including technology development and integration services. These contracts generally include delivery and integration of the technology development product and revenue recognized when formal acceptance is confirmed by the customer. Services are billed in one lump sum. For the majority of these contracts, for which the Company has the right to invoice the customer in an amount that directly corresponds with the value to the customer of the Company's performance to date, the Company recognizes revenue based on the amount billable to the customer in accordance with practical expedient ASC 606-10-55-18.

Costs to Obtain and Fulfill a Contract

The Company capitalizes commission expenses paid to internal sales personnel that are incremental to obtaining customer contracts. These costs are deferred in "prepaid expenses and other current assets," net of any long-term portion included in "other non-current assets." The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract. Costs to obtain a contract are amortized as sales and marketing expense on a straight line basis over the expected period of benefit. These costs are periodically reviewed for impairment. The Company has evaluated related activity in prior periods and have determined the costs to obtain a contract to be immaterial and do not require disclosure.

The Company capitalizes costs incurred to fulfill its contracts that i) relate directly to the contract, ii) are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract and iii) are expected to be recovered through revenue generated under the contract. Contract fulfillment costs are expensed to cost of revenue as the Company satisfies its performance obligations by transferring the service to the customer. These costs, which are classified in "prepaid expenses and other current assets," net of any long term portion included in "other non-current assets," principally relate to direct costs that enhance resources under the Company's demand response contracts that will be used in satisfying future performance obligations. The Company has evaluated related activity in prior periods and have determined the costs to fulfill a contract to be immaterial and do not require disclosure.

Financial Statement Impact of Adopting ASC 606

The Company adopted ASC 606 using the modified retrospective method. After applying the new guidance to all contracts with customers that were not completed as of April 1, 2017, the Company has determined no changes in revenues or contract costs for which an adjustment would be required to accumulated deficit as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the Company determined that the impact of adoption was not material and that no adjustments would need to be made to accounts to the consolidated balance sheet as of April 1, 2017.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. A significant portion of the Company's cash is held at one major financial institution that the Company's management has assessed to be of high credit quality. The Company has not experienced any losses in such accounts.

The Company mitigates its credit risk with respect to accounts receivable by performing credit evaluations and monitoring advertisers' and carriers' accounts receivable balances. The Company counts all advertisers and carriers within a single corporate structure as one customer, even in cases where multiple brands, branches, or divisions of an organization enter into separate contracts with the Company. As of December 31, 2018, one major customer represented approximately 36.2% of the Company's net accounts receivable balance. As of March 31, 2018, one major customer represented 28.3% of the Company's net accounts receivable balance.

With respect to revenue concentration, the Company defines a customer as an advertiser or a carrier that is a distinct source of revenue and is legally bound to pay for the services that the Company delivers on the advertiser's or carrier's behalf. During the three and nine months ended December 31, 2018, Oath Inc. represented 28.8% and 31.1% of net revenues, respectively. During the three and nine months ended December 31, 2017, Oath Inc. represented 23.7% and 23.3% of net revenues, respectively, and Machine Zone, Inc. represented 17.7% and 18.0% of net revenues, respectively.

The Company partners with mobile carriers and OEMs to deliver applications on our Ignite platform through the carrier network. During the three and nine months ended December 31, 2018, Verizon Wireless, a carrier partner, generated 43.7% and 47.6%, respectively, while AT&T Inc., a carrier partner, including its Cricket subsidiary, generated 38.5% and 38.4%, respectively, of our net revenues. During the three and nine months ended December 31, 2017, Verizon Wireless, generated 49.3% and 52.8%, respectively, while AT&T Inc., including its Cricket subsidiary, generated 40.0% and 32.4%, respectively, of our net revenues.

There is no assurance that the Company will continue to receive significant revenues from any of these or from other large customers. A reduction or delay in operating activity from any of the Company's significant customers, or a delay or default in payment by any significant customer, or a termination of agreements with significant customers, could materially harm the Company's business and prospects. Because of the Company's significant customer concentrations, its net sales and operating income could fluctuate significantly due to changes in political or economic conditions, or the loss of, reduction of business from, or less favorable terms with any of the Company's significant customers.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates that impact the reported amounts in the consolidated financial statements and accompanying notes. These estimates are recurring in nature and relate to transactions occurring in the normal course of business. In the opinion of management, these are appropriate estimates for arrangements to be settled at a later date based on the facts and circumstances available at the time of filing. Actual results could differ materially from those estimates.

4. Discontinued Operations

On April 29, 2018, the Company entered into two distinct disposition agreements with respect to selected assets owned by our subsidiaries.

DT APAC and DT Singapore (together, "Pay Seller"), each wholly-owned subsidiaries of the Company, entered into an Asset Purchase Pay Agreement (the "Pay Agreement"), dated as of April 23, 2018, with Chargewave Ptd Ltd ("Pay Purchaser") to sell certain assets (the "Pay Assets") owned by the Pay Seller related to the Company's Direct Carrier Billing business. The Pay Purchaser is principally-owned and controlled by Jon Mooney, an officer of the Pay Seller. At the closing of the asset sale, Mr. Mooney was no longer employed by the Company or Pay Seller. As consideration for this asset sale, Digital Turbine is entitled to receive certain license fees, profit-sharing, and equity participation rights as outlined in the Company's Form 8-K filed on May 1, 2018 with the SEC. The transaction was completed on July 1, 2018 with an effective date of July 1, 2018. With the sale of these assets, the Company has determined that it will exit the segment of the business previously referred to as the Content business.

In accordance with the Pay Agreement, the Company assigned and transferred a material contract to the Pay Purchaser. Subsequent to the transaction closing associated with the Pay Agreement, the Company received notification from the Pay Purchaser that the partner to the material contract had terminated the contract with the Pay Purchaser. Due to the material contract being terminated, the Company has determined that the estimated earn out from the Pay Purchaser to be \$0. As all the assets being transferred had been fully impaired prior to the closing of the transaction, the gain/loss on sale related to the Pay Agreement transaction is currently estimated at \$0. Furthermore, the Company retained certain receivables and payables for content delivered for the benefit of the partner to the material contract, where these certain receivables and payables were all recognized prior to the closing of the Pay Agreement. These amounts are presented below as assets and liabilities held for disposal. As of December 31, 2018, the Company has determined there to be uncertainty surrounding the collectability of the receivables due to ongoing discussions with the business partner. If at a later date it is determined that the amounts recorded are not collectible due to disputes surrounding the content delivered, the related payables would also be withheld. At this time, the Company has requested mediation but does not have enough information to reasonably estimate which receivables and payables, if any, may be uncollectable. The total net exposure to the Company if all of the remaining receivables and payables are determined to be uncollectable is approximately \$931. These assets and liabilities remain on our books as a component of discontinued operations as of December 31, 2018.

DT Media, a wholly-owned subsidiary of the Company, entered into an Asset Purchase Agreement (the "A&P Agreement"), dated as of April 28, 2018, with Creative Clicks B.V. (the "A&P Purchaser") to sell business relationships with various advertisers and publishers (the "A&P Assets") related to the Company's Advertising and Publishing business. As consideration for this asset sale, we are entitled to receive a percentage of the gross profit derived from these customer agreements, for a period of three years, as outlined in the Company's Form 8-K filed on May 1, 2018 with the SEC. The transaction was completed on June 28, 2018 with an effective date of June 1, 2018. With the sale of these assets, the Company has determined that it will exit the operating segment of the business previously referred to as the A&P business, which was previously part of Advertising, the Company's sole continuing reporting unit. No gain or loss on sale was recognized related to this divestiture. All transferred assets and liabilities, with the exception of goodwill, were fully amortized prior to entering into the sales agreement. As the consideration given by the purchaser was already materially determined at March 31, 2018, goodwill was impaired to the estimated future cash flows of the divested business, which was effectively the purchase price. With the consummation of the sale, the remaining goodwill asset was netted against the purchase price receivable for a net impact of \$0 on the Consolidated Statement of Operations for the three and nine months ended December 31, 2018.

These dispositions will allow the Company to benefit from a streamlined business model, simplified operating structure, and enhanced management focus.

The following table summarizes the financial results of our discontinued operations for all periods presented herein:

**Condensed Statements of Operations and Comprehensive Loss
For Discontinued Operations
(in thousands, except per share amounts)
(Unaudited)**

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Net revenues	\$ 3	\$ 15,298	\$ 3,880	\$ 38,251
Total cost of revenues	—	13,046	3,070	32,782
Gross profit	3	2,252	810	5,469
Product development	37	503	703	1,683
Sales and marketing	7	418	350	1,243
General and administrative	160	440	1,212	1,443
Income / (loss) from operations	(201)	891	(1,455)	1,100
Interest and other income / (expense), net	(11)	105	(157)	(47)
Net income / (loss) from discontinued operations, net of taxes	\$ (212)	\$ 996	\$ (1,612)	\$ 1,053
Comprehensive income / (loss)	\$ (212)	\$ 996	\$ (1,612)	\$ 1,053
Basic and diluted net loss per common share	—	0.01	(0.02)	0.02
Weighted-average common shares outstanding, basic	77,645	72,148	76,977	68,575
Weighted-average common shares outstanding, diluted	77,645	75,442	76,977	70,252

Details on assets and liabilities classified as held for disposal in the accompanying consolidated balance sheets are presented in the following table:

	December 31, 2018	March 31, 2018
	(Unaudited)	
Assets held for disposal		
Accounts receivable, net of allowances of \$198 and \$578, respectively	\$ 3,227	\$ 8,013
Property and equipment, net	175	377
Goodwill	—	309
Prepaid expenses and other current assets	32	54
Current assets held for disposal	3,434	8,753
Total assets held for disposal	\$ 3,434	\$ 8,753
Liabilities held for disposal		
Accounts payable	\$ 4,114	\$ 8,789
Accrued license fees and revenue share	1,068	3,059
Accrued compensation	227	529
Other current liabilities	21	349
Current liabilities held for disposal	5,430	12,726
Total liabilities held for disposal	\$ 5,430	\$ 12,726

Assets and liabilities held for disposal as of December 31, 2018 and March 31, 2018 are classified as current since we expect the dispositions to be completed within one year.

The following table provides reconciling cash flow information for our discontinued operations:

	Nine months ended December 31,	
	2018	2017
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income / (loss) from discontinued operations, net of taxes	\$ (1,612)	\$ 1,053
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	247	749
Impairment of goodwill	309	—
Change in allowance for doubtful accounts	(380)	13
Stock-based compensation	37	160
(Increase) / decrease in assets:		
Accounts receivable	5,164	(3,477)
Prepaid expenses and other current assets	95	19
Increase / (decrease) in liabilities:		
Accounts payable	(4,675)	1,503
Accrued license fees and revenue share	(1,991)	654
Accrued compensation	(302)	28
Other current liabilities	(328)	149
Cash used in operating activities	(3,436)	851
Cash flows from investing activities		
Capital expenditures	—	(92)
Cash used in investing activities	—	(92)
Cash used in discontinued operations	\$ (3,436)	\$ 759

5. Accounts Receivable

	December 31, 2018	March 31, 2018
	(Unaudited)	
Billed	\$ 13,673	\$ 9,172
Unbilled	11,485	8,390
Allowance for doubtful accounts	(937)	(512)
Accounts receivable, net	\$ 24,221	\$ 17,050

Billed accounts receivable represent amounts billed to customers that have yet to be collected. Unbilled accounts receivable represent revenue recognized, but billed after period end. All unbilled receivables as of December 31, 2018 and March 31, 2018 are expected to be billed and collected within twelve months.

The Company recorded \$59 and \$229 of bad debt expense during the three and nine months ended December 31, 2018, respectively, and \$50 and \$215 of bad debt expense during the three and nine months ended December 31, 2017, respectively.

6. Property and Equipment

	December 31, 2018	March 31, 2018
	(Unaudited)	
Computer-related equipment	\$ 6,441	\$ 5,464
Furniture and fixtures	115	115
Leasehold improvements	533	166
Property and equipment, gross	7,089	5,745
Accumulated depreciation	(3,789)	(2,988)
Property and equipment, net	\$ 3,300	\$ 2,757

Depreciation expense was \$374 and \$1,139 for the three and nine months ended December 31, 2018, respectively, and \$334 and \$878 for the three and nine months ended December 31, 2017, respectively. Depreciation expense for the three and nine months ended December 31, 2018 includes \$170 and \$591, respectively, related to internal-use assets included in General and Administrative Expense, and \$204 and \$548, respectively, related to internally-developed software to be sold, leased, or otherwise marketed included in Other Direct Costs of Revenue. Depreciation expense for the three and nine months ended December 31, 2017 includes \$245 and \$683, respectively, related to internal-use assets included in General and Administrative Expense, and \$89 and \$183, respectively, related to internally-developed software to be sold, leased, or otherwise marketed included in Other Direct Costs of Revenue.

7. Intangible Assets

The components of intangible assets at December 31, 2018 and March 31, 2018 were as follows:

	As of December 31, 2018		
	(Unaudited)		
	Cost	Accumulated Amortization	Net
Software	\$ 5,826	\$ (5,600)	\$ 226
Total	\$ 5,826	\$ (5,600)	\$ 226

	As of March 31, 2018		
	Cost	Accumulated Amortization	Net
Software	\$ 5,826	\$ (4,595)	\$ 1,231
Total	\$ 5,826	\$ (4,595)	\$ 1,231

The Company has included amortization of acquired intangible assets directly attributable to revenue-generating activities in cost of revenues; since all of our acquired intangible assets are directly attributable to revenue-generating activities, all intangible amortization is included in cost of revenues.

The Company recorded amortization expense of \$335 and \$1,006 during the three and nine months ended December 31, 2018, respectively, and \$335 and \$1,080 during the three and nine months ended December 31, 2017, respectively.

Based on the amortizable intangible assets as of December 31, 2018, we will have no amortization expense beyond the fiscal year ended March 31, 2019. Remaining amortization expense to be taken in the quarterly period ended March 31, 2019 is approximately \$226. Amortization expense for the year ended March 31, 2019, based on the amortizable assets as of December 31, 2018, is expected to be \$1,231.

8. Debt

	December 31, 2018 (Unaudited)	March 31, 2018
Short-term debt		
Short-term debt, net of debt issuance costs of \$78 and \$205, respectively	\$ 1,522	\$ 1,445
Total short-term debt	\$ 1,522	\$ 1,445

	December 31, 2018 (Unaudited)	March 31, 2018
Long-term debt		
Convertible notes, net of debt issuance costs and discounts of \$1,402 and \$1,827, respectively	\$ 3,298	\$ 3,873
Total long-term debt	\$ 3,298	\$ 3,873

Convertible Notes

On September 28, 2016, the Company sold to BTIG, LLC (the "Initial Purchaser"), \$16,000 aggregate principal amount of 8.75% convertible notes maturing on September 23, 2020 (the "Notes"), unless converted, repurchased or redeemed in accordance with their terms prior to such date. The \$16,000 aggregate principal received from the issuance of the Notes was initially allocated between long-term debt at \$11,084, the convertible note embedded derivative liability at \$3,693 (see Note 9. "Fair Value Measurements" for more information), and the warrant liability at \$1,223 (see Note 8. "Fair Value Measurements" for more information), within the consolidated balance sheet. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the liability. Fair value of the Notes is determined using the residual method of accounting whereby, first, a portion of the proceeds from the issuance of the Notes is allocated to derivatives embedded in the Notes and the warrants issued in connection with the issuance of the Notes, and the proceeds so allocated are accounted for as a convertible note embedded derivative liability and warrant liability, respectively (see Note 9. "Fair Value Measurements" for more information), and second, the remainder of the proceeds from the issuance of the Notes is allocated to the convertible notes, resulting in an original issue debt discount amounting to \$4,916. As of the close of the issuance of the Notes on September 28, 2016, the Company incurred \$1,700 in debt issuance costs directly related to the issuance of the Notes, which in accordance with ASU 2015-03, the Company has recorded these costs as a direct reduction to the face value of the Notes and will amortize this amount over the life of the Notes as a component of interest expense on the consolidated statement of operation and comprehensive loss. During the three months ended December 31, 2016, the Company further incurred \$212 in costs directly associated with the issuance of the Notes, for the preparation and filing of a registration statement on Form S-1 to register the underlying common stock related to the Notes issued and related Warrants issued along with the Notes, which was required to be done in accordance with the Indenture (as defined below). The convertible notes will remain on the consolidated balance sheet at historical cost, accreted up for the amount of cumulative amortization of the debt discount over the life of the debt. If we or the note holders elect not to settle the debt through conversion, we must settle the Notes at face value. Therefore, the liability component will be accreted up to the face value of the Notes, which will result in additional non-cash interest expense being recognized within the consolidated statements of operations and comprehensive loss through the Notes maturity date.

The Company sold the Notes to the Initial Purchaser at a purchase price of 92.75% of the principal amount. The initial purchaser also received an additional 250,000 warrants on the same terms as the warrants issued with the Notes (as detailed below) and has the right to receive 2.5% of any cash consideration received by the Company in connection with a future exercise of any of the warrants issued with the Notes. The Notes were issued under an Indenture dated September 28, 2016, as amended and supplemented (the "Indenture"), between Digital Turbine, Inc., US Bank National Association, as trustee, and certain wholly-owned subsidiaries of the Company, specifically, DT USA, DT Media, DT EMEA, and DT APAC (collectively referred to as the "Guarantors"). The Notes are senior unsecured obligations of the Company, and bear interest at a rate of 8.75% per year, payable semiannually in arrears on March 15th and September 15th of each year, beginning on March 15, 2017. The Notes are unconditionally guaranteed by the Guarantors as to the payment of principal, premium, if any, and interest on a senior unsecured basis. The Notes were issued with an initial conversion price equal to \$1.364 per share of the Company's common stock, subject to proportional adjustment for adjustments to outstanding common stock and anti-dilution provisions in case of dividends or distributions, stock split or combination, or if the Company issues or sells shares of common stock at a price per share less than the conversion price on the trading day immediately preceding such issuance of sale.

With respect to any conversion prior to September 23, 2019, in addition to the shares deliverable upon conversion, holders of the Notes will be entitled to receive a payment equal to the remaining scheduled payments of interest that would have been made on the notes being converted from the date of conversion until September 23, 2019 (an "Early Conversion Payment"). We may pay the Early Conversion Payment in cash or, subject to certain equity-related conditions set forth in the Indenture, in shares of our common stock.

Without stockholder approval, as required by NASDAQ rules, the Company would not have the right to issue shares of common stock as payment of the Early Conversion Payment, if the aggregate number of shares issued (and any other transaction aggregated for such purpose) after giving effect to such conversion or payment, as applicable, would exceed 19.99% of the number of shares of the Company's common stock outstanding as of the conversion date (or the "Notes Exchange Cap"). In such case, the Company would pay cash in lieu of any shares that would otherwise be deliverable in excess of the Notes Exchange Cap. The required stockholder approval was originally obtained at our annual meeting of stockholders held in January 2017. Due to the supplemental indenture entered in May 2017 (as described in this Note 8 below under "Senior Secured Credit Facility"), a new stockholder approval was required to issue shares in excess of the Notes Exchange Cap, and such new stockholder approval was obtained at our annual meeting of stockholders held in January 2018. Please see the proxy statement for our 2018 annual meeting of stockholders for more information about the effect of the stockholder approval and our ability to issue shares of stock to satisfy our obligations under the Indenture and the warrants issued in connection with the Notes.

The Company may redeem the Notes, for cash, in whole or in part, at any time after September 23, 2018, at a redemption price equal to \$1 per \$1 principal amount of the notes to be redeemed plus accrued and unpaid interest, if any, to, but excluding, the date of redemption, plus an additional payment (payable in cash or stock) equivalent to the amount of, and subject to equivalent terms and conditions applicable for, an Early Conversion Payment had the notes been converted on the date of redemption, if (1) the closing price of our common shares on the NASDAQ Capital Market has exceeded 200% of the conversion price then in effect (but disregarding the effect on such price from certain anti-dilution adjustments) for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending within the five trading days immediately preceding the date on which we provide the redemption notice, (2) for the 15 consecutive trading days following the last trading day on which the closing price of our common shares was equal to or greater than 200% of the conversion price in effect (but disregarding the effect on such price from certain anti-dilution adjustments) on such trading day for the purpose of the foregoing clause, the closing price of our common shares remains equal to or greater than 150% of the conversion price in effect (but disregarding the effect on such price from certain anti-dilution adjustments) on the given trading day, and (3) we are in compliance with certain other equity-related conditions as set forth in the Indenture.

If we undergo a fundamental change (as described below), holders may require us to purchase the Notes in whole or in part for cash at a price equal to 120% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest, including additional interest, if any, to, but excluding, the repurchase date. Conversions that occur in connection with a fundamental change may entitle the holder to receive an increased number of shares of common stock issuable upon such conversion, depending on the date of such fundamental change and the valuation of the Company's common stock related thereto. A fundamental change is defined as follows:

- a "person" or "group" within the meaning of Section 13(d) of the Exchange Act other than the Company, the Company's Subsidiaries or the Company's or the Company's Subsidiaries' employee benefit plans files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, of the Company's common equity representing more than 50% of the voting power of all outstanding classes of the Company's common equity entitled to vote generally in the election of the Company's directors;
- consummation of (A) any share exchange, consolidation or merger involving the Company pursuant to which the Common Stock will be converted into cash, securities or other property or (B) any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Company and the Company's Subsidiaries, taken as a whole, to any person other than one or more of the Company's Subsidiaries; provided, however, that a share exchange, consolidation or merger transaction described in clause (A) above in which the holders of more than 50% of all shares of Common Stock entitled to vote generally in the election of the Company's directors immediately prior to such transaction own, directly or indirectly, more than 50% of all shares of Common Stock entitled to vote generally in the election of the directors of the continuing or surviving entity or the parent entity thereof immediately after such transaction in substantially the same proportions (relative to each other) as such ownership immediately prior to such transaction will not, in either case, be a Fundamental Change;
- the Company's shareholders approve any plan or proposal for the liquidation or dissolution of the Company;
or
- the Common Stock (or other Capital Stock into which the Notes are then convertible pursuant to the terms of this Indenture) ceases to be listed on any of The New York Stock Exchange, The NASDAQ Global Select Market, The NASDAQ Global Market, The NASDAQ Capital Market, or The NYSE MKT (or their respective successors) (each, an "Eligible Market").

Subject to limited exceptions, the Indenture prohibits us from incurring additional indebtedness at any time while the Notes remain outstanding.

Each purchaser of the Notes also received warrants to purchase 256.60 shares of the Company's common stock for each \$1 in Notes purchased, or up to 4,105,600 warrants in aggregate, in addition to the 250,000 warrants issued to the Initial Purchaser, as described above. The warrants were issued under a Warrant Agreement (the "Warrant Agreement"), dated as of September 28, 2016, between Digital Turbine, Inc. and US Bank National Association as the warrant agent.

The warrants are immediately exercisable on the date of issuance at an initial exercise price of \$1.364 per share and will expire on September 23, 2020. The exercise price is subject to proportional adjustment for adjustments to outstanding common stock and anti-dilution provisions in case of dividends or distributions, stock split or combination, or if the Company issues or sells shares of common stock at a price per share less than the conversion price on the trading day immediately preceding such issuance of sale. Certain caps on the number of shares that could be issued under the Notes and the Warrants were effectively lifted by our stockholders approving the full issuance of all potentially issuable shares at our January 2017 annual meeting of stockholders, and again at our January 2018 annual meeting of stockholders in respect of our May 2017 supplemental indenture.

In the event of a fundamental change, as set forth in the Warrant Agreement, the holders can elect to exercise their warrants or to receive an amount of cash based on a Black-Scholes calculation of the value of such warrants.

The Company received net cash proceeds of \$14,316, after deducting the Initial Purchaser's discounts and commissions and the estimated offering expenses payable by Digital Turbine. The net proceeds from the issuance of the Notes were used to repay \$11,000 of secured indebtedness, retiring such debt in its entirety, and were otherwise used for general corporate purposes and working capital.

In May 2017, the Company entered a supplemental indenture and warrant amendment, described in its Current Report on Form 8-K filed May 24, 2017, and as described further below in this Note 8 under "Senior Secured Credit Facility".

During fiscal year 2018, holders of \$10,300 of Notes elected to convert such Notes. These Notes were extinguished by issuing shares of common stock, based on the applicable conversion price of \$1.364 per share, plus additional shares of common stock and cash to satisfy the early conversion payments required by the Indenture. Associated with this conversion, gross debt, net of debt discount and capitalized debt issuance costs of \$2,591 and \$1,019, respectively, was extinguished for a net debt extinguishment of \$6,690. In total, 8,624,445 shares of common stock were issued and \$247 in cash was paid to settle these positions. This resulted in an adjustment of approximately \$14,238 to additional paid-in capital to reflect the shares issued upon conversion. A loss on extinguishment of debt of \$1,785 was recorded as a result of the difference in carrying value of the debt, inclusive of the associated debt discount and capitalized debt issuance costs, compared to the fair market value of the consideration given comprising both common stock issued and cash paid. The proportionate amount of the underlying derivative instrument was also extinguished, as calculated on the respective conversion dates.

During the nine months ended December 31, 2018, holders of \$1,000 of Notes elected to convert such Notes. These Notes were extinguished by issuing shares of common stock, based on the applicable conversion price of \$1.364 per share, plus additional shares of common stock and cash to satisfy the early conversion payments required by the Indenture. Associated with this conversion, gross debt, net of debt discount and capitalized debt issuance costs of \$217 and \$85, respectively, was extinguished for a net debt extinguishment of \$698. In total, 839,651 shares of common stock were issued to settle these positions. This resulted in an adjustment of approximately \$1,190 to additional paid-in capital to reflect the shares issued upon conversion. A loss on extinguishment of debt of \$25 was recorded as a result of the difference in carrying value of the debt, inclusive of the associated debt discount and capitalized debt issuance costs, compared to the fair market value of the consideration given comprising both common stock issued and cash paid. The proportionate amount of the underlying derivative instrument was also extinguished, as calculated on the respective conversion dates. See Note 9. "Fair Value Measurements" for more information.

As of December 31, 2018, the outstanding principal on the Notes was \$4,700, the unamortized debt issuance costs and debt discount in aggregate was \$1,402, and the net carrying amount of the Notes was \$3,298, which was recorded as long-term debt within the consolidated balance sheet. The Company recorded \$63 and \$251 of aggregate debt discount and debt issuance cost amortization during the three and nine months ended December 31, 2018, respectively, and \$195 and \$875 during the three and nine months ended December 31, 2017, respectively.

Senior Secured Credit Facility

On May 23, 2017, the Company entered a Business Finance Agreement (the “Credit Agreement”) with Western Alliance Bank (the “Bank”). The Credit Agreement provides for a \$5,000 total facility.

The amounts advanced under the Credit Agreement mature in two (2) years, and accrue interest at the following rates and bear the following fees:

- (1) Wall Street Journal Prime Rate + 1.25% (currently approximately 6.25%), with a floor of 4.0%.
- (2) Annual Facility Fee of \$22.9.
- (3) Early termination fee of 0.5% if terminated during the first year.

The obligations under the Credit Agreement are secured by a perfected first-position security interest in all assets of the Company and its subsidiaries, subject to partial (65%) pledges of stock of non-US subsidiaries. The Company’s subsidiaries Digital Turbine USA and DT Media are co-borrowers.

In addition to customary covenants, including restrictions on payments (subject to specified exceptions), and restrictions on indebtedness (subject to specified exceptions), the Credit Agreement requires the Company to comply with the following financial covenants, measured on a monthly basis:

- (1) Maintain a Current Ratio of at least 0.65, defined as unrestricted cash plus accounts receivable divided by all current liabilities.
- (2) Revenue must exceed 85% of projected quarterly revenue.

Subsequent to December 31, 2018, there was an amendment to the covenants of the Credit Agreement. Given this amendment, the Company was in compliance with all covenants of the Credit Agreement as of December 31, 2018.

The Credit Agreement required that at least two-thirds (2/3rds) of the holders of the Notes at all times be subject to subordination agreements with the Bank. The Company obtained the consent of the holders of at least two-thirds (2/3rds) of the Notes, which were held by a small number of institutional investors. In consideration for such consents, the Company entered into a Second Supplemental Indenture, dated May 23, 2017 (the “Supplemental Indenture”) to the Indenture, and also entered into a First Amendment, dated May 23, 2017 (the “Warrant Amendment”) to the Warrant Agreement. The Supplemental Indenture and Warrant Amendment provided for a 30-day stock price measurement period to determine whether or not there would be any change to the conversion price or exercise price of the Company’s outstanding convertible notes or related warrants. The measurement period concluded on September 20, 2017, with no change to the existing \$1.364 per share conversion or exercise price of our convertible notes or related warrants.

The Credit Agreement contains other customary covenants, representations, indemnities, and events of default.

At December 31, 2018, the gross outstanding principal on the Credit Agreement was \$1,600, which is presented, net of capitalized debt issuance costs of \$78, as net secured short-term line of credit of \$1,522.

Interest Expense

Inclusive of the Notes issued on September 28, 2016 and the Credit Agreement entered into on May 23, 2017, the Company recorded \$131 and \$397 of interest expense during the three and nine months ended December 31, 2018, respectively, and \$251 and \$940 during the three and nine months ended December 31, 2017, respectively.

Additionally, aggregate debt discount and debt issuance cost amortization related to the Notes, detailed in the paragraphs above, are reflected on the Consolidated Statement of Operations as interest expense. Inclusive of this amortization of \$63 and \$251 recorded during the three and nine months ended December 31, 2018, respectively, and \$195 and \$875 recorded during the three and nine months ended December 31, 2017, respectively, the Company recorded \$194 and \$648 of total interest expense for the three and nine months ended December 31, 2018, respectively, and \$446 and \$1,815 of total interest expense for the three and nine months ended December 31, 2017, respectively.

9. Fair Value Measurements

The inputs to the valuation techniques used to measure fair value are classified into the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Company's financial liabilities as of the issuance date of the convertible notes on the initial measurement date of September 28, 2016 are presented below at fair value and were classified within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Balance at Inception
Financial Liabilities				
Convertible note embedded derivative liability	\$ —	\$ —	\$ 3,693	\$ 3,693
Warrant liability	—	—	1,223	1,223
Total	\$ —	\$ —	\$ 4,916	\$ 4,916

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the liability. Considerable judgment is necessary to interpret market data and determine an estimated fair value. The use of different market assumptions or valuation methods may have a material effect on the estimated fair values. Fair value of the Notes is determined using the residual method of accounting whereby, first, a portion of the proceeds from the issuance of the Notes is allocated to derivatives embedded in the Notes and the warrants issued in connection with the issuance of the Notes, and the proceeds so allocated are accounted for as a convertible note embedded derivative liability and warrant liability, respectively, and second, the remainder of the proceeds from the issuance of the Notes is allocated to the convertible notes, resulting in an original debt discount amounting to \$4,916. The convertible notes will remain on the consolidated balance sheet at historical cost, accreted up for the amount of cumulative amortization of the debt discount over the life of the debt. The method of determining the fair value of the convertible note embedded derivative liability and warrant liability are described subsequently in this note. Market risk associated with the convertible note embedded derivative liability and warrant liability relates to the potential reduction in fair value and negative impact to future earnings from an increase in price of the Company's common stock. Please refer to Note 8. "Debt" for more information.

The carrying amounts of certain financial instruments, such as cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value due to their relatively short maturities.

As of December 31, 2018 and March 31, 2018, the Company's financial assets and financial liabilities are presented below at fair value and were classified within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Balance as of December 31, 2018 (Unaudited)
Financial Liabilities				
Convertible note embedded derivative liability	\$ —	\$ —	\$ 3,113	\$ 3,113
Warrant liability	—	—	3,135	3,135
Total	\$ —	\$ —	\$ 6,248	\$ 6,248

	Level 1	Level 2	Level 3	Balance as of March 31, 2018
Financial Liabilities				
Convertible note embedded derivative liability	\$ —	\$ —	\$ 4,676	\$ 4,676
Warrant liability	—	—	3,980	3,980
Total	\$ —	\$ —	\$ 8,656	\$ 8,656

Convertible Note Embedded Derivative Liability

We evaluated the terms and features of our convertible notes and identified embedded derivatives (conversion options that contain “make-whole interest” provisions, fundamental change provisions, or down round conversion price adjustment provisions; collectively called the “convertible note embedded derivative liability”) requiring bifurcation and accounting at fair value because the economic and contractual characteristics of the embedded derivatives met the criteria for bifurcation and separate accounting. ASC 815-10-15-83 (c) states that if terms implicitly or explicitly require or permit net settlement, then it can readily be settled net by means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement. The conversion features related to the convertible notes consists of a “make-whole interest” provision, fundamental change provision, and down round conversion price adjustment provisions, which if the convertible notes were to be converted, would put the convertible note holder in a position not substantially different from net settlement. Given this fact pattern, the conversion features meet the definition of embedded derivatives and require bifurcation and accounting at fair value.

The convertible note embedded derivative liability represents the fair value of the conversion option, fundamental change provision, and “make-whole interest” provisions, as well as the down round conversion price adjustment or conversion rate adjustment provisions of the convertible notes. There is no current observable market for these types of derivatives and, as such, the Company determined the fair value of the derivative liability using a lattice approach that incorporates a Monte Carlo simulation valuation model. A Monte Carlo simulation valuation model considers the Company's future stock price, stock price volatility, probability of a change of control, and the trading information of the Company's common stock into which the notes are or may become convertible. The Company marks the derivative liability to market at the end of each reporting period due to the conversion price not being indexed to the Company's own stock.

Changes in the fair value of the convertible note embedded derivative liability is reflected in our Consolidated Statements of Operations as “Change in fair value of convertible note embedded derivative liability.”

The following table provides a reconciliation of the beginning and ending balances for the convertible note embedded derivative liability measured at fair value using significant unobservable inputs (Level 3):

		Level 3
Balance at March 31, 2018	\$	4,676
Change in fair value of convertible note embedded derivative liability		(1,096)
Derecognition on extinguishment or conversion		(467)
Balance at December 31, 2018	\$	3,113

Due to the valuation of the derivative liability being highly sensitive to the trading price of the Company's stock, the increase and decrease in the trading price of the Company's stock has the impact of increasing the loss and gain, respectively. During the three and nine months ended December 31, 2018, the Company recorded a (loss) and gain from change in fair value of convertible note embedded derivative liability of \$(1,476) and \$1,096, respectively, due to the increase in the Company's closing stock price during the current quarter from \$1.24 to \$1.83 and the decrease during the nine months ended December 31, 2018 from \$2.01 to \$1.83. During the three and nine months ended December 31, 2017, the Company recorded a (loss) from change in fair value of convertible note embedded derivative liability of \$(1,658) and \$(6,310), respectively, due to the increase in the Company's closing stock price during the three months ended December 31, 2017 from \$1.51 to \$1.79 and during the nine months ended December 31, 2017 from \$0.94 to \$1.79. In addition to the Company's stock price being the primary driver, valuation of the derivative liability is also impacted by the conversion of underlying notes and associated warrants. See Note 8 “Debt” *Convertible Notes* for more information regarding the conversion of Convertible Notes during the current year and during fiscal 2018.

The market-based assumptions and estimates used in valuing the convertible note embedded derivative liability include the following amounts:

	December 31, 2018
Stock price volatility	60 %
Probability of change in control	1.75 %
Stock price (per share)	\$1.83
Expected term	1.75 years
Risk-free rate (1)	2.49 %
Assumed early conversion/exercise price (per share)	\$2.73

(1) The Monte Carlo simulation assumes the continuously compounded equivalent (CCE) interest rate of 1.0% based on the average of the 2-year and 3-year U.S. Treasury securities as of the valuation date.

Changes in valuation assumptions can have a significant impact on the valuation of the convertible note embedded derivative liability. For example, all other things being equal, a decrease/increase in our stock price, probability of change of control, or stock price volatility decreases/increases the valuation of the liabilities, whereas a decrease/increase in risk-free interest rates increases/decreases the valuation of the liabilities.

Warrant Liability

The Company issued detachable warrants with the convertible notes issued on September 28, 2016. The Company accounts for its warrants issued in accordance with US GAAP accounting guidance under ASC 815 applicable to derivative instruments, which requires every derivative instrument within its scope to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings. Based on this guidance, the Company determined that these warrants did not meet the criteria for classification as equity. Accordingly, the Company classified the warrants as long-term liabilities. The warrants are subject to re-measurement at each balance sheet date, with any change in fair value recognized as a component of other income (expense), net in the Consolidated Statements of Operations. We estimated the fair value of these warrants at the respective balance sheet dates using a lattice approach that incorporates a Monte Carlo simulation that considers the Company's future stock price. Option pricing models employ subjective factors to estimate warrant liability; and, therefore, the assumptions used in the model are judgmental.

Changes in the fair value of the warrant liability are primarily related to the change in price of the underlying common stock of the Company and is reflected in our Consolidated Statements of Operations and Comprehensive Income / (Loss) as "Change in fair value of warrant liability."

The following table provides a reconciliation of the beginning and ending balances for the warrant liability measured at fair value using significant unobservable inputs (Level 3):

	Level 3	
Balance at March 31, 2018	\$	3,980
Change in fair value of warrant liability		(845)
Balance at December 31, 2018	\$	3,135

Due to the valuation of the derivative liability being highly sensitive to the trading price of the Company's stock, the increase and decrease in the trading price of the Company's stock has the impact of increasing the loss and gain, respectively. During the three and nine months ended December 31, 2018, the Company recorded a (loss) and gain from change in fair value of warrant liability of \$(1,651) and \$845, respectively, due to the increase in the Company's closing stock price during the current quarter from \$1.24 to \$1.83 and the decrease during the nine months ended December 31, 2018 from \$2.01 to \$1.83. During the three and nine months ended December 31, 2017, the Company recorded a (loss) from change in fair value of warrant liability of \$(898) and \$(2,526), respectively, due to the increase in the Company's closing stock price during the three months ended December 31, 2017 from \$1.51 to \$1.79 and during the nine months ended December 31, 2017 from \$0.94 to \$1.79.

The market-based assumptions and estimates used in valuing the warrant liability include amounts in the following amounts:

	December 31, 2018
Stock price volatility	60 %
Probability of change in control	1.75 %
Stock price (per share)	\$1.83
Expected term	1.75 years
Risk-free rate (1)	2.49 %
Assumed early conversion/exercise price (per share)	\$2.73

(1) The Monte Carlo simulation assumes the continuously compounded equivalent (CCE) interest rate of 1.0% based on the average of the 1-year and 2-year U.S. Treasury securities as of the valuation date.

Changes in valuation assumptions can have a significant impact on the valuation of the warrant liability. For example, all other things being equal, a decrease/increase in our stock price, probability of change of control, or stock price volatility decreases/increases the valuation of the liabilities, whereas a decrease/increase in risk-free interest rates increases/decreases the valuation of the liabilities.

10. Description of Stock Plans

Employee Stock Plan

The Company is currently issuing stock awards under the Amended and Restated Digital Turbine, Inc. 2011 Equity Incentive Plan (the "2011 Plan"), which was approved and adopted by our stockholders by written consent on May 23, 2012. No future grants will be made under the previous plan, the 2007 Employee, Director and Consultant Stock Plan (the "2007 Plan"). The 2011 Plan and 2007 Plan are collectively referred to as "Digital Turbine's Incentive Plans." In the year ended March 31, 2015, in connection with the acquisition of Appia (i.e., DT Media), the Company assumed the Appia, Inc. 2008 Stock Incentive Plan (the "Appia Plan"). Digital Turbine's Incentive Plans and the Appia Plan are all collectively referred to as the "Stock Plans."

The 2011 Plan provides for grants of stock-based incentive awards to our and our subsidiaries' officers, employees, non-employee directors, and consultants. Awards issued under the 2011 Plan can include stock options, stock appreciation rights ("SARs"), restricted stock, and restricted stock units (sometimes referred to individually or collectively as "Awards"). Stock options may be either "incentive stock options" ("ISOs"), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified stock options ("NQSOs").

The 2011 Plan reserves 20,000,000 shares for issuance, of which 8,485,711 and 9,135,513 remained available for future grants as of December 31, 2018 and March 31, 2018, respectively. The change over the comparative period represents stock option grants, stock option forfeitures/cancellations, and restricted shares of common stock of 1,349,925, 1,239,335, and 539,213, respectively.

Stock Option Agreements

Stock options granted under Digital Turbine's Stock Plans typically vest over a three-to-four year period. These options, which are granted with option exercise prices equal to the fair market value of the Company's common stock on the date of grant, generally expire up to ten years from the date of grant. Compensation expense for all stock options is recognized on a straight-line basis over the requisite service period.

Stock Option Activity

The following table summarizes stock option activity for the Stock Plans for the periods or as of the dates indicated:

	Number of Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options Outstanding, March 31, 2018	9,741,969	\$ 2.08	7.82	\$ 6,286
Granted	1,349,925	1.64		
Forfeited / Cancelled	(1,239,335)	4.20		
Exercised	(316,784)	0.92		
Options Outstanding, December 31, 2018	9,535,775	1.78	7.53	4,590
Vested and expected to vest (net of estimated forfeitures) at December 31, 2018 (a)	8,338,785	1.85	7.37	3,894
Exercisable, December 31, 2018	5,007,381	\$ 2.27	6.71	\$ 1,719

(a) For options vested and expected to vest, options exercisable, and options outstanding, the aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Digital Turbine's closing stock price on December 31, 2018 and the exercise price multiplied by the number of in-the-money options) that would have been received by the option holders, had the holders exercised their options on December 31, 2018. The intrinsic value changes based on changes in the price of the Company's common stock.

Information about options outstanding and exercisable at December 31, 2018 is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Shares	Weighted-Average Exercise Price
\$0.00 - 0.50	6,204	\$ 0.24	1.23	6,204	\$ 0.24
\$0.51 - 1.00	2,644,713	\$ 0.73	7.84	674,480	\$ 0.74
\$1.01 - 1.50	2,595,393	\$ 1.28	7.57	1,591,672	\$ 1.27
\$1.51 - 2.00	1,465,698	\$ 1.65	9.08	408,223	\$ 1.60
\$2.01 - 2.50	589,767	\$ 2.18	9.12	92,802	\$ 2.04
\$2.51 - 3.00	798,200	\$ 2.61	5.59	798,200	\$ 2.61
\$3.51 - 4.00	732,800	\$ 3.96	5.72	732,800	\$ 3.96
\$4.01 - 4.50	593,000	\$ 4.14	5.88	593,000	\$ 4.14
\$4.51 - 5.00	60,000	\$ 4.65	4.24	60,000	\$ 4.65
\$5.01 and over	50,000	\$ 5.89	5.70	50,000	\$ 5.89
	9,535,775			5,007,381	

Other information pertaining to stock options for the Stock Plans for the nine months ended December 31, 2018 and 2017, as stated in the table below, is as follows:

	December 31,	
	2018	2017
Total fair value of options vested	\$ 1,202	\$ 2,750
Total intrinsic value of options exercised (a)	\$ 192	\$ 101

(a) The total intrinsic value of options exercised represents the total pre-tax intrinsic value (the difference between the stock price at exercise and the exercise price multiplied by the number of options exercised) that was received by the option holders who exercised their options during the nine months ended December 31, 2018 and 2017.

During the nine months ended December 31, 2018 and 2017, the Company granted options to purchase 1,349,925 and 1,338,778 shares of its common stock, respectively, to employees with weighted-average grant-date fair values of \$1.64 and \$1.17, respectively.

At December 31, 2018 and 2017, there was \$2,194 and \$2,691 of total unrecognized stock-based compensation expense, respectively, net of estimated forfeitures, related to unvested stock options expected to be recognized over a weighted-average period of 2.01 and 2.04 years, respectively.

Valuation of Awards

For stock options granted under Digital Turbine's Stock Plans, the Company typically uses the Black-Scholes option pricing model to estimate the fair value of stock options at grant date. The Black-Scholes option pricing model incorporates various assumptions, including volatility, expected term, risk-free interest rates, and dividend yields. The assumptions utilized in this model for options granted during the nine months ended December 31, 2018 are presented below.

	December 31, 2018
Risk-free interest rate	2.67% to 2.94%
Expected life of the options	5.62 to 9.44 years
Expected volatility	66%
Expected dividend yield	—%
Expected forfeitures	29%

Expected volatility is based on a blend of implied and historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the Company's stock options. The Company uses this blend of implied and historical volatility, as well as other economic data, because management believes such volatility is more representative of prospective trends. The expected term of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

Total stock compensation expense for the Company's Stock Plans for the three and nine months ended December 31, 2018 and 2017, which includes both stock options and restricted stock, was \$631 and \$1,781, respectively, and \$849 and \$2,359, respectively. Please refer to Note 11. "Capital Stock Transactions" regarding restricted stock.

11. Capital Stock Transactions

Preferred Stock

There are 2,000,000 shares of Series A Convertible Preferred Stock, \$0.0001 par value per share ("Series A"), authorized and 100,000 shares of Series A issued and outstanding, which are currently convertible into 20,000 shares of common stock. The Series A holders are entitled to: (1) vote on an equal per-share basis as common stock, (2) dividends paid to the common stock holders on an if-converted basis and (3) a liquidation preference equal to the greater of \$10 per share of Series A (subject to adjustment) or such amount that would have been paid to the common stock holders on an if-converted basis.

Common Stock and Warrants

For the nine months ended December 31, 2018, the Company issued 316,784 shares of common stock for the exercise of employee options.

The following table provides activity for warrants issued and outstanding during the nine months ended December 31, 2018:

	Number of Warrants Outstanding	Weighted-Average Exercise Price
Outstanding as of March 31, 2018	4,536,857	1.56
Expired	(412,857)	3.43
Outstanding as of December 31, 2018	4,124,000	1.37

Restricted Stock Agreements

From time to time, the Company enters into restricted stock agreements ("RSAs") with certain employees, directors, and consultants. The RSAs have performance conditions, market conditions, time conditions, or a combination thereof. In some cases, once the stock vests, the individual is restricted from selling the shares of stock for a certain defined period, from three months to two years, depending on the terms of the RSA. As reported in our Current Reports on Form 8-K filed with the SEC on February 19, 2014 and June 25, 2014, the Company adopted a Board Member Equity Ownership Policy that supersedes any post-vesting lock-up in RSAs that are applicable to people covered by the policy, which includes the Company's Board of Directors and Chief Executive Officer.

Service and Time Condition RSAs

Awards of restricted stock are grants of restricted stock that are issued at no cost to the recipient. The cost of these awards is determined using the fair market value of the Company's common stock on the date of the grant. Compensation expense for restricted stock awards with a service condition is recognized on a straight-line basis over the requisite service period.

In June 2018, the Company issued 232,558 restricted shares to its Chief Executive Officer and Chief Financial Officer. The shares vest over three years. The fair value of the shares on the date of issuance was \$400.

In August 2018, the Company issued 306,655 restricted shares to its Board of Directors for their next annual service period. The shares vest quarterly over one year. The fair value of the shares on the date of issuance was \$426.

With respect to time condition RSAs, the Company expensed \$123 and \$365 during the three and nine months ended December 31, 2018, respectively, and \$157 and \$223 during the three and nine months ended December 31, 2017, respectively.

The following is a summary of restricted stock awards and activities for all vesting conditions for the nine months ended December 31, 2018:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested restricted stock outstanding as of March 31, 2018	132,569	1.09
Granted	539,213	1.53
Vested	(209,233)	1.20
Unvested restricted stock outstanding as of December 31, 2018	462,549	1.56

All restricted shares, vested and unvested, cancellable and not cancelled, have been included in the outstanding shares as of December 31, 2018.

At December 31, 2018, there was \$610 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock awards expected to be recognized over a weighted-average period of approximately 1.72 years.

12. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee stock-based awards in periods where the Company had net losses. Because the Company was in a net loss position for the three and nine months ended December 31, 2017, all potentially dilutive shares of common stock were determined to be anti-dilutive, and accordingly, were not included in the calculation of diluted net loss per share. For the three months ended December 31, 2018, because the Company was in a net loss position, all potentially dilutive shares of common stock were determined to be anti-dilutive, and accordingly, were not included in the calculation of diluted net loss per share. For the nine months ended December 31, 2018 the Company was in a net income position, and has included the dilutive effect of employee stock-based awards using the treasury method and assuming an average stock price over the period of \$1.39 and \$1.55, respectively.

The following table sets forth the computation of net income (loss) per share of common stock (in thousands, except per share amounts):

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Net income / (loss) from continuing operations, net of taxes	\$ (1,136)	\$ (4,795)	\$ 2,460	\$ (15,485)
Weighted-average common shares outstanding, basic	77,645	72,148	76,977	68,575
Weighted-average common shares outstanding, diluted	77,645	75,442	79,371	70,252
Basic and diluted net income / (loss) per common share	\$ (0.01)	\$ (0.07)	\$ 0.03	\$ (0.23)
Common stock equivalents included in net income per diluted share	—	—	2,394	—
Common stock equivalents excluded from net loss per diluted share because their effect would have been anti-dilutive	2,485	3,294	—	1,677

13. Income Taxes

Our provision for income taxes as a percentage of pre-tax earnings ("effective tax rate") is based on a current estimate of the annual effective income tax rate, adjusted to reflect the impact of discrete items. In accordance with ASC 740, jurisdictions forecasting losses that are not benefited due to valuation allowances are not included in our forecasted effective tax rate.

During the three and nine months ended December 31, 2018, a tax expense of \$216 and \$157, respectively, resulted in an effective tax rate of (23.5)% and 6.0%, respectively. Differences in the tax provision and the statutory rate are primarily due to changes in the valuation allowance.

During the three and nine months ended December 31, 2017, a tax benefit of \$84 and \$937, respectively, resulted in an effective tax rate of (1.7)% and (5.7)%, respectively. Differences in the tax provision and statutory rate are primarily due to changes in the valuation allowance. The tax benefit reported in the quarter is largely due to changes resulting from the finalization of the transfer pricing study.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rate from 35% to 21% and implementing a territorial tax system. As a result of the valuation allowance against U.S. deferred tax assets and the Company's U.S. federal and state NOL carryovers, the changes in U.S. tax law have not impacted the Company's annual effective tax rate for the three and nine months ended December 31, 2018.

14. Commitments and Contingencies

Potential Financial Exposure Related to Discontinued Operations

Please see information regarding possible exposure related to the settlement of certain assets and liabilities related to the disposition of the Pay business in Note 4 "Discontinued Operations."

15. Geographic Information

The following table sets forth geographic information on our net revenues for the three and nine months ended December 31, 2018 and 2017. Net revenues by geography are based on the billing addresses of our customers.

	Three months ended December 31,	
	2018	2017
	(Unaudited)	
Net revenues		
United States and Canada	\$ 20,952	\$ 14,095
Europe, Middle East, and Africa	6,160	1,514
Asia Pacific and China	2,312	6,190
Mexico, Central America, and South America	987	933
Consolidated net revenues	<u>\$ 30,411</u>	<u>\$ 22,732</u>

	Nine months ended December 31,	
	2018	2017
	(Unaudited)	
Net revenues		
United States and Canada	\$ 53,871	\$ 28,929
Europe, Middle East, and Africa	13,244	4,011
Asia Pacific and China	6,709	17,490
Mexico, Central America, and South America	2,553	3,360
Consolidated net revenues	<u>\$ 76,377</u>	<u>\$ 53,790</u>

16. Guarantor and Non-Guarantor Financial Statements

On September 28, 2016, the Company sold to the Initial Purchaser \$16,000 principal amount of 8.75% convertible notes maturing on September 23, 2020, unless converted, repurchased, or redeemed in accordance with their terms prior to such date. The Notes were issued under the Indenture, as amended and supplemented to date, between Digital Turbine, Inc., US Bank National Association, as trustee, and certain wholly-owned subsidiaries of the Company, specifically DT USA, DT Media, DT EMEA, and DT APAC. Given the Notes are unconditionally guaranteed as to the payment of principal, premium, if any, and interest on a senior unsecured basis by four of the wholly-owned subsidiaries of the Company, the Company is required by SEC Reg S-X 210.3-10 to include, in a footnote, consolidating financial information for the same periods with a separate column for:

- The parent company;
- The subsidiary guarantors on a combined basis;
- Any other subsidiaries of the parent company on a combined basis;
- Consolidating adjustments;
- and
- The total consolidated amounts.

The following consolidated financial information includes:

(1) Consolidated balance sheets as of December 31, 2018 and March 31, 2018; consolidated statements of operations for the three and nine months ended December 31, 2018 and 2017; and consolidated statements of cash flows for the nine months ended December 31, 2018 and 2017 of (a) Digital Turbine, Inc. as the parent, (b) the guarantor subsidiaries, (c) the non-guarantor subsidiaries, and (d) Digital Turbine, Inc. on a consolidated basis; and

(2) Elimination entries necessary to consolidate Digital Turbine, Inc., as the parent, with its guarantor and non-guarantor subsidiaries.

Digital Turbine, Inc. owns 100% of all of the guarantor subsidiaries, and as a result, in accordance with Rule 3-10(d) of Regulation S-X promulgated by the SEC, no separate financial statements are required for these subsidiaries as of and for the three and nine months ended December 31, 2018 or 2017.

Consolidated Balance Sheet
as of December 31, 2018 (Unaudited)
(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated Total
ASSETS				
Current assets				
Cash	\$ 216	\$ 9,777	\$ 107	\$ 10,100
Restricted cash	256	175	—	431
Accounts receivable, net of allowance of \$937	—	24,069	152	24,221
Deposits	34	113	14	161
Prepaid expenses and other current assets	357	815	142	1,314
Current assets held for disposal	—	3,435	(1)	3,434
Total current assets	863	38,384	414	39,661
Property and equipment, net	764	2,531	5	3,300
Deferred tax assets	439	—	—	439
Intangible assets, net	1	225	—	226
Goodwill	1,065	40,201	1,000	42,266
TOTAL ASSETS	\$ 3,132	\$ 81,341	\$ 1,419	\$ 85,892
INTERCOMPANY				
Intercompany payable / (receivable), net	111,398	(94,427)	(16,971)	—
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	\$ 674	\$ 21,866	\$ 12	\$ 22,552
Accrued license fees and revenue share	—	11,369	122	11,491
Accrued compensation	954	628	32	1,614
Short-term debt, net of debt issuance costs and discounts of \$78	1,522	—	—	1,522
Other current liabilities	1,076	684	42	1,802
Current liabilities held for disposal	—	5,264	166	5,430
Total current liabilities	4,226	39,811	374	44,411
Convertible notes, net of debt issuance costs and discounts of \$1,402	3,298	—	—	3,298
Convertible note embedded derivative liability	3,113	—	—	3,113
Warrant liability	3,135	—	—	3,135
Other non-current liabilities	182	—	—	182
Total liabilities	13,954	39,811	374	54,139
Stockholders' equity				
Preferred stock				
Series A convertible preferred stock at \$0.0001 par value; 2,000,000 shares authorized, 100,000 issued and outstanding (liquidation preference of \$1,000)	100	—	—	100
Common stock				
\$0.0001 par value: 200,000,000 shares authorized; 78,459,070 issued and 77,704,471 outstanding at December 31, 2018	10	—	—	10
Additional paid-in capital	321,297	—	—	321,297
Treasury stock (754,599 shares at December 31, 2018)	(71)	—	—	(71)
Accumulated other comprehensive loss	30	(1,489)	1,136	(323)
Accumulated deficit	(220,790)	(51,408)	(17,062)	(289,260)
Total stockholders' equity	100,576	(52,897)	(15,926)	31,753
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 114,530	\$ (13,086)	\$ (15,552)	\$ 85,892

Consolidated Balance Sheet

as of March 31, 2018

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated Total
ASSETS				
Current assets				
Cash	\$ 501	\$ 11,800	\$ 419	\$ 12,720
Restricted cash	156	175	—	331
Accounts receivable, net of allowance of \$512	—	16,777	273	17,050
Deposits	34	113	4	151
Prepaid expenses and other current assets	330	406	14	750
Current assets held for disposal	—	8,610	143	8,753
Total current assets	1,021	37,881	853	39,755
Property and equipment, net	257	2,485	15	2,757
Deferred tax assets	596	—	—	596
Intangible assets, net	—	1,231	—	1,231
Goodwill	—	41,268	1,000	42,268
TOTAL ASSETS	\$ 1,874	\$ 82,865	\$ 1,868	\$ 86,607
INTERCOMPANY				
Intercompany payable / (receivable), net	117,873	(114,234)	(3,639)	—
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	\$ 1,031	\$ 18,841	\$ 23	\$ 19,895
Accrued license fees and revenue share	—	7,989	243	8,232
Accrued compensation	2,285	661	20	2,966
Short-term debt, net of debt issuance costs and discounts of \$205	1,445	—	—	1,445
Other current liabilities	911	231	—	1,142
Current liabilities held for disposal	—	12,246	480	12,726
Total current liabilities	5,672	39,968	766	46,406
Convertible notes, net of debt issuance costs and discounts of \$1,827	3,873	—	—	3,873
Convertible note embedded derivative liability	4,676	—	—	4,676
Warrant liability	3,980	—	—	3,980
Total liabilities	18,201	39,968	766	58,935
Stockholders' equity				
Preferred stock				
Series A convertible preferred stock at \$0.0001 par value; 2,000,000 shares authorized, 100,000 issued and outstanding (liquidation preference of \$1,000)	100	—	—	100
Common stock				
\$0.0001 par value: 200,000,000 shares authorized; 76,843,278 issued and 76,108,822 outstanding at March 31, 2018	10	—	—	10
Additional paid-in capital	318,066	—	—	318,066
Treasury stock (754,599 shares at March 31, 2018)	(71)	—	—	(71)
Accumulated other comprehensive loss	(15)	(621)	311	(325)
Accumulated deficit	(216,544)	(70,716)	(2,848)	(290,108)
Total stockholders' equity	101,546	(71,337)	(2,537)	27,672
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 119,747	\$ (31,369)	\$ (1,771)	\$ 86,607

Consolidated Statement of Operations and Comprehensive Loss

for the three months ended December 31, 2018 (Unaudited)

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated Total
Net revenues	\$ —	\$ 54,843	\$ 248	\$ (24,680)	\$ 30,411
Cost of revenues					
License fees and revenue share	—	44,050	(175)	(24,680)	19,195
Other direct cost of revenues	—	538	—	—	538
Total cost of revenues	—	44,588	(175)	(24,680)	19,733
Gross profit	—	10,255	423	—	10,678
Operating expenses					
Product development	84	2,233	111	—	2,428
Sales and marketing	121	1,635	206	—	1,962
General and administrative	3,126	706	—	—	3,832
Total operating expenses	3,331	4,574	317	—	8,222
Income / (loss) from operations	(3,331)	5,681	106	—	2,456
Interest and other income / (expense), net					
Interest expense	(118)	(76)	—	—	(194)
Foreign exchange transaction gain / (loss)	1	2	(5)	—	(2)
Change in fair value of convertible note embedded derivative liability	(1,476)	—	—	—	(1,476)
Change in fair value of warrant liability	(1,651)	—	—	—	(1,651)
Loss on extinguishment of debt	(10)	—	—	—	(10)
Other expense	(76)	34	(1)	—	(43)
Total interest and other income / (expense), net	(3,330)	(40)	(6)	—	(3,376)
Income / (loss) from continuing operations before income taxes	(6,661)	5,641	100	—	(920)
Income tax provision	216	—	—	—	216
Net income / (loss) from continuing operations, net of taxes	(6,877)	5,641	100	—	(1,136)
Loss from discontinued operations	—	(212)	—	—	(212)
Net loss from discontinued operations, net of taxes	—	(212)	—	—	(212)
Net income / (loss)	\$ (6,877)	\$ 5,429	\$ 100	\$ —	\$ (1,348)
Other comprehensive loss					
Foreign currency translation adjustment	—	(5)	—	—	(5)
Comprehensive income / (loss)	\$ (6,877)	\$ 5,424	\$ 100	\$ —	\$ (1,353)

Consolidated Statement of Operations and Comprehensive Loss

for the nine months ended December 31, 2018 (Unaudited)

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated Total
Net revenues	\$ —	\$ 139,536	\$ 632	\$ (63,791)	\$ 76,377
Cost of revenues					
License fees and revenue share	—	113,999	5	(63,791)	50,213
Other direct cost of revenues	—	1,553	—	—	1,553
Total cost of revenues	—	115,552	5	(63,791)	51,766
Gross profit	—	23,984	627	—	24,611
Operating expenses					
Product development	256	7,572	346	—	8,174
Sales and marketing	479	4,626	606	—	5,711
General and administrative	5,540	3,541	134	—	9,215
Total operating expenses	6,275	15,739	1,086	—	23,100
Income / (loss) from operations	(6,275)	8,245	(459)	—	1,511
Interest and other income / (expense), net					
Interest expense	(572)	(76)	—	—	(648)
Foreign exchange transaction gain / (loss)	1	27	(21)	—	7
Change in fair value of convertible note embedded derivative liability	1,096	—	—	—	1,096
Change in fair value of warrant liability	845	—	—	—	845
Loss on extinguishment of debt	(25)	—	—	—	(25)
Other expense	842	(1,006)	(5)	—	(169)
Total interest and other income / (expense), net	2,187	(1,055)	(26)	—	1,106
Income / (loss) from continuing operations before income taxes	(4,088)	7,190	(485)	—	2,617
Income tax provision	157	—	—	—	157
Net income / (loss) from continuing operations, net of taxes	(4,245)	7,190	(485)	—	2,460
Income / (loss) from discontinued operations	(37)	(1,584)	9	—	(1,612)
Net income / (loss) from discontinued operations, net of taxes	(37)	(1,584)	9	—	(1,612)
Net income / (loss)	\$ (4,282)	\$ 5,606	\$ (476)	\$ —	\$ 848
Other comprehensive loss					
Foreign currency translation adjustment	—	(5)	—	—	(5)
Comprehensive income / (loss)	\$ (4,282)	\$ 5,601	\$ (476)	\$ —	\$ 843

Consolidated Statement of Operations and Comprehensive Loss

for the three months ended December 31, 2017 (Unaudited)

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated Total
Net revenues	\$ —	\$ 41,679	\$ 222	\$ (19,169)	\$ 22,732
Cost of revenues					
License fees and revenue share	—	33,995	61	(19,169)	14,887
Other direct cost of revenues	—	437	—	—	437
Total cost of revenues	—	34,432	61	(19,169)	15,324
Gross profit	—	7,247	161	—	7,408
Operating expenses					
Product development	2	3,057	61	—	3,120
Sales and marketing	75	1,441	107	—	1,623
General and administrative	3,682	347	123	—	4,152
Total operating expenses	3,759	4,845	291	—	8,895
Income / (loss) from operations	(3,759)	2,402	(130)	—	(1,487)
Interest and other income / (expense), net					
Interest expense	(446)	—	—	—	(446)
Foreign exchange transaction loss	—	48	1	—	49
Change in fair value of convertible note embedded derivative liability	(1,658)	—	—	—	(1,658)
Change in fair value of warrant liability	(898)	—	—	—	(898)
Loss on extinguishment of debt	(285)	—	—	—	(285)
Other income	28	(182)	—	—	(154)
Total interest and other income / (expense), net	(3,259)	(134)	1	—	(3,392)
Income / (loss) from continuing operations before income taxes	(7,018)	2,268	(129)	—	(4,879)
Income tax provision	(88)	6	(2)	—	(84)
Net income / (loss) from continuing operations, net of taxes	(6,930)	2,262	(127)	—	(4,795)
Income / (loss) from discontinued operations	(87)	1,278	(195)	—	996
Net income / (loss) from discontinued operations, net of taxes	(87)	1,278	(195)	—	996
Net income / (loss)	\$ (7,017)	\$ 3,540	\$ (322)	\$ —	\$ (3,799)
Comprehensive income / (loss)	\$ (7,017)	\$ 3,540	\$ (322)	\$ —	\$ (3,799)

Consolidated Statement of Operations and Comprehensive Loss

for the nine months ended December 31, 2017 (Unaudited)

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination	Consolidated Total
Net revenues	—	97,772	739	(44,721)	53,790
Cost of revenues					
License fees and revenue share	—	78,899	166	(44,721)	34,344
Other direct cost of revenues	—	1,276	—		1,276
Total cost of revenues	—	80,175	166	(44,721)	35,620
Gross profit	—	17,597	573	—	18,170
Operating expenses					
Product development	14	7,430	91	—	7,535
Sales and marketing	249	3,566	229	—	4,044
General and administrative	8,327	2,417	317	—	11,061
Total operating expenses	8,590	13,413	637	—	22,640
Income / (loss) from operations	(8,590)	4,184	(64)	—	(4,470)
Interest and other income / (expense), net					
Interest expense	(1,815)	—	—	—	(1,815)
Foreign exchange transaction loss	—	(62)	1	—	(61)
Change in fair value of convertible note embedded derivative liability	(6,310)	—	—	—	(6,310)
Change in fair value of warrant liability	(2,526)	—	—	—	(2,526)
Loss on extinguishment of debt	(1,167)	—	—	—	(1,167)
Other income	7	(80)	—	—	(73)
Total interest and other income / (expense), net	(11,811)	(142)	1	—	(11,952)
Income / (loss) from continuing operations before income taxes	(20,401)	4,042	(63)	—	(16,422)
Income tax provision	(941)	6	(2)	—	(937)
Net income / (loss) from continuing operations, net of taxes	(19,460)	4,036	(61)	—	(15,485)
Income / (loss) from discontinued operations	(160)	1,854	(641)	—	1,053
Net income / (loss) from discontinued operations, net of taxes	(160)	1,854	(641)	—	1,053
Net income / (loss)	(19,620)	5,890	(702)	—	(14,432)
Other comprehensive income / (loss)					
Foreign currency translation adjustment	—	(5)	—	—	(5)
Comprehensive income / (loss)	(19,620)	5,885	(702)	—	(14,437)

Consolidated Statement of Cash Flows

for the nine months ended December 31, 2018 (Unaudited)

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated Total
Cash flows from operating activities				
Net income / (loss) from continuing operations, net of taxes	\$ (4,245)	\$ 7,190	\$ (485)	\$ 2,460
Adjustments to reconcile net income / (loss) from continuing operations to net cash used in operating activities:				
Depreciation and amortization	26	2,114	5	2,145
Change in allowance for doubtful accounts	—	390	35	425
Amortization of debt discount and debt issuance costs	251	—	—	251
Stock-based compensation	1,416	—	—	1,416
Stock-based compensation for services rendered	365	—	—	365
Change in fair value of convertible note embedded derivative liability	(1,096)	—	—	(1,096)
Change in fair value of warrant liability	(845)	—	—	(845)
Loss on extinguishment of debt	25	—	—	25
(Increase) / decrease in assets:				
Accounts receivable	—	(8,184)	558	(7,626)
Deposits	—	—	(10)	(10)
Deferred tax assets	157	—	—	157
Prepaid expenses and other current assets	(27)	(396)	(128)	(551)
Increase / (decrease) in liabilities:				
Accounts payable	(356)	3,258	(245)	2,657
Accrued license fees and revenue share	—	3,419	(161)	3,258
Accrued compensation	(1,331)	(26)	12	(1,345)
Accrued interest	107	—	—	107
Other current liabilities	5,612	(5,399)	468	681
Other non-current liabilities	116	(61)	—	55
Cash provided by operating activities - continuing operations	175	2,305	49	2,529
Cash used in operating activities - discontinued operations	—	(3,075)	(361)	(3,436)
Net cash provided by / (used in) operating activities	175	(770)	(312)	(907)
Cash flows from investing activities				
Capital expenditures	(533)	(1,248)	—	(1,781)
Net cash used in investing activities	(533)	(1,248)	—	(1,781)
Cash flows from financing activities				
Options exercised	223	—	—	223
Repayment of debt obligations	(50)	—	—	(50)
Net cash provided by financing activities	173	—	—	173
Effect of exchange rate changes on cash	—	(5)	—	(5)
Net change in cash	(185)	(2,023)	(312)	(2,520)
Cash and restricted cash, beginning of period	657	11,975	419	13,051
Cash and restricted cash, end of period	\$ 472	\$ 9,952	\$ 107	\$ 10,531

Consolidated Statement of Cash Flows

for the nine months ended December 31, 2017 (Unaudited)

(in thousands, except par value and share amounts)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated Total
Cash flows from operating activities				
Net income / (loss) from continuing operations, net of taxes	\$ (19,460)	\$ 4,036	\$ (61)	\$ (15,485)
Adjustments to reconcile net income / (loss) from continuing operations to net cash used in operating activities:				
Depreciation and amortization	—	1,344	614	1,958
Amortization of debt discount and debt issuance costs	875	—	—	875
Change in allowance for doubtful accounts	—	246	(15)	231
Stock-based compensation	2,136	—	—	2,136
Stock-based compensation for services rendered	223	—	—	223
Change in fair value of convertible note embedded derivative liability	6,310	—	—	6,310
Change in fair value of warrant liability	2,526	—	—	2,526
Loss on extinguishment of debt	1,167	—	—	1,167
(Increase) / decrease in assets:				
Accounts receivable	—	(12,951)	244	(12,707)
Deposits	(34)	4	(4)	(34)
Deferred tax assets	(241)	(3)	—	(244)
Prepaid expenses and other current assets	(50)	8	(11)	(53)
Increase / (decrease) in liabilities:				
Accounts payable	(232)	7,284	(19)	7,033
Accrued license fees and revenue share	—	3,525	149	3,674
Accrued compensation	2,026	325	4	2,355
Accrued interest	165	—	—	165
Other current liabilities	3,630	(3,047)	(450)	133
Other non-current liabilities	(674)	46	—	(628)
Cash provided by / (used in) operating activities - continuing operations	(1,633)	817	451	(365)
Cash provided by / (used in) operating activities - discontinued operations	—	1,243	(392)	851
Net cash provided by / (used in) operating activities	(1,633)	2,060	59	486
Cash flows from investing activities				
Capital expenditures	(13)	(1,202)	(5)	(1,220)
Cash used in investing activities - continuing operations	(13)	(1,202)	(5)	(1,220)
Cash used in investing activities - discontinued operations	—	(92)	—	(92)
Net cash used in investing activities	(13)	(1,294)	(5)	(1,312)
Cash flows from financing activities				
Proceeds from short-term borrowings	2,500	—	—	2,500
Payment of debt issuance costs	(346)	—	—	(346)
Options exercised	259	—	—	259
Repayment of debt obligations	(848)	—	—	(848)
Net cash provided by financing activities	1,565	—	—	1,565
Effect of exchange rate changes on cash	(1)	(5)	1	(5)
Net change in cash	(82)	761	55	734
Cash and restricted cash, beginning of period	414	5,508	558	6,480
Cash and restricted cash, end of period	\$ 332	\$ 6,269	\$ 613	\$ 7,214

17. Subsequent Events

SEC Settlement

As previously disclosed, the Company has been in discussions with the staff of the SEC to settle the previously disclosed internal control over financial reporting matter. On January 29, 2019, in resolution of the matter, the Commission accepted the Company's offer of settlement, pursuant to which the Company consented to an order by the SEC that the Company pay a \$100 civil money penalty, and cease and desist from causing any violations or future violations of Section 13(B)(2)(b) of the Securities Exchange Act of 1934 and Rule 13-15(a) thereunder, which generally relate to devising and maintaining sufficient internal accounting controls and disclosure controls and procedures, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements and the notes thereto included in this Quarterly Report on Form 10-Q (the "Report"). The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve substantial risks and uncertainties. When used in this Report, the words "anticipate," "believe," "estimate," "expect," "will," "seeks," "should," "could," "would," "may," and similar expressions, as they relate to our management or us, are intended to identify such forward-looking statements. Our actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements as a result of a variety of factors, including those set forth under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as well as those described elsewhere in this Report and in our other public filings. The risks included are not exhaustive, and additional factors could adversely affect our business and financial performance. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Historical operating results are not necessarily indicative of the trends in operating results for any future period. We do not undertake any obligation to update any forward-looking statements made in this Report. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends. This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

All numbers are in thousands, except share and per share amounts.

Company Overview

Digital Turbine, Inc., through its subsidiaries, innovates at the convergence of media and mobile communications, delivering end-to-end products and solutions for mobile operators, application advertisers, device OEMs, and other third parties to enable them to effectively monetize mobile content and generate higher-value user acquisition. The Company operates its business in one reporting segment – Advertising.

The Company's Advertising business consists of Operator and OEM ("O&O"), an advertiser solution for unique and exclusive carrier and OEM inventory, which is comprised of services including:

- Ignite™ ("Ignite"), a mobile device management platform with targeted application distribution capabilities, and
- Other products and professional services directly related to the Ignite platform.

Prior to the sale of the A&P Assets described under Note 4. Discontinued Operations in our consolidated financial statements in Item 1 of this Report, the O&O reporting segment also included the A&P Assets as an operating segment within O&O.

Advertising

O&O Business

The Company's O&O business is an advertiser solution for unique and exclusive carrier and OEM inventory, which is comprised of Ignite and other professional services directly related to the Ignite platform.

Ignite is a mobile application management software that enables mobile operators and OEMs to control, manage, and monetize applications installed at the time of activation and over the life of a mobile device. Ignite allows mobile operators to personalize the application activation experience for customers and monetize their home screens via Cost-Per-Install or CPI arrangements, Cost-Per-Placement or CPP arrangements, and/or Cost-Per-Action or CPA arrangements with third-party advertisers. There are several different delivery methods available to operators and OEMs on first boot of the device: Wizard, Silent, or Software Development Kit ("SDK"). Optional notification features are available throughout the life cycle of the device, providing operators additional opportunity for advertising revenue streams. The Company has launched Ignite with mobile operators and OEMs in North America, Latin America, Europe, Asia-Pacific, India, and Israel.

Disposition of the Content Reporting Segment and A&P Business

On April 29, 2018, the Company entered into two distinct disposition agreements with respect to selected assets owned by our subsidiaries.

DT APAC and DT Singapore (together, “Pay Seller”), each wholly-owned subsidiaries of the Company, entered into an Asset Purchase Pay Agreement (the “Pay Agreement”), dated April 23, 2018, with Chargewave Ptd Ltd (“Pay Purchaser”) to sell certain assets (the “Pay Assets”) owned by the Pay Seller related to the Company’s Direct Carrier Billing business. The Pay Purchaser is principally owned and controlled by Jon Mooney, an officer of the Pay Seller. At the closing of the asset sale, Mr. Mooney was no longer employed by the Company or Pay Seller. As consideration for this asset sale, Digital Turbine is entitled to receive certain license fees, profit-sharing, and equity participation rights as outlined in the Company’s Form 8-K filed May 1, 2018 with the SEC. The transaction was completed on July 1, 2018 with an effective date of July 1, 2018. With the sale of these assets, the Company has determined that it will exit the reporting segment of the business previously referred to as the Content business.

DT Media, a wholly-owned subsidiary of the Company, entered into an Asset Purchase Agreement (the “A&P Agreement”), dated April 28, 2018, with Creative Clicks B.V. (the “A&P Purchaser”) to sell business relationships with various advertisers and publishers (the “A&P Assets”) related to the Company’s Advertising and Publishing business. As consideration for this asset sale, we are entitled to receive a percentage of the gross profit derived from these customer agreements for a period of three years as outlined in the Company’s Form 8-K filed May 1, 2018 with the SEC. The transaction was completed on June 28, 2018 with an effective date of June 1, 2018. With the sale of these assets, the Company has determined that it will exit the operating segment of the business previously referred to as the A&P business, which was previously part of the Advertising segment, the Company’s sole continuing reporting segment.

These dispositions will allow the Company to benefit from a streamlined business model, simplified operating structure, and enhanced management focus.

Discontinued Operations

As a result of the dispositions, the results of operations from our Content reporting segment and A&P business within the Advertising reporting segment are reported as “Net loss from discontinued operations, net of taxes” and the related assets and liabilities are classified as “held for disposal” in the consolidated financial statements in Item 1 of this report. The Company has recast prior period amounts presented within this Report to provide visibility and comparability.

All discussions in this Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations, unless otherwise noted, relate to the remaining continuing operations in our sole operating segment after the dispositions, the O&O business.

RESULTS OF OPERATIONS
(Unaudited)

	Three months ended December 31,			Nine months ended December 31,		
	2018	2017	% of Change	2018	2017	% of Change
	(in thousands, except per share amounts)			(in thousands, except per share amounts)		
Net revenues	\$ 30,411	\$ 22,732	33.8 %	\$ 76,377	\$ 53,790	42.0 %
License fees and revenue share	19,195	14,887	28.9 %	50,213	34,344	46.2 %
Other direct cost of revenues	538	437	23.1 %	1,553	1,276	21.7 %
Gross profit	10,678	7,408	44.1 %	24,611	18,170	35.4 %
Total operating expenses	8,222	8,895	(7.6)%	23,100	22,640	2.0 %
Income / (loss) from operations	2,456	(1,487)	(265.2)%	1,511	(4,470)	(133.8)%
Interest expense	(194)	(446)	(56.5)%	(648)	(1,815)	(64.3)%
Foreign exchange transaction gain / (loss)	(2)	49	(104.1)%	7	(61)	(111.5)%
Change in fair value of convertible note embedded derivative liability	(1,476)	(1,658)	(11.0)%	1,096	(6,310)	(117.4)%
Change in fair value of warrant liability	(1,651)	(898)	83.9 %	845	(2,526)	(133.5)%
Loss on extinguishment of debt	(10)	(285)	(96.5)%	(25)	(1,167)	(97.9)%
Other expense	(43)	(154)	(72.1)%	(169)	(73)	131.5 %
Income / (loss) from continuing operations before income taxes	(920)	(4,879)	(81.1)%	2,617	(16,422)	(115.9)%
Income tax benefit / (provision)	216	(84)	(357.1)%	157	(937)	(116.8)%
Net income / (loss) from continuing operations, net of taxes	(1,136)	(4,795)	(76.3)%	2,460	(15,485)	(115.9)%
Basic and diluted net income / (loss) per common share	\$ (0.01)	\$ (0.07)	(85.7)%	\$ 0.03	\$ (0.23)	(113.0)%
Weighted-average common shares outstanding, basic	77,645	72,148	7.6 %	76,977	68,575	12.3 %
Weighted-average common shares outstanding, diluted	77,645	75,442	2.9 %	79,371	70,252	13.0 %

Comparison of the three and nine months ended December 31, 2018 and 2017

Net Revenues

During the three and nine months ended December 31, 2018, there was an approximately \$7,679 and \$22,587, respectively, or 33.8% and 42.0%, respectively, increase in overall revenue as compared to the three and nine months ended December 31, 2017.

The Company's O&O business is an advertiser solution for unique and exclusive carrier and OEM inventory. During the three and nine months ended December 31, 2018, the main revenue driver for the O&O business was the Ignite platform. Ignite is a mobile application management software that enables mobile operators and OEMs to control, manage, and monetize applications installed at the time of activation and over the life of a mobile device. This increase in Ignite net revenue was attributable to increased demand for the Ignite service, driven primarily by increased revenue from advertising partners across existing commercial deployments of Ignite with carrier partners as well as expanded distribution with new carrier partners and the deployment of new Ignite services and products. We expect this positive trend in product demand to continue.

During the three and nine months ended December 31, 2018, Oath Inc. represented 28.8% and 31.1% of net revenues, respectively. During the three and nine months ended December 31, 2017, Oath Inc. represented 23.7% and 23.3% of net revenues, respectively, and Machine Zone, Inc. represented 17.7% and 18.0% of net revenues, respectively.

The Company partners with mobile carriers and OEMs to deliver applications on our Ignite platform through the carrier network. During the three and nine months ended December 31, 2018, Verizon Wireless, a carrier partner, generated 43.7% and 47.6%, respectively, while AT&T Inc., a carrier partner, including its Cricket subsidiary, generated 38.5% and 38.4%, respectively, of our net revenues. During the three and nine months ended December 31, 2017, Verizon Wireless, generated 49.3% and 52.8%, respectively, while AT&T Inc., including its Cricket subsidiary, generated 40.0% and 32.4%, respectively, of our net revenues.

A reduction or delay in operating activity from these customers or partners, or a delay or default in payment by these customers, or a termination of the Company's agreements with these customers, could materially harm the Company's business and prospects. The Company is not aware of any material changes to these relationships, or material reductions or delays in operating activity with these customers or partners.

Gross Margin

	Three months ended December 31,			Nine months ended December 31,		
	2018	2017	% of Change	2018	2017	% of Change
	(in thousands)			(in thousands)		
Gross margin \$	\$ 10,678	\$ 7,408	44.1%	\$ 24,611	\$ 18,170	35.4%
Gross margin %	35.1%	32.6%	7.7%	32.2%	33.8%	(4.7)%

Total gross margin, inclusive of the impact of other direct costs of revenues (including amortization of intangibles), was approximately \$10,678 and \$24,611, respectively, or 35.1% and 32.2%, respectively, for the three and nine months ended December 31, 2018 versus approximately \$7,408 and \$18,170, respectively, or 32.6% and 33.8%, respectively, for the three and nine months ended December 31, 2017. The increase in gross margin dollars of \$3,270 and \$6,441, respectively, or 44.1% and 35.4%, respectively, is primarily attributable to an increase in Carrier and Advertiser demand in the O&O business positively impacted by improved yield from a higher mix of non-dynamic install revenue. The increase and decrease in gross margin percentage over the comparative periods of 7.7% and 4.7%, respectively, is primarily attributable to improved yield from a higher mix of non-dynamic install revenue for the three months ended December 31, 2018 and 2017, respectively, and higher-percentage partner revenue share as certain revenue partners continue to reach volume thresholds for the nine months ended December 31, 2018 and 2017, respectively.

Operating Expenses

	Three months ended December 31,			Nine months ended December 31,		
	2018	2017	% of Change	2018	2017	% of Change
	(in thousands)			(in thousands)		
Product development	\$ 2,428	\$ 3,120	(22.2)%	\$ 8,174	\$ 7,535	8.5%
Sales and marketing	1,962	1,623	20.9%	5,711	4,044	41.2%
General and administrative	3,832	4,152	(7.7)%	9,215	11,061	(16.7)%
Total operating expenses	\$ 8,222	\$ 8,895	(7.6)%	\$ 23,100	\$ 22,640	2.0%

Total operating expenses for the three and nine months ended December 31, 2018 and 2017 were approximately \$8,222 and \$23,100, respectively, and \$8,895 and \$22,640, respectively, a decrease of approximately \$673 and an increase of approximately \$460, respectively, or a decrease of approximately 7.6% and an increase of approximately 2.0%, respectively, over the comparative period.

Product development expenses include the development and maintenance of the Company's product suite. Expenses in this area are primarily a function of personnel. Product development expenses for the three and nine months ended December 31, 2018 and 2017 were approximately \$2,428 and \$8,174, respectively, and \$3,120 and \$7,535, respectively, a decrease of approximately \$692 and an increase of \$639, respectively, or 22.2% and 8.5%, respectively, over the comparative period. The decrease in costs over the comparative three-month period was attributable to higher capitalized software development time, resulting in lower headcount-related expenses, and workload rationalization resulting in reduced product development headcount. The increase in costs over the comparative nine-month period was primarily a function of incremental personnel hired during fiscal year 2019 and hosting expenses associated with development activity.

Sales and marketing expenses represent the costs of sales and marketing personnel, advertising and marketing campaigns, and campaign management. Sales and marketing expenses for the three and nine months ended December 31, 2018 and 2017 were approximately \$1,962 and \$5,711, respectively, and \$1,623 and \$4,044, respectively, an increase of approximately \$339 and \$1,667, respectively, or 20.9% and 41.2%, respectively, over the comparative period. The increase in sales and marketing expenses over the comparative three-month period was primarily attributable to increased travel expenses related to the Company's continued expansion of its global footprint and increased commissions associated with the sales team generating more revenue through new and existing advertising relationships.

General and administrative expenses represent management, finance, and support personnel costs in both the parent and subsidiary companies, which include professional and consulting costs, in addition to other costs such as rent, stock-based compensation, and depreciation expense. General and administrative expenses for the three and nine months ended December 31, 2018 and 2017 were approximately \$3,832 and \$9,215, respectively, and \$4,152 and \$11,061, respectively, a decrease of approximately \$320 and \$1,846, respectively, or 7.7% and 16.7%, respectively, over the comparative period. The decrease over the comparative three-month period is primarily attributable to lower legal, accounting, and professional consulting costs.

Interest and Other Income / (Expense)

	Three months ended December 31,			Nine months ended December 31,		
	2018	2017	% of Change	2018	2017	% of Change
	(in thousands)			(in thousands)		
Interest expense	\$ (194)	\$ (446)	(56.5)%	\$ (648)	\$ (1,815)	(64.3)%
Foreign exchange transaction gain / (loss)	(2)	49	(104.1)%	7	(61)	(111.5)%
Change in fair value of convertible note embedded derivative liability	(1,476)	(1,658)	(11.0)%	1,096	(6,310)	(117.4)%
Change in fair value of warrant liability	(1,651)	(898)	83.9 %	845	(2,526)	(133.5)%
Loss on extinguishment of debt	(10)	(285)	(96.5)%	(25)	(1,167)	(97.9)%
Other expense	(43)	(154)	(72.1)%	(169)	(73)	131.5 %
Total interest and other income / (expense), net	\$ (3,376)	\$ (3,392)	(0.5)%	\$ 1,106	\$ (11,952)	(109.3)%

Total interest and other income / (expense), net, for the three and nine months ended December 31, 2018 and 2017 was approximately \$(3,376) and \$1,106, respectively, and \$(3,392) and \$(11,952), respectively, a decrease in other income / (expense) of approximately \$16 and \$13,058, respectively, or 0.5% and 109.3%, respectively, over the comparative period. The decrease in other income / (expense) over the comparative three-month period is primarily attributable to the change in fair value of convertible note embedded derivative liability and the change in fair value of warrant liability. Interest and other income / (expense), net, includes net interest expense, foreign exchange transaction gain / (loss), change in fair value of convertible note embedded derivative liability, change in fair value of warrant liability, and other ancillary income / (expense) earned or incurred by the Company.

Interest Expense, Net

Interest expense is generated from the \$16,000 aggregate principal amount of 8.75% Convertible Notes due 2020 (the "Notes"), issued on September 28, 2016, and from our business finance agreement (the "Credit Agreement") with Western Alliance Bank (the "Bank"). The Credit Agreement provides for a \$5,000 total facility. Interest income consists of interest income earned on our cash. Interest expense, net, is primarily attributable to 1) fees related to the obtainment of debt (recorded as debt issuance costs and expensed as a component of interest expense over the life of the debt); 2) interest expense incurred on the Notes at a stated interest rate of 8.75%, and interest expense incurred on the Credit Agreement at approximately 6.75% (Wall Street Journal Prime Rate + 1.25%); and 3) amortization of debt discount related to the Notes, which are expensed as a component of interest expense over the life of the debt. Inclusive of the Notes issued on September 28, 2016 and the Credit Agreement entered into on May 23, 2017, the Company recorded \$194 and \$648, respectively, and \$446 and \$1,815, respectively, of interest expense during the three and nine months ended December 31, 2018 and 2017, inclusive of debt discount and debt issuance cost amortization. The decrease in interest expense is primarily due to lower principal debt outstanding as a function of the conversion of some of our Notes between the comparative periods.

Change in Fair Value of Convertible Note Embedded Derivative Liability

The Company accounts for the convertible note embedded derivative liability in accordance with US GAAP accounting guidance under ASC 815 applicable to derivative instruments, which requires every derivative instrument within its scope to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings.

Due to the valuation of the derivative liability being highly sensitive to the trading price of the Company's stock, the increase and decrease in the trading price of the Company's stock has the impact of increasing the loss and gain, respectively. During the three and nine months ended December 31, 2018, the Company recorded a loss and a gain, respectively, from change in fair value of convertible note embedded derivative liability of \$1,476 and \$1,096, respectively, due to the increase in the Company's closing stock price during the current quarter from \$1.24 at September 30, 2018 to \$1.83 at December 31, 2018 and due to the decrease in the Company's closing stock price from \$2.01 at March 31, 2018 to \$1.83 at December 31, 2018. During the three and nine months ended December 31, 2017, the Company recorded a loss from change in fair value of convertible note embedded derivative liability of \$1,658 and \$6,310, respectively, due to the increase in the Company's closing stock price from September 30, 2017 to December 31, 2017 of \$1.51 to \$1.79 and from March 31, 2017 to December 31, 2017 of \$0.94 to \$1.79. In addition to the Company's stock price being the primary driver, valuation of the derivative liability is also impacted by the conversion of underlying notes and associated warrants. See Note 8 "Debt" *Convertible Notes* for more information regarding the conversion of Convertible Notes during the current year and during fiscal 2018.

Change in Fair Value of Warrant Liability

The Company accounts for the warrants issued in connection with the above-noted sale of Notes to the Initial Purchaser in accordance with US GAAP accounting guidance under ASC 815 applicable to derivative instruments, which requires every derivative instrument within its scope to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings. Based on this guidance, the Company determined that these warrants did not meet the criteria for classification as equity. Accordingly, the Company classified the warrants as long-term liabilities. The warrants are subject to re-measurement at each balance sheet date, with any change in fair value recognized as a component of other income / (expense), net, in the Consolidated Statements of Operations and Comprehensive Income / (Loss).

Due to the valuation of the derivative liability being highly sensitive to the trading price of the Company's stock, the increase and decrease in the trading price of the Company's stock has the impact of increasing the loss and gain, respectively. During the three and nine months ended December 31, 2018, the Company recorded a loss and a gain, respectively, from change in fair value of warrant liability of \$1,651 and \$845, respectively, due to the increase in the Company's closing stock price during the current quarter from \$1.24 at September 30, 2018 to \$1.83 at December 31, 2018 and due to the decrease in the Company's closing stock price from \$2.01 at March 31, 2018 to \$1.83 at December 31, 2018. During the three and nine months ended December 31, 2017, the Company recorded a loss from change in fair value of warrant liability of \$898 and \$2,526, respectively, due to the increase in the Company's closing stock price from September 30, 2017 to December 31, 2017 of \$1.51 to \$1.79 and from March 31, 2017 to December 31, 2017 of \$0.94 to \$1.79.

Liquidity and Capital Resources

Selected Liquidity Information

	December 31, 2018	March 31, 2018
	(unaudited)	
	(in thousands)	
Cash		
Cash	\$ 10,100	\$ 12,720
Restricted cash	431	331
Total cash and restricted cash	10,531	13,051
Short-term debt		
Short-term debt, net of debt issuance costs of \$78 and \$205, respectively	1,522	1,445
Total short-term debt	\$ 1,522	\$ 1,445
Long-term debt		
Convertible notes, net of debt issuance costs and discounts of \$1,402 and \$1,827, respectively	3,298	3,873
Total long-term debt	\$ 3,298	\$ 3,873
Total debt	\$ 4,820	\$ 5,318
Working capital ⁽¹⁾		
Current assets	\$ 36,227	\$ 31,002
Current liabilities	38,981	33,680
Working capital ⁽¹⁾	\$ (2,754)	\$ (2,678)

⁽¹⁾ Working capital number excludes assets and liabilities held for disposal on the balance sheet.

Working Capital

Cash and restricted cash totaled approximately \$10,531 and \$13,051 at December 31, 2018 and March 31, 2018, respectively, a decrease of approximately \$2,520 or 19.3%. Current assets including assets held for disposal totaled \$39,661 and \$39,755 at December 31, 2018 and March 31, 2018, respectively, a decrease of approximately \$94 or 0.2%. As of December 31, 2018 and March 31, 2018, the Company had approximately \$24,221 and \$17,050, respectively, in net accounts receivable, an increase of \$7,171 or 42.1%. As of December 31, 2018 and March 31, 2018, the Company's working capital deficit was \$2,754 and \$2,678, respectively, an increase in working capital deficit of \$76 or 2.8%. The decrease in working capital was primarily attributable to an increase in accounts payable of \$2,657, an increase in accrued license fees and revenue share of \$3,259, and a decrease in cash and restricted cash of \$2,520, offset by an increase in net accounts receivable of \$7,171.

Our primary sources of liquidity have historically been issuances of common and preferred stock and debt. As of December 31, 2018, we had cash and restricted cash totaling approximately \$10,531.

On May 23, 2017, the Company entered into a Business Finance Agreement (the "Credit Agreement") with Western Alliance Bank (the "Bank"). The Credit Agreement provides for a \$5,000 total facility. The amounts advanced under the Credit Agreement mature in two years and accrue interest at prime-plus-1.25%, subject to a 4.00% floor, with the prime rate defined as that published in the Wall Street Journal. The Credit Facility also carries an annual facility fee of \$22.9, and an early termination fee of 0.5% if terminated during the first year. The obligations under the Credit Agreement are secured by a perfected first position security interest in all assets of the Company and its subsidiaries, subject to partial pledges of stock of non-US subsidiaries. In addition to customary covenants, including restrictions on payments and restrictions on indebtedness, the Credit Agreement requires the Company to comply with certain financial covenants as described in Note 8. "Debt" in our consolidated financial statements in Item 1 of this Report.

The Company believes that it has sufficient financial resources to meet its business requirements for at least twelve months from the issuance date of this Report.

Cash Flow Summary

	Nine months ended December 31,		% of Change
	2018	2017	
(in thousands)			
Consolidated statement of cash flows data:			
Net cash provided by / (used in) operating activities - continuing operations	\$ 2,529	\$ (365)	792.9 %
Capital expenditures	(1,781)	(1,220)	46.0 %
Proceeds from short-term borrowings	—	2,500	(100.0)%
Options exercised	223	259	(13.9)%
Repayment of debt obligations	(50)	(848)	(94.1)%
Payment of debt issuance costs	—	(346)	100.0 %
Effect of exchange rate changes on cash	(5)	(5)	— %

Operating Activities

During the nine months ended December 31, 2018 and 2017, the Company's net cash provided by / (used in) operating activities from continuing operations was \$2,529 and \$365, respectively, a positive change of \$2,894 or 792.9%. The increase in net cash provided by operating activities was primarily attributable to the change in working capital accounts, excluding current assets and current liabilities held for disposal, over the comparative periods.

During the nine months ended December 31, 2018, net cash used in operating activities from continuing operations was \$2,529, resulting from a net income of \$2,460 offset by net non-cash expenses of \$2,686, which included depreciation and amortization expense, change in allowance for doubtful accounts, amortization of debt discount and debt issuance costs, stock-based compensation expense, stock-based compensation related to the vesting of restricted stock for services, change in fair value of convertible note embedded derivative liability, change in fair value of warrant liability, and loss on extinguishment of debt of approximately \$2,145, \$425, \$251, \$1,416, \$365, \$(1,096), \$(845), and \$25, respectively. Net cash used in operating activities during the nine months ended December 31, 2018 was also impacted by the change in net working capital accounts as of December 31, 2018 compared to March 31, 2018, with a net increase in current liabilities of approximately \$5,358 (inclusive of accounts payable, accrued interest, accrued license fees and revenue share, accrued compensation, and other current liabilities) offset by a net increase in current assets of approximately \$8,187 (inclusive of accounts receivable, deposits, and prepaid expenses and other current assets) over the comparative periods. The net increase in working capital liabilities of \$5,358 was driven primarily by increases in accounts payable, accrued license fees and revenue share, accrued interest, and other current liabilities, offset by a decrease in accrued compensation. The net increase in working capital assets of \$8,187 was driven primarily by the increase in accounts receivable, mostly due to the timing of payments from our advertising customers. Furthermore, non-current deferred tax assets decreased by \$157 due to the impact of the tax provision booked during the period and non-current liabilities increased by \$55.

Investing Activities

For the nine months ended December 31, 2018 and 2017, net cash used in investing activities from continuing operations was approximately \$1,781 and \$1,220, respectively, which is comprised of capital expenditures related mostly to internally-developed software.

Financing Activities

For the nine months ended December 31, 2018, net cash provided by financing activities was approximately \$173, inclusive of \$223 in proceeds from the exercise of stock options offset by cash paid for the settlement of debt of \$50. For the nine months ended December 31, 2017, net cash provided by financing activities was approximately \$1,565, due to proceeds from short-term borrowings of \$2,500 and proceeds from the exercise of stock options of \$259, offset by the payment of \$346 in debt issuance costs and the repayment of debt obligations of \$848.

As of December 31, 2018, our total contractual cash obligations were as follows:

	Payments Due by Period				
	Total	Within the Next 12 Months	1 to 3 Years	3 to 5 Years	More Than 5 Years
(in thousands)					
<i>Contractual cash obligations</i>					
Convertible notes (a)	\$ 4,700	\$ —	\$ 4,700	\$ —	\$ —
Operating leases (b)	4,890	1,004	1,742	1,701	443
Interest and bank fees	845	434	411	—	—
Uncertain tax positions (c)	—	—	—	—	—
Total contractual cash obligations	\$ 10,435	\$ 1,438	\$ 6,853	\$ 1,701	\$ 443

(a) Convertible notes maturing on September 23, 2020 (the "Notes"), unless converted, repurchased, or redeemed in accordance with their terms prior to such date.

(b) Consists of operating leases for our office facilities.

(c) We have approximately \$904 in additional liabilities associated with uncertain tax positions that are not expected to be liquidated within the next twelve months. We are unable to reliably estimate the expected payment dates for these additional non-current liabilities.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We believe, therefore, that we are not materially exposed to any financing, liquidity, market, or credit risk that would arise if we engaged in such relationships.

Critical Accounting Policies and Judgments

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited financial statements. The preparation of these financial statements is based on management's selection of accounting policies and the application of significant accounting estimates, some of which require management to make judgments, estimates, and assumptions that affect the amounts reported in the financial statements and notes. For more information regarding our critical accounting estimates and policies, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" of our Annual Report on Form 10-K for the year ended March 31, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, primarily interest rate and foreign currency exchange risks.

Interest Rate Fluctuation Risk

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. Our cash and cash equivalents consist of cash and deposits, which are sensitive to interest rate changes.

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar. While a portion of our sales are denominated in foreign currencies and then translated into U.S. dollars, the vast majority of our media costs are billed in U.S. dollars, causing both our revenue and, disproportionately, our operating income / (loss) and net income / (loss) to be impacted by fluctuations in exchange rates. In addition, gains / (losses) related to translating certain cash balances, trade accounts receivable balances, and inter-company balances that are denominated in these currencies impact our net income / (loss). As our foreign operations expand, our results may be more impacted by fluctuations in the exchange rates of the currencies in which we do business.

ITEM 4. CONTROLS AND PROCEDURES

This Report includes the certifications of our Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14 of the Securities Exchange Act of 1934 (the “Exchange Act”). See Exhibits 31.1 and 31.2. Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our management, including our chief executive officer, who is our principal executive officer, and our chief financial officer, who is our principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. The term “disclosure controls and procedures,” as set forth in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Report, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective. As a result, the disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal controls over financial reporting or in other factors identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) or 15d-15(d) that occurred during the fiscal period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

SEC Settlement

As previously disclosed, the Company has been in discussions with the staff of the SEC to settle the previously disclosed internal control over financial reporting matter. On January 29, 2019, in resolution of the matter, the Commission accepted the Company's offer of settlement, pursuant to which the Company consented to an order by the SEC that the Company pay a \$100 civil money penalty, and cease and desist from causing any violations or future violations of Section 13(B)(2)(b) of the Securities Exchange Act of 1934 and Rule 13-15(a) thereunder, which generally relate to devising and maintaining sufficient internal accounting controls and disclosure controls and procedures, respectively.

Item 1 (A). Risk Factors

The Company is not aware of any material changes from the risk factors set forth under "Risk Factors" in its Annual Report on Form 10-K for the year ended March 31, 2018.

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

None.

Item 3. Defaults

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

ITEM 6. EXHIBITS

- [10.25 License and Software Agreement between AT&T Mobility LLC and the Company, dated as of November 2, 2015.††](#)
- [10.25.2 Amendment No. 1 to the Supplement No. 1 to License and Software Agreement between AT&T Mobility LLC and the Company, dated as of October 17, 2018. *††](#)
- [31.1 Certification of William Stone, Principal Executive Officer.*](#)
- [31.2 Certification of Barrett Garrison, Principal Financial Officer.*](#)
- [32.1 Certification of William Stone, Principal Executive Officer pursuant to U.S.C. Section 1350.+](#)
- [32.2 Certification of Barrett Garrison, Principal Financial Officer pursuant to U.S.C. Section 1350.+](#)
- 101 INS XBRL Instance Document.*
- 101 SCH XBRL Schema Document.*
- 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.*

* Filed

herewith.

† Management contract or compensatory plan or arrangement.

†† Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 406 under the Securities Act. In accordance with Rule 406, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

+ In accordance with SEC Release No. 33-8212, these exhibits are being furnished, and are not being filed, as part of the Report on Form 10-Q or as a separate disclosure document, and are not being incorporated by reference into any Securities Act registration statement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 5, 2019

Digital Turbine, Inc.

By: /s/ William Stone

William Stone
Chief Executive Officer
(Principal Executive Officer)

Dated: February 5, 2019

Digital Turbine, Inc.

By: /s/ Barrett Garrison

Barrett Garrison
Chief Financial Officer
(Principal Financial Officer)

**AMENDMENT NO. 1
TO THE SUPPLEMENT NO. 1 TO LICENSE AND SERVICE AGREEMENT**

THIS AMENDMENT TO THE SUPPLEMENT NO. 1 TO LICENSE AND SERVICE AGREEMENT

(“**Amendment**”) is made effective as of January 1, 2019 (the “**Amendment Effective Date**”) by and between Digital Turbine USA, Inc. (“**Company**”) and Cricket Wireless LLC, an affiliate of AT&T Mobility LLC (“**Cricket**”) (each a “**Party**” and together the “**Parties**”). This Amendment is governed by the terms of that certain Supplement No. 1 To License and Service Agreement signed November 2, 2015 (the “**Supplement**”), which by this reference is made a part hereof. Capitalized terms used, but not otherwise defined, herein shall have the meanings attributed to them in the Supplement.

WHEREAS, Company and Cricket entered into the Supplement; and

WHEREAS, Company and Cricket desire to amend certain terms of the Supplement as set forth in this Amendment.

NOW, THEREFORE, in consideration of and for the terms and conditions hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby accepted and acknowledged, the Parties mutually agree as follows:

1. **Amendment of Exhibit C-1 (Business Terms)**. Parties agree replace Section 1 in Exhibit C-1 of the Supplement in its entirety, with the following:

“(a) *Cricket Share*. Company will pay Cricket the percentage of gross revenue shown in the table below owed to Company from Campaigns of Company-sourced Applications distributed through the Cricket Application Download Service, which the Company sources for the Cricket Application Download Service (“**Gross Revenues**”). Company agrees that the rates provided for Cricket Share will be at least as high as any revenue share payable by Company to any other wireless carriers or operators in the United States:

<i>Tiers</i>	<i>Units</i>	<i>Cricket Share</i>	<i>Company Share</i>
1	[***]	[***]	[***]
2	[***]	[***]	[***]

*The foregoing Units tiers are cumulative and are calculated monthly, so that once a Units threshold is reached, Cricket Share is payable at the new Units tier for any/all revenues generated from Units so long as the number of Units is at the new Units tier level. For example, in the first month (January), if there are [***] Units added, the Units cumulative total would be [***] and the Cricket Share of Gross Revenues will be calculated at [***] for [***] Units. In the second month (February), if [***] Units were added, the Units cumulative total would be [***] and the Cricket Share of Gross Revenues will be calculate at [***] for the [***] Units, etc.*

“(b) *Application Allocation*. Cricket shall use commercially reasonable efforts to make available for Company placement at least [***] Company-sourced Applications, distributed through the Cricket Application Download Service, per Interactive Device model. The Parties acknowledge and agree that the number of placed Company-sourced Applications on any given Interactive Device model may vary depending on (i) device type, device memory, network performance, and other technical specifications, (ii) Cricket’s request for removal of the Company-sourced Applications pursuant to the Parties’ License and Service Agreement, and (iii) limited inventory of Company-sourced Applications.”

(c) [***] will be payable by Cricket to Company for Cricket Applications, AT&T Applications (including WarnerMedia Applications), or 3rd Party Applications Cricket sources for the Cricket Application Download Service; provided, however that Cricket may utilize the Cricket Application Download Service to source and have installed up to [***] (“**3rd-Party App Marketing Fee Cap**”) 3rd Party Applications on [***]Unit for which Cricket is paid a 3rd Party Application marketing one-time fee (e.g. CPP, CPI, CPA, etc.). The Parties acknowledge that such **3rd-Party App Marketing Fee Cap** does not apply to existing, commercially launched before Effective Date of this Amendment No. 1, Units with Cricket Application Download Service. If Cricket exceeds the **3rd-Party App Marketing Fee Cap** on [***] Unit over [***] consecutive months, Company and Cricket agree to discuss and negotiate in good faith a one-time Company platform fee (CPF) structure, paid by Cricket to Company, for [***] Unit that exceeded the **3rd-Party App Marketing Fee Cap**.

2. For the purpose of calculating each Party’s Share as of the Effective Date pursuant to the Tiers specified in Section 1(a) of the Supplement, the total Unit count shall be reset to [***].
3. **Integration; Conflicts.** This Amendment and the Supplement set forth the Parties’ entire agreement with respect to the subject matter hereof and thereof. Except as expressly modified by this Amendment, each and every term and condition set forth in the Supplement, and each Party’s rights and obligations thereunder, shall remain in full force and effect. In the event of a conflict between any term or condition set forth in herein and the Supplement, the terms and conditions of this Amendment shall govern and prevail.
4. **Counterparts.** This Amendment may be executed in separate counterparts, each of which when executed and delivered (including without limitation via facsimile or .pdf transmission) will be deemed an original and all of which together shall constitute one and the same instrument and will be binding upon the Parties.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by their duly authorized representatives as of the Amendment Effective Date.

DIGITAL TURBINE USA, INC. CRICKET WIRELESS LLC

By:___ By:___

Name:___ Name:___

Its:___ Its:___

Date: ___ Date: ___

(Signature Page to Amendment No. 1 to Supplement No. 1 To License and Service Agreement)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, William Stone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Digital Turbine, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 5, 2019

By: /s/ William Stone
William Stone
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Barrett Garrison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Digital Turbine, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 5, 2019

By: /s/ Barrett Garrison
Barrett Garrison
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**Certification of Principal Executive Officer
Pursuant to U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Digital Turbine, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ending December 31, 2018 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 5, 2019

By: /s/ William Stone

William Stone

Chief Executive Officer

(Principal Executive Officer)

Exhibit 32.2

**Certification of Principal Financial Officer
Pursuant to U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Digital Turbine, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period ending December 31, 2018 of the Company (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 5, 2019

By: /s/ Barrett Garrison

Barrett Garrison

Chief Financial Officer

(Principal Financial Officer)