UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

or

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

For the transition period from________ to ________

Commission File Number 000-54996

SOCIAL REALITY, INC.

(Name of Registrant as Specified in its Charter)

Delaware	**45-2925231**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

456 Seaton Street, Los Angeles, CA	**90013**
(Address of Principal Executive Offices)	*(Zip Code)*

(323) 694-9800
(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE
(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 of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ 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 þ NO ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 27,250,229 shares of Class A common stock are issued and outstanding as of November 9, 2015.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “targets,” “likely,” “aim,” “will,” “would,” “could,” and similar expressions or phrases identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operation, business strategy and financial needs. Forward-looking statements include, but are not limited to, statements about:

- our ability to grow our revenues and manage our gross margins;
- our history of losses;
- our limited operating history;
- risks associated with the integration of Steel Media and Five Delta;
- the terms of the Financing Agreement and their impact on our business and operations;
- the impact of our debt obligations on our liquidity and financial condition;
- the impact of the earn out payments to Mr. Steel on our cash flows in future periods;
- our possible need for additional financing and the requirement under the Financing Agreement to use the proceeds of any additional financings to reduce the obligations to the lender;
- risks associated with loss of access to the Facebook platform;
- risks associated with loss of access to real time bidding inventory buyers;
- the continued appeal of digital advertising;
- our dependence on our publishers;
- risks related to possible future acquisitions;
- the possible exercise of the put right by the holder of the Financing Warrant;
- the limited market for our Class A common stock;
- risks associated with material weaknesses in our internal control over financial reporting;
- anti-takeover provisions of Delaware law;
- the possible issuance of shares of our Class B common stock;
- the impact of penny stock rules on the trading in our Class A common stock;
- the impact of FINRA sales practice requirements on the market for our Class A common stock;
- dilution to our stockholders from the exercise of outstanding options and warrants, including those with cashless features, and/or the conversion of shares of our Series 1 Preferred Stock; and.
- the terms of indemnification agreements with our executive officers and directors.

You should read thoroughly this report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements including those made in this report, in Part I. Item 1A. Risk Factors appearing in our Annual Report on Form 10-K for the year ended December 31, 2014 and our other filings with the Securities and Exchange Commission. Other sections of this report include additional factors which could adversely impact our business and financial performance. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all 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. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

OTHER PERTINENT INFORMATION

When used in this report, the terms “Social Reality,” “we,” “us,” or “our” refers to Social Reality, Inc., a Delaware corporation, and our subsidiaries Steel Media, a California corporation which we refer to as "Steel Media," and Five Delta, Inc., a Delaware corporation which we refer to as "Five Delta." In addition, the "third quarter of 2015" refers to the three months ended September 30, 2015, the "third quarter of 2014" refers to the three months ended September 30, 2014, “2014” refers to the year ended December 31, 2014, and “2015” refers to the year ending December 31, 2015. The information which appears on our web sites at www.socialreality.com, www.steelmediainc.com, www.SRAX.com, www.sraxmd.com, www.sraxdi.com, www.fivedelta.com and www.groupad.com are not part of this report.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOCIAL REALITY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,032,958	$ 1,843,393
Accounts receivable, net of allowance for doubtful accounts of $119,066 and $52,338	8,910,043	3,874,620
Prepaid expenses	130,964	222,532
Other current assets	22,484	7,352
Total current assets	10,096,449	5,947,897
Property and equipment, net of accumulated depreciation of $37,626 and $25,013	45,646	27,602
Goodwill	16,314,957	16,312,911
Intangible assets, net of accumulated amortization of $190,972 and $0	1,815,028	2,006,000
Deferred debt issue costs	1,982,124	2,907,736
Prepaid stock based compensation	532,180	1,008,019
Other assets	15,659	4,804
Total assets	$ 30,802,043	$ 28,214,969
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 5,717,731	$ 2,882,120
Note payable - related party	2,258,263	2,500,000
Notes payable, current portion	1,881,000	1,350,000
Unearned revenue	1,695	25,295
Contingent consideration payable to related party - current portion	3,955,763	3,586,722
Put liability	1,389,653	—
Total current liabilities	15,204,105	10,344,137

Notes payable	8,040,448	7,713,014
Contingent consideration payable to related party - long term	3,469,034	3,145,401
Put liability	—	1,260,010
Total liabilities	26,713,587	22,462,562
Stockholders' equity:		
Preferred stock, authorized 50,000,000 shares, $0.001 par value,		
Undesignated, 49,800,000 shares, no shares issued and outstanding		
Series 1 Preferred stock, authorized 200,000 shares, 86,000 shares issued and outstanding, respectively	86	86
Class A common stock, authorized 250,000,000 shares, $0.001 par value, 29,637,092 and 29,416,612 shares issued, respectively, and 27,250,229 and 27,029,749 shares outstanding, respectively	27,250	27,030
Class B common stock, authorized 9,000,000 shares, $0.001 par value, no shares issued and outstanding	—	—
Additional paid in capital	13,776,392	13,143,153
Accumulated deficit	(9,715,272)	(7,417,862)
Total stockholders' equity	4,088,456	5,752,407
Total liabilities and stockholders' equity	$ 30,802,043	$ 28,214,969

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

SOCIAL REALITY, INC.
CONDENSED CONSOOLIDATED STATEMENTS OF OPERATIONS
THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Three Months ended September 30,		Nine Months ended September 30,	
	2015	2014	2015	2014
Revenues	$ 7,390,238	$ 663,144	$ 22,173,095	$ 1,493,755
Cost of revenue	3,296,144	489,416	10,697,062	1,066,336
Gross profit	4,094,094	173,728	11,476,033	427,419
Operating expense	3,751,736	1,091,749	10,914,488	2,914,356
Income (loss) from operations	342,358	(918,021)	561,545	(2,486,937)
Interest income (expense)	(1,000,898)	271	(2,858,955)	1,265
Loss before provision for income taxes	(658,540)	(917,750)	(2,297,410)	(2,485,672)
Provision for income taxes	—	—	—	—
Net loss	$ (658,540)	$ (917,750)	$ (2,297,410)	$ (2,485,672)
Net loss per share, basic and diluted	$ (0.02)	$ (0.04)	$ (0.09)	$ (0.12)
Weighted average shares outstanding	27,046,241	20,692,959	26,935,631	20,522,596

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

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SOCIAL REALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014
(Unaudited)

	Nine Month Periods Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$ (2,297,410)	$ (2,485,672)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization of stock based prepaid fees	475,839	495,444
Stock based compensation	626,539	235,348
Amortization of debt issue costs	925,612	—
PIK interest expense accrued to principal	279,216	—
Accretion of contingent consideration	692,674	—
Accretion of put liability	129,643	—
Depreciation and amortization	203,585	10,258
Bad debt expense	66,728	—
Changes in operating assets and liabilities:		
Accounts receivable	(5,102,151)	(258,826)
Prepaid expenses	91,568	(24,765)
Other current assets	(15,132)	(6,530)
Other assets	(10,855)	(804)
Accounts payable and accrued expenses	2,833,564	(152,934)
Unearned revenue	(23,600)	—
Cash used by operating activities	(1,124,180)	(2,188,481)
Cash flows from investing activities:		
Purchase of equipment	(30,657)	(6,856)
Cash used by investing activities	(30,657)	(6,856)
Cash flows from financing activities:		

Sale of common stock	—	1,273,161
Cost of common stock sale	—	(16,291)
Proceeds from warrant offering	6,921	—
Proceeds from note payable	1,500,000	—
Repayments of notes payable	(1,162,519)	—
Debt issue costs	—	(200,000)
Cash provided by financing activities	344,402	1,056,870
Net decrease in cash	(810,435)	(1,138,467)
Cash, beginning of period	1,843,393	1,715,264
Cash, end of period	$ 1,032,958	$ 576,797
Supplemental Schedule of Cash Flow Information:		
Cash paid for interest	$ 718,119	$ —
Cash paid for taxes	$ —	$ —

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Social Reality, Inc. ("Social Reality", "we", "us" or "the Company") is a Delaware corporation formed on August 2, 2011. Effective January 1, 2012 we acquired all of the member interests and operations of Social Reality, LLC, a California limited liability company formed on August 14, 2009, which began business in May of 2010, in exchange for 12,328,767 shares of our Class A and Class B common stock. The former members of Social Reality, LLC owned all of our common stock after the acquisition.

At Social Reality, we sell digital advertising campaigns to advertising agencies and brands. We have developed technology that allows brands to launch and manage digital advertising campaigns, and we provide the platform that allows website publishers to sell their media inventory to a number of digital adverting buyers. Our focus is to provide technology tools that enable both publishers and advertisers to maximize their digital advertising initiatives. We derive our revenues from:

- sales of digital advertising campaigns to advertising agencies and brands;
- sales of media inventory owned by our publishing partners through real-time bidding, or RTB, exchanges;
- sale and licensing of our GroupAd platform and related media; and,
- creation of custom platforms for buying media on SRAX for large brands.

The five core elements of this business are:

- *Social Reality Ad Exchange or "SRAX" – Real Time Bidding sell side and buy side representation* is our technology which assists publishers in delivering their media inventory to the real time bidding, or RTB, exchanges.

- *GroupAd* is a social media and loyalty platform that allows brands to launch and manage their social media initiatives.

- *SRAX MD* is an ad targeting & data platform for healthcare brands, agencies and medical content publishers. Healthcare and pharmaceutical publishers utilize the platform for yield optimization, audience extension campaigns and re-targeting of their healthcare professional audience. Agencies and brands purchase targeted digital and mobile ad campaigns.

- *SRAX DI* is a team of social media experts that helps brands and agencies create and manage their social media presence.

- *Steel Media* provides display, mobile, and email ad inventory to brands and ad agencies. This acquisition has allowed us to begin selling our buy-side RTB services to advertising agencies, and allows us to provide digital media inventory for Steel's campaigns, resulting in increased gross margins for the combined companies.

We offer our customers a number of pricing options including cost-per-thousand-impression ("CPM"), whereby our customers pay based on the number of times the target audience is exposed to the advertisement, and cost-per-engagement ("CPE"), whereby payment is triggered only when an individual takes a specific activity.

We also create applications as custom programs and build them on a campaign-by-campaign basis, and offer them on a managed- or self-service subscription basis through our GroupAd platform. GroupAd allows brand marketers to select from a number of pre-created applications and then deploy them into their social media channels.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Social Reality is also an approved Facebook advertising partner, through Facebook's PMD (Preferred Marketing Developer) program. We sell targeted and measurable online advertising campaigns and programs to brand advertisers and advertising agencies across large Facebook apps and websites, generating qualified Facebook likes and quantifiable engagement for our clients, driving online sales and increased brand equity.

We are headquartered in Los Angeles, California.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

These interim financial statements as of and for the three and nine months ended September 30, 2015 and 2014 are unaudited; however, in the opinion of management, such statements include all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows of the Company for the periods presented. The results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any future period. All references to September 30, 2015 and 2014 in these footnotes are unaudited.

These unaudited condensed financial statements should be read in conjunction with our audited financial statements and the notes thereto for the year ended December 31, 2014, included in the Company's annual report on Form 10-K filed with the SEC on March 31, 2015.

The condensed balance sheet as of December 31, 2014 has been derived from the audited financial statements at that date but does not include all disclosures required by the accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements include the accounts of the Company and its subsidiaries from the acquisition date of majority voting control and through the date of disposition, if any.

Use of Estimates

Accounting principles generally accepted in the United States ("GAAP") require management of the Company to make estimates and assumptions in the preparation of these consolidated financial statements that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

The most significant areas that require management judgment and which are susceptible to possible change in the near term include the Company's revenue recognition, allowance for doubtful accounts and sales credits, stock-based compensation, income taxes, goodwill and other intangible assets. The accounting policies for these areas are discussed elsewhere in these consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with a remaining maturity at the date of purchase of three months or less to be cash equivalents.

Revenue Recognition

The Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, no significant Company obligations remain, collection of the related receivable is reasonably assured, and the fees are fixed or determinable. The Company acts as a principal in its revenue transactions as the Company is the primary obligor in the transactions. Revenue is recognized on a gross basis, and media and publisher expenses that are directly related to a revenue-generating event are recorded as a component of cost of revenue.

Cost of Revenue

Cost of revenue consists of payments to media providers and website publishers that are directly related to a revenue-generating event and project and application design costs. The Company becomes obligated to make payments related to media providers and website publishers in the period the advertising impressions, click-throughs, actions or lead-based information are delivered or occur. Such expenses are classified as cost of revenue in the corresponding period in which the revenue is recognized in the accompanying income statement.

Accounts Receivable

Credit is extended to customers based on an evaluation of their financial condition and other factors. Management periodically assesses the Company's accounts receivable and, if necessary, establishes an allowance for estimated uncollectible amounts. Accounts determined to be uncollectible are charged to operations when that determination is made. The Company usually does not require collateral.

Concentration of Credit Risk, Significant Customers and Supplier Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited in the United States. The balances in the United States held at any one financial institution are generally in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The uninsured cash bank balances were approximately

$533,000 at September 30, 2015. The Company has not experienced any loss on these accounts. The balances are maintained in demand accounts to minimize risk.

At September 30, 2015, two customers each accounted for more than 10% of the accounts receivable balance, for a total of 61%. For the nine months ended September 30, 2015 one customer accounted for 50% of total revenue. Additionally, 10% of our revenue was collected and paid to us by one of our RTB exchange service providers. For the nine months ended September 30, 2014, 58% of our revenue was collected and paid to us by two of our RTB exchange service providers.

Fair Value of Financial Instruments

The Company's financial instruments, including cash and cash equivalents, net accounts receivable, accounts payable and accrued expenses, are carried at historical cost. At September 30, 2015 and December 31, 2014 the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Combinations

For all business combinations (whether partial, full or step acquisitions), the Company records 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration, if any, is recognized at its fair value on the acquisition date and; for certain arrangements, changes in fair value are recognized in earnings until settlement; and acquisition-related transaction and restructuring costs are expensed rather than treated as part of the cost of the acquisition.

Goodwill

Our goodwill consists of the excess purchase price paid in business combinations over the fair value of assets acquired. Goodwill is considered to have an indefinite life.

The Company employs the non-amortization approach to account for goodwill. Under the non-amortization approach, goodwill is not amortized into the results of operations, but instead is reviewed annually or more frequently if events or changes in circumstances indicate that the asset might be impaired, to assess whether the fair value exceeds the carrying value. The Company performs its annual goodwill and impairment assessment on September 30 of each year.

When evaluating the potential impairment of goodwill we first assess a range of qualitative factors, including but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel, and the overall financial performance for each of the Company's reporting units. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we then proceed to a two-step impairment testing methodology using the income approach (discounted cash flow method).

In the first step of the two step testing methodology, we compare the carrying value of the reporting unit, including goodwill, with its fair value, as determined by its estimated discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, we then complete the second step of the impairment test to determine the amount of impairment to be recognized. In the second step, we estimate an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference in that period.

When required, we arrive at our estimates of fair value using a discounted cash flow methodology which includes estimates of future cash flows to be generated by particular assets, as well as selecting a discount rate to measure the present value of those anticipated cash flows. Estimating future cash flows requires significant judgment and includes making assumptions about projected growth rates, industry-specific factors, working capital requirements, weighted average cost of capital, and current and anticipated operating conditions. The use of different assumptions or estimates for future cash flows could produce different results.

No impairment of goodwill has been recorded in 2015.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived Assets

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in the Company's stock price for a sustained period of time; and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets. If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Earnings (loss) Per Share

We use ASC 260, "Earnings Per Share" for calculating the basic and diluted earnings (loss) per share. We compute basic earnings (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and warrants and stock awards. For periods with a net loss, basic and diluted loss per share are the same, in that any potential common stock equivalents would have the effect of being anti-dilutive in the computation of net loss per share.

There were 13,984,016 common share equivalents at September 30, 2015 and 5,754,535 at September 30, 2014. For the three and nine months ended September 30, 2015 and 2014 these potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

Income Taxes

We utilize ASC 740 “Income Taxes” which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at year-end based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

Stock-Based Compensation

We account for our stock based compensation under ASC 718 "Compensation – Stock Compensation" using the fair value based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting for transactions in which an entity exchanges it equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

We use the fair value method for equity instruments granted to non-employees and use the Black-Scholes model for measuring the fair value of options. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Segments

The Company uses the "management approach" to identify its reportable segments. The management approach designates the internal organization used by management for making operating decisions and assessing performance as the basis for identifying the Company's reportable segments. Using the management approach, the Company determined that it has one operating segment due to business similarities and similar economic characteristics.

Recently Issued Accounting Standards

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

NOTE 2 – RECENT ACQUISITIONS

Acquisition of Steel Media

On October 30, 2014, we acquired 100% of the capital stock of Steel Media, a California corporation ("Steel Media"), from Richard Steel pursuant to the terms and conditions of a stock purchase agreement, dated October 30, 2014, by and among the Company, Steel Media and Mr. Steel (the "Stock Purchase Agreement").

The acquisition of Steel Media is intended to complement and augment the current operations of Social Reality. Together, the companies intend to offer and deliver improved performance and technology for digital advertising buy-side and sell-side solutions, delivered to agencies, brands and publishers by our combined digital sales team. We expect that the combined expertise of the two companies will enhance the quality of our technology and service.

As consideration for the purchase of Steel Media, we agreed to pay the Seller up to $20 million, consisting of: (i) a cash payment at closing of $7.5 million; (ii) a cash payment of $2 million which is being held in escrow to satisfy certain indemnification obligations to the extent such arise under the Stock Purchase Agreement; (iii) a one year secured subordinated promissory note in the principal amount of $2.5 million (the "Note") which is secured by 2,386,863 shares of our Class A common stock (the "Escrow Shares"); and (iv) an earnout payment of up to $8 million (the "Earnout Consideration"). We have recorded the Earnout Consideration at its present value of $6,584,042. Changes in the value will be recorded through the statement of operations. The total acquisition price aggregates $18,584,042.

The final accounting for the acquisition of Steel Media has been completed during the third quarter of 2015. The final allocation of the purchase price to the assets acquired and liabilities assumed based on the estimated fair values is as follows:

Cash	$	32,038
Accounts receivable and other assets		2,975,728
Equipment		7,777
Non-compete agreement		1,250,000
Goodwill		16,314,957
Total assets acquired		20,580,500
Accounts payable and other liabilities		(1,996,458)
Total	$	18,584,042

Goodwill will not be tax deductible.

Amortization of the non-compete agreement was $190,972 for the three and nine months ended September 30, 2015. The agreement is being amortized over its six year term.

NOTE 2 – RECENT ACQUISITIONS (CONTINUED)

Acquisition of Five Delta, Inc.

On December 19, 2014 we acquired 100% of the outstanding capital stock of Five Delta, Inc., a Delaware corporation ("Five Delta"), in exchange for 600,000 shares of our Class A common stock pursuant to the terms and conditions of the Share Acquisition and Exchange Agreement dated December 19, 2014 (the "Five Delta Agreement") by and among Social Reality, Five Delta and the stockholders of Five Delta. The acquisition price was $756,000.

Five Delta is a managed advertising service that uses proprietary technology and methods to optimize digital advertising for its customers. Five Delta primarily utilizes high-quality first-party data from major platforms like Facebook, Yahoo, LinkedIn and Google in optimization decisions. Five Delta's goal is to maximize marketing budget utility while simultaneously reporting clear and actionable information to its clients.

The acquisition of Five Delta is intended to complement and augment the current operations of Social Reality and Steel Media through the integration of its proprietary technology and methods into our operations.

The final accounting for the acquisition of Five Delta has not been completed and will be completed during the fourth quarter of 2015. The entire purchase price has been preliminarily allocated to intellectual property.

NOTE 3 – NOTES PAYABLE

2014 Transactions:

Financing Agreement with Victory Park Management, LLC as agent for the lenders

On October 30, 2014 (the "Financing Agreement Closing Date"), the Company entered into a financing agreement (the "Financing Agreement") with Victory Park Management, LLC, as administrative agent and collateral agent for the lenders and holders of notes and warrants issued thereunder (the "Agent"). The Financing Agreement provides for borrowings of up to $20 million to be evidenced by notes issued thereunder, which are secured by a first priority, perfected security interest in substantially all of the assets of the Company and its subsidiaries (including Steel Media) and a pledge of 100% of the equity interests of each domestic subsidiary of the Company pursuant to the terms of a pledge and security agreement (the "Pledge and Security Agreement") entered into by the Company on the Financing Agreement Closing Date (which was joined by Steel Media immediately after the Company's acquisition of Steel Media). The Financing Agreement contains covenants limiting, among other things, indebtedness, liens, transfers or sales of assets, distributions or dividends, and merger or consolidation activity. The notes (the "Financing Notes") issued pursuant to the Financing

Agreement, including the note issued to the lender thereunder in the original aggregate principal amount of $9 million on the Financing Agreement Closing Date (the "Initial Financing Note"), bear interest at a rate per annum equal to the sum of (1) cash interest at a rate of 10% per annum and (2) payment-in-kind (PIK) interest at a rate of 4% per annum for the period commencing on the Financing Agreement Closing Date and extending through the last day of the calendar month during which the Company's financial statements for December 31, 2014 are delivered, and which PIK interest rate thereafter from time to time may be adjusted based on the ratio of the Company's consolidated indebtedness to its earnings before interest, taxes, depreciation and amortization. If the Company achieves a reduction in the leverage ratio as described in the Financing Agreement, the PIK interest rate declines on a sliding scale from 4% to 2%. The Financing Notes issued under the Financing Agreement are scheduled to mature on October 30, 2017, with scheduled quarterly payment dates commencing December 31, 2014. Proceeds from the Initial Financing Note issued on the Financing Agreement Closing Date were used to finance, in part, the Company's acquisition of Steel Media as described in Note 2.

NOTE 3 – NOTES PAYABLE (CONTINUED)

The Financing Agreement provides for subsidiaries of the Company to join the Financing Agreement from time to time as borrowers and cross guarantors thereunder. Immediately after the Company's acquisition of Steel Media on October 30, 2014, Steel Media executed a joinder agreement under which it became a borrower under the Financing Agreement. The Company and its subsidiary, Steel Media, are cross guarantors of each other's obligations under the Financing Agreement, all of which guaranties and obligations are secured pursuant to the terms of the Pledge and Security Agreement.

On May 14, 2015 we entered into the First Amendment to Financing Agreement with Victory Park Management, LLC, as administrative agent and collateral agent for the lenders. Under the terms of the amendment, the leverage ratio, senior leverage ratio, fixed charge coverage ratio and interest coverage ratio under the Financing Agreement were all modified, and the minimum current ratio was reduced. The amendment also modified our obligations with respect to the delivery of certain reports, certain representations by us as well as clarifying other additional terms by which the loan is administered.

On July 6, 2015 we borrowed an additional $1,500,000 pursuant to the financing agreement. The loan funded on July 8, 2015. In connection therewith, we issued a Senior Secured Term Note to the Lender in the principal amount of $1,500,000. The Senior Secured Term Note has terms identical to the Initial Financing Notes described above. The Senior Secured Term Note will mature on October 30, 2017. We are using the proceeds from this additional draw under the Financing Agreement for working capital.

Notes payable consists of the following:

Principal amount	$ 9,595,689
PIK interest accrued	325,759
	9,921,448
Less current portion	(1,881,000)
Notes payable and PIK interest accrued, net of current portion	$ 8,040,448

Pursuant to the Financing Agreement, the Company also issued to the lender thereunder, on the Financing Agreement Closing Date, a five year warrant to purchase 2,900,000 shares of its Class A common stock at an exercise price of $1.00 per share (the "Financing Warrant"). Pursuant to the

Financing Warrant, the warrant holder has the right, at any time after the earlier of April 30, 2016 and the maturity date of the Financing Notes issued pursuant to the Financing Agreement, but prior to the date that is five years after the Financing Agreement Closing Date, to exercise its put right under the terms of the Financing Warrant, pursuant to which the warrant holder may sell to the Company, and the Company will purchase from the warrant holder, all or any portion of the Financing Warrant that has not been previously exercised. In connection with any exercise of this put right, the purchase price will be equal to an amount based upon the percentage of the Financing Warrant for which the put right is being exercised, multiplied by the lesser of (A) 50% of the total revenue for the Company and its subsidiaries, on a consolidated basis, for the trailing 12- month period ending with the Company's then-most recently completed fiscal quarter, and (B) $1,500,000. We have recorded the put liability at its present value of $1,232,294 and have recorded it as deferred debt cost. We will record the accretion as interest expense.

Activity for the put liability during the nine months ended September 30, 2015 was:

	December 31, 2014	Activity During the Period	Accretion in Value	September 30, 2015
Put liability	$ 1,260,010	$ —	$ 129,643	$ 1,389,653
Total	$ 1,260,010	$ —	$ 129,643	$ 1,389,653

We incurred a total of $3,164,352 of costs related to the Financing Agreement. These costs will be amortized to interest expense over the life of the debt.

NOTE 3 – NOTES PAYABLE (CONTINUED)

During the three and nine months ended September 30, 2015, $297,242 and $925,612, respectively, was amortized with a remaining balance of $1,982,124 reported as deferred debt issue costs as of September 30, 2015.

Note payable – Richard Steel

As partial consideration for the purchase of Steel Media described in Note 2, we executed a one year secured subordinated promissory note in the principal amount of $2.5 million (the "Note") which is secured by 2,386,863 shares of our Class A common stock (the "Escrow Shares").

The Note issued to Mr. Steel bears interest at the rate of 5% per annum and the principal and accrued interest is due and payable on October 30, 2015. The amounts due under the Note accelerate and become immediately due and payable upon the occurrence of an event of default as described in the Note. Upon an event of default under the Note, the interest rate increases to 10% per annum. The Note may be prepaid upon five days' notice to Mr. Steel, and the Note must be prepaid upon a change of control of the Company or Steel Media. The Note is also subject to certain mandatory partial prepayments for each of the fiscal quarters ending December 31, 2014, March 31, 2015 and June 30, 2015 in an amount equal to 25% of the "Excess Cash Amount" as defined in the Note. During August 2015 we made a partial prepayment on the note in the amount of $241,737. On October 29, 2015 we paid the remaining balance on the note of $2,258,263, along with accrued interest of $122,861.

NOTE 4 – STOCKHOLDERS' EQUITY

Preferred Stock

We are authorized to issue 50,000,000 of preferred stock, par value $0.001, of which 200,000 shares have been designated as Series 1 Preferred Stock.

Common Stock

We are authorized to issue an aggregate of 259,000,000 shares of common stock. Our certificate of incorporation provides that we will have two classes of common stock: Class A common stock (authorized 250,000,000 shares, par value $0.001), which has one vote per share, and Class B common stock (authorized 9,000,000 shares, par value $0.001), which has ten votes per share. Any holder of Class B common stock may convert his or her shares at any time into shares of Class A common stock on a share-for-share basis. Otherwise the rights of the two classes of common stock are identical.

In January 2015 we sold three-year warrants to purchase 882,001 shares of our Class A common stock at an exercise price of $1.50 to 20 existing stockholders of our company in a private transaction. We received gross proceeds of $8,820 for which we did not pay any commissions or finder's fees. The investors were accredited investors and the issuances were exempt from registration under the Securities Act of 1933 in reliance on an exemption provided by Section 4(a)(2) of that act.

During the nine months ended September 30, 2015 we issued 128,331 shares of Class A common stock for stock awards that have vested.

During the nine months ended September 30, 2015 we issued 92,149 shares of Class A common stock, valued at $101,364, for consulting services.

Stock Awards

On September 22, 2015 we granted an aggregate of 220,000 common stock awards to nine employees. The shares will vest ratably over three years on each grant date anniversary. Compensation expense will be recognized over the vesting period. During the three and nine months ended September 30, 2015 we recorded $2,643 of compensation expense related to these awards.

During the three and nine months ended September 30, 2015 we recorded expense of $60,958 and $364,800 related to stock awards granted in prior years. Awards in the amount of 95,456 shares were forfeited during 2015.

NOTE 4 – STOCKHOLDERS' EQUITY (CONTINUED)

Stock Options and Warrants

During February 2015 we granted 12,000 common stock options to a director. The options will vest quarterly over one year. The options have an exercise price of $1.20 per share and a term of five years. These options have a grant date fair value of $0.62 per option, determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.50%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 99%; and (4) an expected life of the options of 2 years. We have recorded an expense for the director options of $1,867 and $4,978 for the three and nine months ended September 30, 2015, respectively.

On August 5, 2015 we granted 200,000 common stock options to an employee. The options will vest ratably over three years on each grant date anniversary. Compensation expense will be recognized over the vesting period. The options have an exercise price of $1.65 per share and expire three years following the vesting date. These options have a grant date fair value of $0.74 per option, determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.625 % ; (2) dividend yield of 0 %; (3) volatility factor of the expected market price of our common stock of 85%; and (4) an expected life of the options of 2 years. We have recorded an expense for the options of $8,191 for the three and nine months ended September 30, 2015, respectively.

On September 22, 2015 we granted 385,000 common stock options to employees. The options will vest ratably over three years on each grant date anniversary. Compensation expense will be recognized over the vesting period. The options have an exercise price of $1.73 per share and expire three years following the vesting date. These options have a grant date fair value of $0.79 per option, determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.625 % ; (2) dividend yield of 0 %; (3) volatility factor of the expected market price of our common stock of 85%; and (4) an expected life of the options of 2 years. We have recorded an expense for the options of $2,107 for the three and nine months ended September 30, 2015, respectively.

During the three and nine months ended September 30, 2015 we recorded expense of $2,726 and $142,456, respectively, related to stock options granted in prior years. Awards in the amount of 521,000 options were forfeited during 2015.

NOTE 5 – RELATED PARTY TRANSACTIONS

We are obligated to Richard Steel, our president and a director, pursuant to a promissory note in the amount of $2,500,000, as described in Note 3.

We are also obligated to Mr. Steel for contingent Earnout Consideration of up to $8,000,000 incurred in connection with the acquisition of Steel Media, as described in Note 2. The Company initially recorded the liability at its present value of $6,584,042. Changes in the value will be recorded through the statement of operations.

Activity for the contingent consideration payable during the nine months ended September 30, 2015 was:

	December 31, 2014	Activity During the Period	Accretion in Value	September 30, 2015
Contingent consideration payable	$ 6,732,123	$ —	$ 692,674	$ 7,424,797
Total	$ 6,732,123	$ —	$ 692,674	$ 7,424,797

Maturities of contingent consideration are as follows:

Year ended December 31,	
2015	$ 3,955,763
2016	$ 3,469,034

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases executive offices under operating leases with lease terms which expire through September 30, 2021.

Rent expense for office space amounted to $42,322 and $11,682 for the three months ended September 30, 2015 and 2014, respectively. Rent expense amounted to $118,343 and $37,095 for the nine months ended September 30, 2015 and 2014, respectively.

Other Commitments

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers and employees that will require the Company to, among other things, indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. The Company has also agreed to indemnify certain former officers, directors and employees of acquired companies in connection with the acquisition of such companies. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and certain of its officers and employees, and former officers, directors and employees of acquired companies, in certain circumstances.

It is not possible to determine the maximum potential amount of exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses.

Employment agreements

We have entered into employment agreements with a number of our employees. These agreements may include provisions for base salary, guaranteed and discretionary bonuses and option grants. The agreements may contain severance provisions if the employees are terminated without cause, as defined in the agreements.

Litigation

From time to time, the Company may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. In addition, the Company may receive letters alleging infringement of patent or other intellectual property rights. The Company is not currently a party to any material legal proceedings, nor is the Company aware of any pending or threatened litigation that would have a material adverse effect on the Company's business, operating results, cash flows or financial condition should such litigation be resolved unfavorably.

NOTE 7 – SUBSEQUENT EVENTS

On October 26, 2015 we borrowed an additional $1,400,000 pursuant to the financing agreement with Victory Park Management, LLC described in Note 3. The loan funded on July 8, 2015. In connection therewith, we issued a Senior Secured Term Note to the Lender in the principal amount of $1,400,000. As with the Initial Note, the Senior Secured Term Note bears interest at a rate per annum equal to the sum of (1) cash interest at a rate of 10% per annum, and (2) payment-in-kind (PIK) interest, as may be adjusted from time to time, based on the ratio of our consolidated indebtedness to our earnings before interest, taxes, depreciation and amortization. If we achieve a reduction in the leverage ratio as described in the Financing Agreement, the PIK interest rate declines on a sliding scale from 4% to 2%. The Senior Secured Term Note will mature on October 30, 2017. We used the proceeds from this additional draw under the Financing Agreement towards the payment of the secured promissory note due Richard Steel described in Note 3, and for working capital.

On October 29, 2015 we paid $2,381,124 in full satisfaction of the remaining principal balance of the note payable to Richard Steel described in Note 3 and all accrued but unpaid interest.

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

The following discussion of our financial condition and results of operations for the three and nine month periods ended September 30, 2015 and 2014 should be read in conjunction with the condensed consolidated financial statements and the notes to those statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Item 1A, Risk Factors, Cautionary Notice Regarding Forward-Looking Statements and Business sections in our Annual Report on Form 10-K for the year ended December 31, 2014, this report, and our other filings with the Securities and Exchange Commission. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this report.

Overview

We are an Internet advertising and platform technology company that provides tools to automate the digital advertising market. We have built technologies and leveraged partner technologies that service social media and the real-time bidding (RTB) markets. Our focus is to provide technology tools that enable both publishers and advertisers to maximize their digital advertising initiatives. We derive our revenues from:

- sales of digital advertising campaigns to advertising agencies and brands;
- sales of media inventory through RTB exchanges;
- sale and licensing of our GroupAd platform and related media; and
- creation of custom platforms for buying media on SRAX for large brands.

The five core elements of this business are:

- *Social Reality Ad Exchange or "SRAX" – Real Time Bidding sell side and buy side representation* is our technology which assists publishers in delivering their media inventory to the real time bidding, or RTB, exchanges. The SRAX platform integrates multiple market-leading demand sources including ADX, Yahoo, OpenX, Pubmatic, Casalle, AppNexus and Live Rail;

- *GroupAd* is a social media and loyalty platform that allows brands to launch and manage their social media initiatives;

- *SRAX MD* is an ad targeting and data platform for healthcare brands, agencies and medical content publishers. Healthcare and pharmaceutical publishers utilize the platform for yield optimization, audience extension campaigns and re-targeting of their healthcare professional audience. Agencies and brands purchase targeted digital and mobile ad campaigns;

· *SRAX DI* is a team of social media experts that helps brands and agencies create and manage their social media presence; and

· *Steel Media* provides display, mobile, and email ad inventory to brands and ad agencies. This acquisition has allowed us to begin selling our buy-side RTB services to advertising agencies, and allows us to provide digital media inventory for Steel's campaigns, resulting in increased gross margins for the combined companies.

We offer our customers a number of pricing options including cost-per-thousand-impression ("CPM"), whereby our customers pay based on the number of times the target audience is exposed to the advertisement, and cost-per-engagement ("CPE"), whereby payment is triggered only when an individual takes a specific activity.

During the fourth quarter of 2014 we completed our acquisitions of Steel Media and Five Delta. Steel Media's incorporation into Social Reality has had a significant impact on our revenue and overall results of operations, as we have added in their buy-side revenue, gross margins, and its historically-profitable operating results. Incorporating Steel Media into our company has provided their sales and operations additional market access provided in-house by the SRAX diversified RTB platform, providing cost savings by using the existing Social Reality offerings, and also providing their sales staff with additional offerings from the SRAX MD, Five Delta and GroupAd products. With the integration of Five Delta technology into the SRAX platform, we are enhancing our customers' ability to buy advertising on all social channels and search products.

As discussed later in this report, our revenues have significantly increased in the 2015 periods from the comparable 2014 periods as a result of the overall growth of our company. We expect that we will continue to experience revenue increases during the last quarter of 2015 from the comparable 2014 period as we continue to broaden our reach and introduce new products. During the second quarter of 2015 we launched the SRAX App, a free platform that provides online publishers an opportunity to distribute their content via a branded mobile application that updates automatically as they publish new content to their website. The platform also allows publishers the opportunity to bring in influencer feeds from Facebook and Twitter that are relevant to their content. We also expect that our operating expenses will continue to increase as our business grows, and we devote additional marketing and business development resources towards promoting that growth.

Results of operations

Selected Consolidated Financial Data

	Third Quarter Ended September 30,			Nine Months Ended September 30,		
	2015 (unaudited)	2014 (unaudited)	change	2015 (unaudited)	2014 (unaudited)	change
Revenues	$ 7,390,238	$ 663,144	1,014%	$ 22,173,095	$ 1,493,755	1,385%
Cost of revenue	3,296,144	489,416		10,697,062	1,066,336	
Gross margin percentage	55.4%	26.2%	29.2%	51.8%	28.6%	23.2%
Operating expenses	3,751,736	1,091,749	243.6%	10,914,488	2,914,356	274.5%
Operating income (loss)	342,358	(918,021)		561,545	(2,486,937)	
Interest income (expense)	(1,000,898)	271		(2,858,955)	1,265	
Net income (loss)	$ (658,540)	$ (917,750)		$ (2,297,410)	$ (2,485,672)	

Revenue

Increases in our revenues in both the third quarter of 2015 and the nine months ended September 30, 2015 from the comparable periods in 2014 are due to growth in both the sell-side products, and buy-side products. While our revenues for the third quarter of 2015 were approximately 1,014% higher than the third quarter of 2014, the revenues were approximately 31% less than our revenues for the second quarter of 2015. This fluctuation represents the impact of increased spending by our clients in the consumer packaged goods area that have June 30 fiscal year ends. So long as we retain clients in this industry segment we expect to experience these seasonal revenue fluctuations in future periods.

Cost of revenue

Cost of revenue consists of certain labor costs, payments to website publishers and others that are directly related to a revenue-generating event and project and application design costs. During 2015 we have continued to benefit from an increase in our gross margins as a result of the decrease in our cost of revenue. Cost of revenue as a percent of revenue decreased to 44.6% for the third quarter of 2015 and 48.2% for the nine months ended September 30, 2015, as compared to 73.8% and 71.4%, respectively, for the same periods in 2014. These decreases are due to the mix of higher-margin products. Approximately 99% of cost of revenue for the third quarter of 2015 and the nine months ended September 30, 2015 was attributable to payments to website publishers and other media providers as compared to 99% for each of the comparable periods in 2014. The balance was attributable to labor costs and project and application design costs. As we continue to grow the revenue from our buy-side and sell-side product offerings, we expect that our blended gross margins will remain in the range of 40% to 50% for the remainder of 2015 and into 2016.

Operating expense

Our operating expenses are comprised of salaries, commissions, marketing and general overhead expenses. Overall, our operating expense increased 244% and 275%, respectively, for the third quarter of 2015 and the nine months then ended from the comparable periods in 2014. Included in the overall increase is an increase of approximately 67% and 49% in our operating expenses for the three and nine month periods ended September 30, 2015, respectively, which is attributable to operating expenses of Steel Media for which we did not have comparable expenses in the 2014 periods. Our other historic operating expenses have increased as we have increased our technical team, our sales team and our marketing efforts in support of the growth of our company. Our operating expenses decreased 13% in the third quarter of 2015 from the second quarter of 2015. This decrease reflects reduced commission expense that is attributable to the revenue differences in the periods as well as a reduction in operating expenses at Steel Media which is reflective of the continued integration its business into our company.

Interest income (expense)

Interest expense in the 2015 periods represent costs associated with the note issued to Mr. Richard Steel as partial consideration for the purchase of Steel Media together with the original note issued in October 2014 under the Financing Agreement described elsewhere in this report. The expense also includes non-cash amortization of debt costs and the accretion of contingent consideration and the put liability associated with the Steel Media acquisition. As described later in this report, in October 2015 we satisfied the note issued to Mr. Steel. Under the terms of the Financing Agreement, effective November 1, 2015 our quarterly amortization payments under the notes will increase from 2.5% to 5% of the principal in December 2015. Based upon the current outstanding amount, this will result in an increase in the quarterly amortization to approximately $500,000 based upon the amount outstanding at September 30, 2015, which is in addition to the monthly interest payments. Notwithstanding the satisfaction of the note to Mr. Steel, as a result of the increased borrowings under the Financing Agreement as well as the change in the repayment terms, we expect our interest expense to continue to increase during the fourth quarter of 2015 and into 2016 from prior comparable periods.

Non-GAAP financial measures

We use Adjusted net income (loss) to measure our overall results because we believe it better reflects our net results by excluding the impact of non-cash equity based compensation. We use Adjusted EBITDA to measure our operations by excluding certain additional non-cash expenses. We believe the presentation of Adjusted net income (loss) and Adjusted EBITDA enhances our investors' overall understanding of the financial performance of our business.

You should not consider Adjusted net income (loss) and Adjusted EBITDA as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance. A directly comparable GAAP measure to Adjusted net income (loss) and Adjusted EBITDA is net income (loss). The following is a reconciliation of net income (loss) to Adjusted net income (loss) and Adjusted EBITDA for the periods presented:

	Three Months Ended	Nine Months Ended

(unaudited, in thousands)	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income (loss)	$ (658)	$ (918)	(2,297)	(2,486)
plus:				
Equity based compensation	237	246	1,102	731
Adjusted net income (loss)	$ (421)	$ (672)	(1,195)	(1,755)
Interest expense	1,001	—	2,859	—
Depreciation and amortization	194	3	204	10
Adjusted EBITDA	$ 774	$ (669)	1,868	(1,745)

Liquidity and capital resources

Liquidity is the ability of a company to generate sufficient cash to satisfy its needs for cash. As of September 30, 2015 we had approximately $1,033,000 in cash and cash equivalents and a deficit in working capital of approximately $4,768,000, as compared to cash and cash equivalents of approximately $1,843,000 and a deficit in working capital of approximately $4,396,000 at December 31, 2014. Our accounts receivable and accounts payable have increased 130% and 98%, respectively, at September 30, 2015 from December 31, 2014 as a result in the revenue growth in the second quarter of 2015. We have collected a substantial amount of these receivables during the fourth quarter of 2015 in accordance with the normal payment terms.

On October 29, 2015 we paid Mr. Steel $2,381,124.26 in full satisfaction of the remaining principal and all accrued but unpaid interest due him under the note we issued him in October 2014 as partial consideration for the purchase of Steel Media. The note was secured by 2,386,863 shares of our Class A common which were deposited in escrow with a third party under the terms of an escrow agreement which has been terminated following the satisfaction of the note. These shares, which were reflected as issued but not outstanding as Mr. Steel had no rights to the shares until an event of default under the note, have been cancelled and returned to the status of authorized but unissued shares of our Class A common stock.

Our principal sources of operating capital have been equity and debt financing. In the first quarter of 2014 we raised additional capital of approximately $1,273,000 and in the fourth quarter of 2014 we raised an additional $3,776,000 in net proceeds through the sale of our equity securities. During the fourth quarter of 2014 we entered into the Financing Agreement with Victory Park Management, LLC, as administrative agent and collateral agent for the lenders which is described elsewhere in this report. In May 2015 we entered into the First Amendment to Financing Agreement with Victory Park Management, LLC, as administrative agent and collateral agent for the lenders. Under the terms of the amendment, the leverage ratio, senior leverage ratio, fixed charge coverage ratio and interest coverage ratio under the Financing Agreement were all modified, and the minimum current ratio was reduced. The amendment also modified our obligations with respect to the delivery of certain reports, certain representations by us as well as clarifying other additional terms by which the loan is administered.

The Financing Agreement provides for borrowings of up to $20 million. We drew $9 million at the time of our entry into the Financing Agreement which was used in connection with the acquisition of Steel Media, and have drawn an additional $1.5 million in July 2015, which is being used for working capital, and an additional $1.4 million in October 2015 which was used to in the payment of the note to Mr. Steel at its maturity.

We do not have any commitments for capital expenditures. The terms of the Financing Agreement and the Steel Media acquisition require us to allocate a significant portion of our expected future cash flow to satisfying obligations under those agreements. Under the terms of the Financing Agreement, we are obligated to make:

- monthly interest payments, inclusive of payment-in-kind, or PIK interest, of approximately $100,000;
- quarterly amortization payments of 2.5% of principal in year one of the loan, resulting in principal payments of approximately $225,000 per quarter in the first year of the loan, increasing to 5% of principal in year two of the loan and further increasing to 10% of principal in year three of the loan;

- quarterly mandatory prepayments on the loan, in an amount calculated as 50% of excess cash flow as defined in the Financing Agreement, of EBITDA less amortization and interest payments, plus associated prepayment penalties;
- payments of proceeds from asset sales, proceeds of debt or equity financings, certain extraordinary receipts (including tax refunds and indemnification payments received in connection with any acquisition), and the proceeds of any taking or destruction of collateral; and
- other selected cash outlays, such as late charges, yield maintenance premiums, costs and expenses.

Additionally, under the terms of the stock purchase agreement for the acquisition of Steel Media, we are potentially obligated to pay Mr. Steel up to two $4 million annual earn out payments based upon the satisfaction of certain targets generated by Steel Media operations for the periods ending October 31, 2015 and October 31, 2016. The adjusted EBITDA targets which must be met in order for Mr. Steel to earn these additional amounts are approximately $4.1 million for the 2015 period and approximately $4.9 million for the 2016 period. Subject to certain conditions in the stock purchase agreement with Mr. Steel, we are able to satisfy up to 60% of these earn out payments in shares of our Class A common stock. We expect the target for the first earn out for the period ending October 31, 2015 will be met. If met, the cash payments we will need to make to Mr. Steel, which we expect to generate from our operations, will reduce the funds which may be used for our debt service obligations and for working capital needs. Any failure on our part to make any earn out payments which may be due Mr. Steel could result in an event of default under the Financing Agreement.

The net effect of these required payments under the Financing Agreement and the note to Mr. Steel, while it remained outstanding, as well as the possibility of the earn out payments to Mr. Steel, is anticipated to equal the majority of the cash flow generated from Steel Media's operations. Following the satisfaction of the note to Mr. Steel in October 2015, to the extent that we are able to increase the earnings attributable to Steel Media, we will be paying down the notes issued under the Financing Agreement.

Other than cash generated from operations and the Financing Agreement, we do not have any external sources of liquidity. While the Financing Agreement provides that we can borrow up to $20 million in total, our ability to access any additional funds under it is at the discretion of the lender, and there can be no assurance the lender will agree to lend us any additional amounts. To date, we have drawn $11.9 million under the Financing Agreement. In the event of a default by us under the terms of the Financing Agreement, remedies for the lender range from notice and cure, to acceleration of both principal and interest. Our operations may not generate sufficient cash to enable us to service our debt. Upon an event of default under the Financing Agreement, if we were unable to cure the default within the prescribed periods, if at all, the lender could increase our interest rates or accelerate all amounts then due. If we were unable to repay these obligations, the lender could foreclose on our assets and collateral, in which case our ability to continue our business and operations as then conducted would be in jeopardy. If the lender should foreclose on our assets, it is likely you would lose your entire investment in our company.

If we are able to significantly increase our revenues and cash flows from operations, we should have sufficient internally generated working capital to satisfy these obligations and fund our ongoing business. If, however, we are not successful in these efforts and we are not able to access additional funding under the Financing Agreement, it is possible we will need to delay or scale back our growth plans.

Net Cash Used in Operating Activities

We used $1,124,180 of cash in our operating activities during the nine months ended September 30, 2015, compared to $2,188,481 used by our operating activities the during the nine months ended September 30, 2014. The decrease in cash used by operating activities in 2015 was primarily attributable to increases in our accounts receivable during the 2015 period.

Net Cash Used in Investing Activities

We used $30,657 of cash for investing activities for the purchase of equipment during the nine months ended September 30, 2015 as compared to $6,856 used for the purchase of furniture and equipment during the nine months ended September 30, 2014.

Net Cash Provided by Financing Activities

During the nine months ended September 30, 2015, cash provided by financing activities, primarily representing proceeds from a drawn under the Financing Agreement offset by payments under the note to Mr. Steel and the Financing Agreement, was $344,402 compared to $1,056,870 in cash from financing activities during the nine months ended September 30, 2014 which was attributable primarily to the sale of equity securities.

Critical accounting policies

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. The more critical accounting estimates include estimates related to revenue recognition and accounts receivable allowances. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results, which are described in Note 1 to our condensed consolidated financial statements appearing elsewhere in this report.

Recent accounting pronouncements

The recent accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

Off balance sheet arrangements

As of the date of this report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable for a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. We maintain “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. In designing and evaluating our disclosure controls and procedures, our management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer who serves as our principal financial and accounting officer has concluded that our disclosure controls and procedures were effective to ensure that the information relating to our company, required to be disclosed in our Securities and Exchange Commission reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 and our subsequent filings with the Securities and Exchange Commission, which could materially affect our business, financial condition or future results. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the Securities and Exchange Commission.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable to our company’s operations.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

No.	Description
10.42	Notice of Purchase and Sale dated October 26, 2015 by and between Victory Park Management, LLC and Social Reality, Inc.

	(incorporated by reference to the Current Report on Form 8-K filed on October 30, 2015)
10.43	Senior Secured Term Note dated October 26, 2015 in the principal amount of $1,400,000 (incorporated by reference to the Current Report on Form 8-K filed on October 30, 2015).
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of Chief Executive Officer *
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of Chief Financial Officer*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer*
101.INS	XBRL Instance Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.SCH	XBRL Taxonomy Extension Schema *

* Filed herewith

SIGNATURES

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

SOCIAL REALITY, INC.

November 16, 2015

By: /s/ Christopher Miglino
Christopher Miglino, Chief Executive Officer, principal financial and accounting officer