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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

OR

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

FOR THE TRANSITION PERIOD FROM ________________ TO ________________

COMMISSION FILE NUMBER: 001-37916

SOCIAL REALITY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**42-2925231**
(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)

Registrant's telephone number, including area code: **(323) 694-9800**

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, par value $0.001 per share	**Nasdaq Capital Market**

Securities registered under Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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. þ Yes o 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 (§232.4.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ
Emerging Growth Company	o		

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. o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. Approximately $10,880,803 on June 30, 2017.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 10,089,788 shares of Class A common stock are issued and outstanding as of March 31, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement relating to its 2018 annual meeting of shareholders (the “2018 Proxy Statement”) are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2018 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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PART I

We urge you to read this entire Annual Report on Form 10-K, including the "Risk Factors" section, the financial statements and the related notes included therein. As used in this Annual Report, unless context otherwise requires, the words "we," "us," "our," "the Company," "SRAX," "Social Reality," and "Registrant" refer to Social Reality, Inc. and its subsidiaries. Also, any reference to "common share" or "common stock," refers to our $.001 par value Class A common stock. On September 20, 2016, we completed a one-for-five reverse stock split of our common stock. All share and per share information in this report has been adjusted to reflect the reverse stock split.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K that are not purely historical are considered to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include, but are not limited to: any projections of revenues, earnings, or other financial items; any statements of the strategies, plans and objectives of management for future operations; any statements concerning proposed new products or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words "may," "will," "estimate," "intend," "continue," "believe," "expect" or "anticipate" and any other similar words. These statements represent our expectations, beliefs, anticipations, commitments, intentions, and strategies regarding the future and include, but are not limited to, the risks and uncertainties outlined in Item 1.A Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and those discussed in other documents we file with the Securities and Exchange Commission (SEC). Readers are cautioned that actual results could differ materially from the anticipated results or other expectations that are expressed in forward-looking statements within this report. The forward-looking statements included in this report speak only as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

ITEM 1. BUSINESS.

We are a digital marketing and data management platform delivering the tools to reach and reveal valuable audiences. Our machine-learning technology analyzes marketing data to identify brands and content owners' core consumers and their characteristics across marketing channels. Through an omnichannel approach that integrates all aspects of the advertising experience into one platform, we discover new and measurable opportunities that amplify campaign performance and maximize profits. We derive our revenues from:

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

The core elements of our 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 RTB exchanges. The *SRAX* platform integrates multiple market-leading demand sources, including OpenX, Pubmatic and AppNexus. We also build custom platforms that allow our agency partners to launch and manage their own RTB campaigns by enabling them to directly place advertising orders on the platform dashboard and view and analyze results as they occur;

- *SRAXmd* serves ads to both Healthcare Professionals and Patients using patent-pending process and technology. Powerful first and third-party data allow us to reach more than 400,000 Healthcare Professionals and Patients with real-time ad targeting, serving banner and video ads to personal devices. Advertising agencies and pharmaceutical clients contract with us directly to secure ad space and to license the MOSEE ad targeting platform on an annual basis.

- *SRAX Social* is a social media and loyalty platform that allows brands to launch and manage their social media initiatives. Our team works with customers to identify their needs and then helps them in the creation, deployment and management of their social media presence; and

- *SRAXfan* tools enable brands and agencies to connect with sports fans at home, the stadium or out-of-home at gathering locations, such as bars, restaurants, and universities, during live sporting events.

- *SRAXauto* tools enable targeting and engagement with potential auto buyers at dealerships, auto shows, and at home across desktop and mobile environments.

We offer our customers several pricing options including cost-per-thousand-impression, commonly referred to as CPM, whereby our customers pay based on the number of times the target audience is exposed to the advertisement, and on a monthly service fee.

Marketing and sales

We market our services through our in-house sales team, which is divided into two distinct activities. One group is responsible for brand advertisers and advertising agencies, and the other is responsible for publisher acquisition and management. Our in-house marketing is focused on social media, including Facebook, LinkedIn and Twitter, public relations (PR), industry events and the creation of white papers which assist in our marketing efforts and are used as lead generation tools for our sales team. We also attend industry specific events such as AdTech, AdExchanger, and Salesforce annual events and local events in Los Angeles and New York.

We rely on our publishing partners to provide the media inventory that we sell and use to promote our marketing campaigns as well as to assist in driving user traffic to these campaigns.

Intellectual property

We currently rely on a combination of trade secret laws and restrictions on disclosure to protect our intellectual property rights. Our success depends on the protection of the proprietary aspects of our technology as well as our ability to operate without infringing on the proprietary rights of others. We also enter into proprietary information and confidentiality agreements with our employees, consultants and commercial partners and control access to, and distribution of, our software documentation and other proprietary information. Prior to our acquisition of Five Delta in December 2014, in October 2014 it filed a U.S. patent for a method and system for bidding and performance tracking using online advertisements and provisional status has been granted under 62/060,247. In addition, it claimed the benefit of a pending U.S. patent number 61/604,348 for online advertising scoring. The provisional patent application has now been converted to a non-provisional patent application number 12/960,435 and is awaiting examination by the U.S. Patent Office.

Competition

We operate in a highly competitive environment. Our competitors include companies who focus on the RTB market and companies who are focused on providing social media applications on a managed and self-service basis. We believe we compete based on both our ability to assist our customers to obtain the best available prices as well as our excellent customer service. The barrier to entry to our industry is low. We believe that in the future we will face increased competition from these companies as they expand their operations as well as new entrants to our industry. Most of the entities against which we compete, or may compete, are larger and have greater financial resources than our company. Competition for advertising placements among current and future suppliers of Internet navigational and informational services, high-traffic websites and Internet service providers, as well as competition with other media for advertising placements, could result in significant price competition, declining margins and reductions in advertising revenue. In addition, as we continue our efforts to expand the scope of our services, we may compete with a greater number of publishers and other media companies across an increasing range of different services, including vertical markets where competitors may have advantages in expertise, brand recognition and other areas. If existing or future competitors develop or offer products or services that provide significant performance, price, creative or other advantages over those offered by us, our business, results of operations and financial condition could be negatively affected. We also compete with traditional advertising media, such as direct mail, television, radio, cable, and print, for a share of advertisers' total advertising budgets. Many current and potential competitors enjoy competitive advantages over us, such as longer operating histories, greater name recognition, larger customer bases, greater access to advertising space on high-traffic websites, and significantly greater financial, technical, sales, and marketing resources. As a result, we may not be able to compete successfully. If we fail to compete successfully, we could lose customers or media inventory and our revenue and results of operations could decline.

BIGToken, Inc.

During the third quarter of 2017, we also announced the launch of the BIGToken project (“BIGToken”), an advertising-based platform initiative intended to reward consumers, by the issuance of a BIGToken who voluntarily opt-in to allow marketers greater access to their personal information. During the first quarter of 2018 we completed the incorporation of Big Token, Inc. as a wholly owned subsidiary in the state of Delaware. The core of the project is our blockchain identification graph platform or BIG. The BIG platform and BIGToken is intended to generate higher quality marketing opportunities for advertisers that we believe will pay a premium to have access to better, consumer self-generated data.

In March of 2018, we announced the Alpha launch of the BIG platform to a select group of individuals and entities. Users participating in our BIGToken Alpha will be able to create an account, integrate third party accounts and answer serves in order to create an initial data graph. Participants in the Alpha will be awarded points as opposed to a BIGToken. Although the Alpha launch was a major milestone for the BIGToken project, there can be no assurance that we will complete final development of the BIGToken project or if developed, that it will be successful.

Government regulation

Aspects of the digital marketing and advertising industry and how our business operates are highly regulated. We are subject to a number of domestic and, to the extent our operations are conducted outside the U.S., foreign laws and regulations that affect companies conducting business on the Internet and through other electronic means, many of which are still evolving and could be interpreted in ways that could harm our business. In particular, we are subject to rules of the Federal Trade Commission, or FTC, the Federal Communications Commission, or FCC, and potentially other federal agencies and state laws related to our advertising content and methods, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, which establishes certain requirements for commercial electronic mail messages and specifies penalties for the transmission of commercial electronic mail messages that follow a recipient's opt-out request or are intended to deceive the recipient as to source or content, and federal and state regulations covering the treatment of member data that we collect from endorsers.

U.S. and foreign regulations and laws potentially affecting our business are evolving. We have not yet developed an internal compliance program nor do we have policies in place to monitor compliance. Instead, we rely on the policies of our publishing partners and advertising clients. If we are unable to identify all regulations to which our business is subject and implement effective means of compliance, we could be subject to enforcement actions, lawsuits and penalties including, but not limited to, fines and other monetary liability or injunction that could prevent us from operating our business or certain aspects of our business. In addition, compliance with the regulations to which we are subject now or in the future may require changes to our products or services, restrict or impose additional costs upon the conduct of our business or cause users to abandon products or aspects of our services. Any such action could have a material adverse effect on our business, results of operations and financial condition.

The FTC adopted Guides Concerning the Use of Endorsements and Testimonials in Advertising in October 2009. These guides recommend that advertisers and publishers clearly disclose in third-party endorsements made online, such as in social media, if compensation was received in exchange for said endorsements. Because some of our marketing campaigns entail the engagement of consumers to refer other consumers in their social networks to view ads or take action, and both we and the consumer may earn cash and other incentives, and any failure on our part to comply with these guides may be damaging to our business. We currently do not take any steps to monitor compliance with these guides. In the event of a violation, the FTC could potentially identify a violation of the guides, which could subject us to a financial penalty or loss of endorsers or advertisers.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state, and foreign laws regarding privacy and protection of user data. Any failure by us to comply with these privacy-related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, the interpretation of data protection laws, and their application to the Internet is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from state to state, country to country, or region to region, and in a manner that is not consistent with our current data protection practices. Complying with these varying requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect users' privacy and data could result in a loss of confidence in our services and ultimately in a loss of customers, which could adversely affect our business.

We generally only receive user data authorized through the Facebook user API. Access to such information, in addition to being limited in scope by Facebook policies and procedures, requires the affirmative authorization of the participating user, as stipulated by Facebook. In a campaign, we post a privacy policy and user agreement, which describe the practices concerning the use, transmission and disclosure of member data in connection with such campaign. Any failure by us to comply with our privacy policy and user agreement could result in proceedings against us by users, customers, governmental authorities or others, which could harm our business.

Many states have passed laws requiring notification to subscribers when there is a security breach of personal data. There are also a number of legislative proposals pending before the United States Congress, various state legislative bodies and foreign governments concerning data protection. We partner with providers of data to acquire this data and we do not own this data. In addition, data protection laws in Europe and other jurisdictions outside the United States may be more restrictive, and the interpretation and application of these laws are still uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business. Furthermore, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for linking to third-party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Our users communicate across social and/or web-based channels. These communications are governed by a variety of U.S. federal, state, and foreign laws and regulations. In the United States, the CAN-SPAM Act establishes certain requirements for the distribution of "commercial" email messages for the primary purpose of advertising or promoting a commercial product, service, or Internet website and provides for penalties for transmission of commercial email messages that are intended to deceive the recipient as to source or content or that do not give opt-out control to the recipient. The FTC is primarily responsible for enforcing the CAN-SPAM Act, and the U.S. Department of Justice, other federal agencies, state attorneys general, and Internet service providers also have authority to enforce certain of its provisions.

The CAN-SPAM Act's main provisions include:

- prohibiting false or misleading email header information;
- prohibiting the use of deceptive subject lines;
- ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender, with the opt-out effective within 10 days of the request;
- requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively assented to receiving the message; and
- requiring that the sender include a valid postal address in the email message.

The CAN-SPAM Act preempts most state restrictions specific to email marketing. However, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult content or content regarding harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act.

Violations of the CAN-SPAM Act's provisions can result in criminal and civil penalties, including statutory penalties that can be based in part upon the number of emails sent, with enhanced penalties for commercial email senders who harvest email addresses, use dictionary attack patterns to generate email addresses, and/or relay emails through a network without permission.

With respect to text message campaigns, for example, the CAN-SPAM Act and regulations implemented by the FCC pursuant to the CAN-SPAM Act, and the Telephone Consumer Protection Act, also known as the Federal Do-Not-Call law, among other requirements, prohibit companies from sending specified types of commercial text messages unless the recipient has given his or her prior express consent. We, our users and our advertisers may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business.

If we were found to be in violation of the CAN-SPAM Act, other federal laws, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email, whether as a result of violations by our users or any determination that we are directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our reputation and our business.

In addition, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees, or infrastructure.

Employees

At March 31, 2018, we had 49 full-time employees. We also contract for the services of an additional approximately 60 individuals from a third-party provider in Mexicali, Mexico. There are no collective bargaining agreements covering any of our employees.

Our history

We were originally organized in August 2009 as a California limited liability company under the name Social Reality, LLC, and we converted to a Delaware corporation effective January 1, 2012. Social Reality, LLC began business in May, 2010. Upon the conversion, we changed our name to Social Reality, Inc.

Acquisition of Steel Media

On October 30, 2014, we acquired 100% of the capital stock of Steel Media from Mr. Richard Steel pursuant to the terms and conditions of a Stock Purchase Agreement, dated October 30, 2014, by and among our company, Steel Media and Mr. Steel. Additional information on the terms of our acquisition of Steel Media can be found in Note 2 to the notes to our audited consolidated financial statements appearing elsewhere in this report.

Acquisition of Five Delta

On December 19, 2014, we acquired 100% of the outstanding capital stock of Five Delta pursuant to the terms and conditions of the Share Acquisition and Exchange Agreement dated December 19, 2014 by and among Social Reality, Five Delta and the stockholders of Five Delta. Additional information on the terms of our acquisition of Five Delta can be found in Note 2 to the notes to our audited consolidated financial statements appearing elsewhere in this report.

Additional information

We file annual and quarterly reports on Forms 10-K and 10-Q, current reports on Form 8-K and other information with the Securities and Exchange Commission ("SEC" or the "Commission"). The public may read and copy any materials that we file with the Commission at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the hours of 10:00 a.m. to 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission.

Other information about Social Reality can be found on our website www.socialreality.com. Reference in this document to that website address does not constitute incorporation by reference of the information contained on the website.

ITEM 1.A RISK FACTORS.

Please consider the following risk factors carefully. If any one or more of the following risks were to occur, it could have a material adverse effect on our business, prospects, financial condition and results of operations, and the market price of our securities could decrease significantly. Statements below to the effect that an event could or would harm our business (or have an adverse effect on our business or similar statements) mean that the event could or would have a material adverse effect on our business, prospects, financial condition and results of operations, which in turn could or would have a material adverse effect on the market price of our securities. Although we have organized the risk factors below under headings to make them easier to read, many of the risks we face involve more than one type of risk. Consequently you should read all of the risk factors below carefully before making any decision to acquire or hold our securities.

Any investment in our securities involves a high degree of risk. Investors should consider carefully the risks and uncertainties described below, and all other information in this Form 10-K and in any reports we file with the SEC after we file this Form 10-K, before deciding whether to purchase or hold our securities. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business. The occurrence of any of the risks described in this Form 10-K could harm our business. The trading price of our securities could decline due to any of these risks and uncertainties, and investors may lose part or all of their investment.

Risks Related to our Business

We have a history of losses and there are no assurances we will report profitable operations in the foreseeable future.

We reported net losses of $6,658,882 and $4,248,233 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, we had an accumulated deficit of $21,148,706. Our future success depends upon our ability to continue to grow our revenues, contain our operating expenses and generate profits. We do not have any long-term agreements with our customers. There are no assurances that we will be able to increase our revenues and cash flow to a level which supports profitable operations. In addition, our operating expenses increased 3.2% in 2017 from 2016. As described elsewhere herein, in 2017 we made certain changes in our operations to limit growth of operating expenses and focus our resources in areas of our operations which we believe have the greatest potential to increase our revenues. We may continue to incur losses in future periods until such time, if ever, as we are successful in significantly increasing our revenues and cash flow beyond what is necessary to fund our ongoing operations and pay our obligations as they become due. If we are able to significantly increase our revenues in future periods, the rapid growth which we are pursuing will strain our organization and we may encounter difficulties in maintaining the quality of our operations. If we are not able to grow successfully, it is unlikely we will be able to generate sufficient cash from operations to pay our operating expenses and service our debt obligations, or report profitable operations in future periods.

Our independent registered public accounting firm has substantial doubts about our ability to continue as a going concern.

At December 31, 2017, we had an accumulated deficit of $21,148,706. Primarily as a result of our recurring losses from operations, negative cash flows and our accumulated deficit, our independent registered public accounting firm has included in its report for the year ended December 31, 2017, an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is contingent upon, among other factors, our ability to obtain sufficient financing to support our operations.

Our operations rely on various third party vendors and if we lose these vendors it may adversely affect our financial position and results of operations.

We rely on third party vendors to provide us with media inventory to facilitate sales of advertising, the majority of which are engaged on a per order basis. Due to our lack of working capital, we are delinquent on payments to several of these media suppliers. While we will attempt to negotiate payment terms and forbearance agreements with these vendors on a case by case basis, many of these vendors may cease providing services to our company and may seek legal remedies against us. Any loss of these vendors or ligation arising out of our failure to satisfy our obligations to any of these vendors could disrupt our business and have a material negative effect on our operations.

Our success depends upon our ability to maintain our technology platforms and expand our product offerings. We do not have any long-term contracts with our customers.

We derive our revenue from the core elements of our business which includes the *SRAXmd* platform. The *SRAXmd* platform is a highly-specialized ad targeting and data platform specifically geared toward healthcare brands, agencies and medical content publishers and relies on a limited number of customers. The loss of any one customer that uses the *SRAXmd* platform could adversely impact the results of operations and cash flows in future periods from this platform.

Our success is dependent upon our ability to effectively expand and manage our relationships with our publishers. We do not have any long-term contracts with our publishing partners.

We do not generate our own media inventory. Accordingly, we are dependent upon our publishing partners to provide the media which we sell. We depend on these publishers to make their respective media inventories available to us to use in connection with our campaigns that we manage, create or market. We are not a party to any long-term agreements with any of our publishing partners and there are no assurances we will have continued access to the media. Our growth depends, in part, on our ability to expand and maintain our publisher relationships within our network and to have access to new sources of media inventory such as new partner websites and Facebook pages that offer attractive demographics, innovative and quality content and growing Web user traffic volume. Our ability to attract new publishers to our networks and to retain Web publishers currently in our networks will depend on various factors, some of which are beyond our control. These factors include, but are not limited to, our ability to introduce new and innovative products and services, our pricing policies, and the cost-efficiency to Web publishers of outsourcing their advertising sales. In addition, the number of competing intermediaries that purchase media inventory from Web publishers continues to increase. In the event we are not able to maintain effective relationships with our publishers, our ability to distribute our advertising campaigns will be greatly hindered which will reduce the value of our services and adversely impact our results of operations in future periods.

If we were to lose access to the Facebook platform, our SRAX Social growth would be limited and we could lose our existing revenue from these sources.

Facebook currently provides access to companies to build applications on their platform. We have built our *SRAX Social* platform to use the Facebook application programming interface, or APIs. The loss of access to the Facebook platform would limit our ability to effectively grow a portion of our operations. We are subject to Facebook's standard terms and conditions for application developers, which govern the promotion, distribution and operation of applications on the Facebook platform. Facebook reserves the right to change these terms and conditions at any time. Our business would be harmed if Facebook:

- discontinues or limits access to its platform by us and other application developers;
- modifies its terms of service or other policies, including fees charged to, or other restrictions on, us or other application developers, or changes how the personal information of its users is made available to application developers on the Facebook platform or shared by users;
- establishes more favorable relationships with one or more of our competitors; or
- develops its own competitive offerings.

We have benefited from Facebook's strong brand recognition and large user base. Facebook has broad discretion to change its terms of service and other policies with respect to us and other developers, and any changes to those terms of service may be unfavorable to us. Facebook may also change its fee structure, add fees associated with access to and use of the Facebook platform, change how the personal information of its users is made available to application developers on the Facebook platform or restrict how Facebook users can share information with friends on their platform. In the event Facebook makes any changes in the future, we may have to modify the structure of our campaigns which could impact the effectiveness of our campaigns and adversely impact our results of operations in future periods.

If we lose access to RTB inventory buyers our business may suffer.

In an effort to reduce our dependency on any one provider of advertising demand, we created a platform that utilizes feeds from a number of demand sources for our inventory. We believe that our proprietary technology assists us in aggregating this demand, as well as providing the tools needed by our publishing partners to evaluate and track the effectiveness of the demand that we are aggregating for them. In the event that we lose access to a majority of this demand, however, our revenues would be impacted and our results of operations would be materially adversely impacted until such time, if ever, as we could secure alternative sources of demand for our inventory.

We depend on the services of our executive officers and the loss of any of their services could harm our ability to operate our business in future periods

Our success largely depends on the efforts and abilities of our executive officers, including Christopher Miglino, Kristoffer Nelson and Joseph Hannan. We are a party to an employment agreement with each of Mr. Miglino, and Mr. Hannan, and an "at will" agreement with Mr. Nelson. Although we do not expect to lose their services in the foreseeable future, the loss of any of them could materially harm our business and operations in future periods until such time as we were able to engage a suitable replacement.

If advertising on the Internet loses its appeal, our revenue could decline.

Our business model may not continue to be effective in the future for a number of reasons, including:

- a decline in the rates that we can charge for advertising and promotional activities;
- our inability to create applications for our customers;
- Internet advertisements and promotions are, by their nature, limited in content relative to other media;
- companies may be reluctant or slow to adopt online advertising and promotional activities that replace, limit or compete with their existing direct marketing efforts;
- companies may prefer other forms of Internet advertising and promotions that we do not offer;
- the quality or placement of transactions, including the risk of non-screened, non-human inventory and traffic, could cause a loss in customers or revenue; and
- regulatory actions may negatively impact our business practices.

If the number of companies who purchase online advertising and promotional services from us does not grow, we may experience difficulty in attracting publishers, and our revenue could decline.

Additional acquisitions may disrupt our business and adversely affect results of operations.

We may pursue acquisitions in an effort to increase revenue, expand our market position, add to our technological capabilities, or for other purposes. However, any future acquisitions would likely involve risk, including the following:

- the identification, acquisition and integration of acquired businesses requires substantial attention from management. The diversion of management's attention and any difficulties encountered in the transition process could hurt our business;
- the anticipated benefits from an acquisition may not be achieved, we may be unable to realize expected synergies from an acquisition or we may experience negative culture effects arising from the integration of new personnel;
- difficulties in integrating the technologies, solutions, operations, and existing contracts of the acquired business;
- we may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company, technology, or solution;

- to pay for future acquisitions, we could issue additional shares of our Class A common stock or pay cash, raised through equity sales or debt issuance. The issuance of any additional shares of our Class A common stock would dilute the interests of our current stockholders, and debt transactions would result in increased fixed obligations and would likely include covenants and restrictions that would impair our ability to manage our operations; and

- new business acquisitions can generate significant intangible assets that result in substantial related amortization charges and possible impairments.

While our general growth strategy includes identifying and closing additional acquisitions, we are not presently a party of any agreements or understandings. There are no assurances we will acquire any additional companies.

Failure to meet the financial performance guidance or other forward-looking statements we have provided to the public could result in a decline in our stock price.

We have previously provided, and may provide in the future, public guidance on our expected financial results for future periods. Although we believe that this guidance provides investors with a better understanding of management's expectations for the future and is useful to our stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties. Our actual results may not always be in line with or exceed the guidance we have provided. For example, we did not meet our 2016 revenue guidance. If our financial results for a particular period do not meet our guidance or if we reduce our guidance for future periods, the market price of our Class A common stock may decline.

Risks Related to Ownership of our Securities

We do not know whether an active, liquid and orderly trading market will develop for our offered securities or what the market price of our offered securities will be and as a result it may be difficult for you to sell your shares of our Class A common stock.

Prior to October 13, 2016 our Class A common stock was quoted on the OTCQB Tier of the OTC Markets and it was thinly traded. On October 13, 2016, our Class A common stock began trading on the Nasdaq Capital Market and since that date a trading marketing in our stock has been developing. While an active trading market in our Class A common stock has developed since that time, it may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. Further, an inactive market may also impair our ability to raise capital by selling shares of our Class A common stock and may impair our ability to enter into collaborations or acquire companies or products by using our shares of Class A common stock as consideration. The market price of our offered securities may be volatile, and you could lose all or part of your investment.

The trading price of the shares of our Class A common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this prospectus, these factors include:

- the success of competitive products;

- actual or anticipated changes in our growth rate relative to our competitors;

- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;

- regulatory or legal developments in the United States and other countries;

- the recruitment or departure of key personnel;

- the level of expenses;

- actual or anticipated changes in estimates to financial results, development timelines or recommendations by securities analysts;

- variations in our financial results or those of companies that are perceived to be similar to us;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- inconsistent trading volume levels of our shares;
- announcement or expectation of additional financing efforts;
- sales of our Class A common stock by us, our insiders or our other stockholders;
- additional issuances of securities upon the exercise of outstanding options and warrants;
- market conditions in the technology sectors; and
- general economic, industry and market conditions.

In addition, the stock market in general, and advertising technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our Class A common stock, regardless of our actual operating performance. The realization of any of these risks could have a dramatic and material adverse impact on the market price of the shares of our Class A common stock.

We may be subject to securities litigation, which is expensive and could divert management attention.

The market price of the shares of our Class A common stock may be volatile, and in the past companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business. To the extent that any claims or suits are brought against us and successfully concluded, we could be materially adversely affected, jeopardizing our ability to operate successfully. Furthermore, our human and capital resources could be adversely affected by the need to defend any such actions, even if we are ultimately successful in our defense.

Failure to meet the financial performance guidance or other forward-looking statements we have provided to the public could result in a decline in our stock price.

We have previously provided, and may provide in the future, public guidance on our expected financial results for future periods. Although we believe that this guidance provides investors with a better understanding of management's expectations for the future and is useful to our stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties. Our actual results may not always be in line with or exceed the guidance we have provided. For example, we did not meet our 2016 or 2017 revenue guidance. If our financial results for a particular period do not meet our guidance or if we reduce our guidance for future periods, the market price of our Class A common stock may decline.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

As described in our Annual Report on Form 10-K for the year ended December 31, 2016, our management has determined that, as of December 31, 2016, we did not maintain effective internal controls over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework as a result of identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2017, management has determined that we have yet to fully remediate the previously identified material weaknesses. While we have never been required to restate our consolidated financial statements, the existence of the continuing material weaknesses in our internal control over financial reporting increases the risk that a future restatement of our consolidated financial statements is possible.

Delaware law contains anti-takeover provisions that could deter takeover attempts that could be beneficial to our stockholders.

Provisions of Delaware law could make it more difficult for a third-party to acquire us, even if doing so would be beneficial to our stockholders. Section 203 of the Delaware General Corporation Law may make the acquisition of our company and the removal of incumbent officers and directors more difficult by prohibiting stockholders holding 15% or more of our outstanding voting stock from acquiring us, without our board of directors' consent, for at least three years from the date they first hold 15% or more of the voting stock.

The two class structure of our Class A common stock could have the effect of concentrating voting control with a limited group.

Our authorized capital includes two classes of common stock which have different voting rights. Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. The shares of our Class B common stock were originally held by two of our executive officers who were the founders of our company, but these shares were converted into shares of our Class A common stock in October 2013. While there are presently no shares of Class B common stock outstanding, in the future our board could choose to issue shares to one or more individuals or entities. As a result of the voting rights associated with the Class B common stock, those individuals or entities could have significant influence over the management and affairs of the company and control over matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated voting control could limit your ability to influence corporate matters and could adversely affect the price of our Class A common stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the trading price of our Class A common stock and trading volume could decline.

The trading market for our shares of our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. A small number of securities and industry analysts currently publish research regarding our Company on a limited basis. In the event that one or more of the securities or industry analysts who have initiated coverage downgrade our securities or publish inaccurate or unfavorable research about our business, the price of our shares of Class A common stock would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the trading price of our shares of Class A common stock and trading volume to decline.

The elimination of monetary liability against our directors and officers under Delaware law and the existence of indemnification rights held by our directors and officers may result in substantial expenditures by us and may discourage lawsuits against our directors and officers.

Our certificate of incorporation eliminates the personal liability of our directors and officers to our company and our stockholders for damages for breach of fiduciary duty as a director or officer to the extent permissible under Delaware law. Further, our bylaws provide that we are obligated to indemnify any of our directors or officers to the fullest extent authorized by Delaware law. We are also parties to separate indemnification agreements with certain of our directors and our officers which, subject to certain conditions, require us to advance the expenses incurred by any director or officer in defending any action, suit or proceeding prior to its final disposition. Those indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against our directors or officers, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against any of our current or former directors or officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even if such actions, if successful, might otherwise benefit us or our stockholders.

Risks Related to the BIG Platform and BIGToken Project

There can be no assurance that BIGTokens will ever be issued.

The Company recently announced its intent to develop the BIG Platform as a means of securing higher quality user data. The Company anticipates that a material part of the platform will be the issuance of BIGTokens to users. There can be no assurance that it will do so. Should the Company fail to issue the BIGTokens, the attractiveness of the BIG Platform may be materially affected and we will not recognize the benefits of the project.

There is currently no trading market for BIGTokens, and a trading market may never develop.

If the BIGTokens are ultimately issued, there is currently no trading market available for the BIGTokens, no Designated Exchange and peer-to-peer transfers will not be permitted unless and until holders are notified otherwise by the Company and informed of the requirements to and conditions do so. As a result of recent regulatory developments, conventional crypto exchanges are currently unwilling to list securities tokens, such as the proposed BIGTokens. As a result, if and when issued and they become transferable, BIGTokens may only be tradable on very limited range of venues, including U.S. registered exchanges or regulated alternative trading systems for which a Form ATS has been properly submitted to the SEC. Currently, the Company is unaware of any operational ATS or exchange capable of supporting secondary trading in BIGTokens, when issued. Additionally, even if the BIGTokens are issued and become transferable, we may rely on technology, including smart contracts, to implement certain restrictions on transferability in accordance with the federal securities laws. There can be no assurance that such technology will function properly, which could result in technological limitations on transferability and expose the Company to legal and regulatory issues. As a result of these technological, legal and regulatory considerations, a market for the BIGToken may never be developed and, if developed, may, for a variety of technological, legal and regulatory reasons, never become operational or efficient. In the event that a market for the BIGToken does not develop, the value of the BIGTokens would be materially adversely affected which could also have a materially adverse affect on our BIG Platform and the anticipated benefits therefrom.

Regulatory authorities may never permit a trading system on which the BIGToken could trade to become operational.

Numerous regulatory authorities, including FINRA and the SEC, would need to permit the a trading system on which the BIGToken could trade to become operational. If FINRA, the SEC or any other regulatory authority objected to such system or exchange, such regulatory authorities could prevent the system or exchange from ever becoming operational. Any such regulatory issues would have a material adverse impact on our BIG Platform project.

The potential application of U.S. laws regarding investment securities to the tokens is unclear.

Securities, such as the BIGToken are novel and the application of U.S. federal and state securities laws is unclear in many respects. Because of the differences between the securities such as the BIGToken and traditional investment securities, there is a risk that issues that might easily be resolved by existing law if traditional securities were involved may not be easily resolved for securities such as the BIGToken. In addition, because of the novel risks posed by securities such as the BIGToken, it is possible that securities regulators may interpret laws in a manner that adversely affects their value. For example, if applicable securities laws restrict the ability for BIGTokens to be transferred, this would have a material adverse effect on the value of the BIGToken, which could result in a material impact on the BIG Platform project.

The regulatory regime governing blockchain technologies, cryptocurrencies, digital assets, and offerings of digital assets, such as the BIGToken, is uncertain, and new regulations or policies may materially adversely affect the development and the value of the BIG Platform.

Regulation of digital assets, like the anticipated BIGTokens, cryptocurrencies, blockchain technologies and cryptocurrency exchanges, is currently undeveloped and likely to rapidly evolve as government agencies take greater interest in them, varies significantly among international, federal, state and local jurisdictions and is subject to significant uncertainty. Various legislative and executive bodies in the United States and in other countries may in the future adopt laws, regulations, or guidance, or take other actions, which may severely impact the permissibility of securities such as the BIGToken, tokens generally and, in each case, the technology behind them or the means of transaction in or transferring them. Our failure to comply with any laws, rules and regulations, some of which may not exist yet or that are subject to interpretations that may be subject to change, could result in a variety of adverse consequences, including civil penalties and fines.

Cryptocurrency networks, distributed ledger technologies, and coin and token offerings also face an uncertain regulatory landscape in many foreign jurisdictions such as the European Union, China and Russia. Various foreign jurisdictions may, in the near future, adopt laws, regulations or directives that affect securities such as the proposed BIGToken. Such laws, regulations or directives may conflict with those of the United States or may directly and negatively impact our BIG Platform. The effect of any future regulatory change is impossible to predict, but such change could be substantial and materially adverse to the adoption and value of the BIGTokens, when and if issued, and the financial performance of our BIG Platform when and if developed.

The further development and acceptance of blockchain networks, which are part of a new and rapidly changing industry, are subject to a variety of factors that are difficult to evaluate. The slowing or stopping of the development or acceptance of blockchain networks and blockchain assets would have an adverse material effect on the successful development and adoption of BIGTokens.

The growth of the blockchain industry in general, as well as the blockchain networks on which the BIG Platform and BIGTokens will rely, are subject to a high degree of uncertainty. The factors affecting the further development of the cryptocurrency and cryptosecurity industry, as well as blockchain networks, include, without limitation:

- worldwide growth in the adoption and use of cryptocurrencies, cryptosecurities and other blockchain technologies;
- government and quasi-government regulation of cryptocurrencies, cryptosecurities and other blockchain assets and their use, or restrictions on or regulation of access to and operation of blockchain networks or similar systems;
- the maintenance and development of the open-source software protocol of cryptocurrency or cryptosecurities networks;
- changes in consumer demographics and public tastes and preferences;
- the availability and popularity of other forms or methods of buying and selling goods and services, or trading assets including new means of using government-backed currencies or existing networks;
- general economic conditions and the regulatory environment relating to cryptocurrencies and cryptosecurities; and
- a decline in the popularity or acceptance of cryptocurrencies or other blockchain-based tokens would adversely affect the BIGToken, when and if issued, and have a materially adverse affect on the BIG Platform.

The cryptocurrency and cryptosecurities industries as a whole have been characterized by rapid changes and innovations and are constantly evolving. Although they have experienced significant growth in recent years, the slowing or stopping of the development, general acceptance and adoption and usage of blockchain networks and blockchain assets may deter or delay the acceptance and adoption of the Tokens.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable to a smaller reporting company.

ITEM 2. DESCRIPTION OF PROPERTY.

We lease our principal executive offices from an unrelated third party on a month-to-month basis, subject to termination with advance notice, at an amount of $5,626.25 per month. We also maintain offices in Mexicali, Mexico where we lease approximately 3,400 square feet of office space from an unrelated third party under a lease agreement terminating in September 2021 at an initial annual rental of $77,580 plus a value-added tax (VAT) or its equivalent in the Mexican national currency and a 10% VAT for maintenance and certain overhead expenses.

ITEM 3. LEGAL PROCEEDINGS.

On August 25, 2017 Social Reality, Inc. filed a lawsuit against Tronc, Inc. (formerly Tribune Publishing Company LLC) and Tribune Content Agency, LLC for breach of contract, fraudulent concealment and deceptive business practices (case number 1:17-cv-05998, U.S. District Court for the Northern District of Illinois). We have alleged that Tronc, Inc. and Tribune Content Agency, LLC refused to perform their contractual obligations and breached the terms of contract and insertion orders, causing us to suffer close to $35 million in damages.

On December 4, 2017, Social Reality, Inc. entered into a settlement agreement ("Settlement Agreement") in this matter. Pursuant to the Settlement Agreement, neither party admitted any fault or liability and the parties entered into a mutual release resolving the matter. Additionally, Tronc agreed to (i) pay the Company $2,250,000 representing amounts owed for advertisements placed by the Company as well as accrued interest and related costs; and (ii) provide the Company with $300,000 in media to be utilized within a twelve month period commencing on a date to be identified by the Company and agreed to by Tronc in exchange for terminating certain licensing rights Tronc had previously granted to the Company.

The Company is not currently engaged in any other material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable to our company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Since October 13, 2016 our Class A common stock has been listed on the Nasdaq Capital Market under the symbol "SRAX." Prior thereto, our Class A common stock was quoted on the OTCQB Tier of the OTC Markets under the symbol "SCRI." The reported high and low last bid prices for the Class A common stock are shown below for the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

	High		Low	
2016				
First quarter ended March 31, 2016	$	9.40	$	6.00
Second quarter ended June 30, 2016	$	9.10	$	6.65
Third quarter ended September 30, 2016	$	7.85	$	6.00
Fourth quarter ended December 31, 2016	$	7.05	$	5.75
2017				
First quarter ended March 31, 2017	$	6.14	$	1.58
Second quarter ended June 30, 2017	$	1.93	$	1.14
Third quarter ended September 30, 2017	$	5.75	$	1.11
Fourth quarter ended December 31, 2017	$	7.95	$	2.12

The last sale price of our Class A common stock as reported on the Nasdaq Capital Market on March 22, 2018 was $3.90 per share. As of March 22, 2018, there were approximately 66 record owners of our Class A common stock.

Dividend policy

We have never paid cash dividends on either our Class A common stock or our Class B common stock. Under Delaware law, we may declare and pay dividends on our capital stock either out of our surplus, as defined in the relevant Delaware statutes, or if there is no such surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. If, however, the capital of our company, computed in accordance with the relevant Delaware statutes, has been diminished by depreciation in the value of our property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, we are prohibited from declaring and paying out of such net profits and dividends upon any shares of our capital stock until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets shall have been repaired.

Recent sales of unregistered securities

The following information is given with regard to unregistered securities sold since January 1, 2017. The following securities were issued in private offerings pursuant to the exemption from registration contained in the Securities Act of 1933, as amended (the "Securities Act") and the rules promulgated thereunder in reliance on Section 4(2) thereof, relating to offers of securities by an issuer not involving any public offering:

In November 2016, we entered into a strategic advisory agreement with kathy ireland® Worldwide LLC In January of 2017, as compensation for the advisory services, we issued affiliates of kathy ireland® Worldwide LLC, 100,000 shares of our Class A common stock valued at $678,000.

In January 2017, we issued 3,858 shares of our Class A common stock to Mr. Ferguson upon his appointment to our board of directors and the audit committee of the board. The shares were issued pursuant to our 2016 equity compensation plan.

In January 2017, contemporaneously with our registered offering, we issued, in a private placement, for no additional consideration, 380,953 Class A common stock purchase warrants with an exercise price of $6.70 per share. The warrants have a term of five years commencing six months from the date of closing. The warrants are subject to adjustment in the event of stock splits, dividends, and fundamental transactions. The warrants also contain anti-dilution price protection for subsequent equity issuances with an exercise price floor of $1.20 per share.

In February 2017, we issued an individual 150,000 shares of our Class A common stock valued at $540,000 as compensation for consulting services

In March 2017, we issued Robert Jordan 6,510 shares of our Class A common stock pursuant to his joining the board of directors in accordance with our non-executive director compensation policy. The shares were issued pursuant to our 2016 equity compensation plan.

In April 2017, we entered into securities purchase agreements to sell $5,000,000 of our 12.5% secured convertible debentures and issued 833,337 Series A Common Stock Purchase Warrants. The debentures mature on 4/21/2020, bear interest at an annual rate of 12.5%, payable quarterly on January 1, April 1, July 1, and October 1, beginning on July 1, 2017. The debentures are convertible into shares of our Class A common stock at $3.00 per share, subject to adjustment, and contain anti-dilution protection for subsequent financings and have a conversion price floor of $1.40 per share. The Series A common stock purchase warrants have an exercise price of $3.00 per share, subject to adjustment and contain anti-dilution protection for subsequent financings and have an exercise price floor of $1.40 per share. In connection with the sale of the debentures we issued Chardan Capital Markets 100,000 placement agent warrants with an exercise price of $3.75, term of five and a half years (exercisable beginning 6 months after issuance).

In August 2017, as consideration for our acquisition of Leapfrog Media Trading, we issued 200,000 shares of Class A common stock and warrants to purchase 350,000 shares of Class A common stock. The warrants have a term of five years and an exercise price of $3.00 per share and are subject to adjustment in the vent of stock splits, dividends, subsequent rights offerings, and fundamental transactions. Additionally, the warrants contain anti-dilution price protection for subsequent equity sales .

Between September 2017 and January 2018, we issued an aggregate of 225,000 shares of Class A common stock valued at $957,000 as consideration for media and marketing services.

In October 2017, we issued 70,409 shares of our Class A common stock to Joseph P. Hannan, our chief financial officer, pursuant to his October 2017 employment agreement. The shares were issued pursuant to our 2016 equity compensation plan.

In October 2017, we entered into securities purchase agreements to sell an aggregate of $5,180,157.78 of our 12.5% secured convertible debentures and issued 863,365 Series A Common Stock Purchase Warrants. The debentures mature on 4/21/2020, bear interest at an annual rate of 12.5%, payable quarterly on January 1, April 1, July 1, and October 1, beginning on January 1, 2018. Pursuant to the greenshoe provision contained in our April 2017 debenture offering, $2,000,000 of debentures were purchased pursuant to the greenshoe provision and the remaining $3,180,157.78 were purchased separately. Of the 863,365 warrants issued, a total of 333,335 were purchased pursuant to the greenshoe provision and 630,030 were purchased separately. The debentures are convertible into shares of our Class A common stock at $3.00 per share, subject to adjustment, and contain anti-dilution protection for subsequent financings and have a conversion price floor of $1.40 per share (pursuant to shareholder vote approving the offering that occurred on December 29, 2017). The warrants have an exercise price of $3.00 per share, subject to adjustment and contain anti-dilution protection for subsequent financings and have an exercise price floor of $1.40 per share. In connection with the offering we issued Chardan Capital Markets 160,000 placement agent warrants, of which: (i) 129,176 have an exercise price of $3.75 and (ii) 54,161 have an exercise price of $4.49. We also issued Aspenwood Capital 23,337 placement agent warrants with an exercise price of $3.75. All placement agent warrants have a term of five and a half years (exercisable beginning 6 months after issuance).

On January 18, 2018, we issued Colleen DiClaudio, a board member, 7,813 Class A common shares valued at $10,000 as payment for 2017 services on our board of directors. The shares were issued from our 2016 equity compensation plan

In January 2018, we issued Hardy Thomas, a former board member, 7,195 Class A common shares valued at $10,000 as payment for 2017 services on our board of directors. The shares were issued from our 2016 equity compensation plan.

In January 2018, we issued Marc Savas and Malcolm CasSelle each 3,774 Class A common shares valued at $10,000 as payment for their respect 2017 service on our board of directors. The shares were issued from our 2016 equity compensation plan.

Purchases of equity securities by the issuer and affiliated purchasers

None.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable to a smaller reporting company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are a digital marketing and data management platform delivering the tools to reach and reveal valuable audiences. Our machine-learning technology analyzes marketing data to identify brands and content owners' core consumers and their characteristics across marketing channels. Through an omnichannel approach that integrates all aspects of the advertising experience into one platform, we discover new and measurable opportunities that amplify campaign performance and maximize profits. We derive our revenues from:

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

The core elements of our 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 RTB exchanges. The *SRAX* platform integrates multiple market-leading demand sources, including OpenX, Pubmatic and AppNexus. We also build custom platforms that allow our agency partners to launch and manage their own RTB campaigns by enabling them to directly place advertising orders on the platform dashboard and view and analyze results as they occur;

- *SRAXmd* serves ads to both Healthcare Professionals and Patients using patent-pending process and technology. Powerful first and third-party data allow us to reach more than 400,000 Healthcare Professionals and Patients with real-time ad targeting, serving banner and video ads to personal devices. Advertising agencies and pharmaceutical clients contract with us directly to secure ad space and to license the MOSEE ad targeting platform on an annual basis.

- *SRAX Social* is a social media and loyalty platform that allows brands to launch and manage their social media initiatives. Our team works with customers to identify their needs and then helps them in the creation, deployment and management of their social media presence; and

- *SRAXfan* tools enable brands and agencies to connect with sports fans at home, the stadium or out-of-home at gathering locations, such as bars, restaurants, and universities, during live sporting events.

- *SRAXauto* tools enable targeting and engagement with potential auto buyers at dealerships, auto shows, and at home across desktop and mobile environments.

We offer our customers several pricing options including cost-per-thousand-impression, commonly referred to as CPM, whereby our customers pay based on the number of times the target audience is exposed to the advertisement, and on a monthly service fee.

During 2017, we launched a new *SRAX Social* tool for digital marketers and content owners to create posts and promote them beyond their respective Facebook Page communities. This tool is the first of many planned monetization opportunities to be developed and integrated into *SRAX Social*. We also released a new guide entitled "People-Based Advertising: How to Get Bigger Results by Targeting the Most Precise Audience" which we believe will provide support for our expertise as an Internet advertising resource. We also unveiled the Company's new *SRAX* branding, designed to reflect the breadth and depth of the tools that we offer to digital marketers and content owners.

In the third quarter of 2017, we announced several new product offerings designed to expand our reach for advertisers to other large digital audiences. SRAX Fan is a buyside vertical focused on advertising to sports fans on their mobile devices in stadiums and sports bars. SRAX Auto is another new buyside vertical launched to target car buyers. While SRAX Fan and SRAX Auto have formally launched, they remain very early stage. As such, we do not believe these two new initiatives will be significant contributors to revenue growth for the remainder of 2018.

During the third quarter of 2017, we also announced the launch of the BIGToken project. Presently we are developing BIGToken as a wholly owned subsidiary of Social Reality and eventually anticipate spinning the company out to our shareholders. In March of 2018, we announced the Alpha launch of the BIG platform to a select group of individuals and entities. Users participating in our BIGToken Alpha will be able to create an account, integrate third party accounts and answer serves in order to create an initial data graph. Participants in the Alpha will be awarded points as opposed to a BIGToken. Although the Alpha launch was a major milestone for the BIGToken project, there can be no assurance that we will complete final development of the BIGToken project or if developed, that it will be successful.

Results of operations

Year ended December 31, 2017 compared to year ended December 31, 2016

Selected Consolidated Financial Data

	Year ended December 31,		%
	2017	2016	Change
Revenue	$ 23,348,714	$ 35,763,047	-34.7%
Cost of revenue	9,328,893	23,226,995	-59.8%
Gross margin percentage	60.1%	35.1%	72.8%
Operating expense	17,863,500	17,318,705	3.2%
Operating loss	(3,843,679)	(4,782,653)	-19.6%
Gain from write-off of contingent consideration	—	3,744,496	n/a
Interest expense, net	2,815,203	3,210,076	-12.3%
Net loss	$ (6,658,882)	$ (4,248,233)	56.7%

Revenue

The decrease in our revenue during year ended December 31, 2017 from 2016 reflects an decreases in revenue from our *SRAX* sell-side and buy-side clients, partially offset by continued growth in *SRAXmd.*

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. Approximately 99.2% of cost of revenue was attributable to payments to website publishers and other media providers for the year ended December 31, 2017 as compared to 99.5% for the year ended December 31, 2016. The balance was attributable to labor costs and project and application design costs. During the year ended December 31, 2017, our gross margin increased substantially as a result of a decrease in our cost of revenue as a percentage of our revenues. Cost of revenue as a percent of total revenue decreased to 39.9% for the year ended December 31, 2017 as compared to 64.9% for the year ended December 31, 2016. This decrease was due to our reduction in our overall lower-margin revenues for both our buy-side and sell-side clientele.

Operating expense

Our operating expense is comprised of salaries, commissions, marketing, and general overhead expense. Additionally, we also incurred an impairment in goodwill amounting to $670,000 during the year ended December 31, 2016. Overall, operating expense increased approximately 3.2% for the year ended December 31, 2017 as compared to the year ended December 31, 2016. This increase was primarily due to increased sales salaries and commissions resulting from the recruitment of additional sales personnel earlier in the year, partially offset by other overhead reductions. In the first quarter of 2017 we made certain changes in our operations to reduce expenses and focus our resources in areas of our operations which we believe have the greatest potential to increase our revenues, including the closure of a redundant operations center in New York city that we inherited as part of the Steel Media acquisition. The operations of this facility were consolidated into our existing Los Angeles office, and the office lease in New York city was terminated. Additionally, during the third quarter of 2017 we launched the BIGToken project. To date, we have not segregated the costs and expenses of BIGToken, we estimate that we have spent an aggregate of approximately $193,061 on the project as of December 31, 2017.

In addition, we restructured several sales management roles and eliminated large sales override compensation structures to now better align employee compensation with Company profitability.

During the fourth quarter of 2016 we completed the up-listing of our Class A common stock to the Nasdaq Capital Market. As a result, our 2017 operating expense also increased due to expenditures associated with our status as an exchange listed public company.

Write off of contingent consideration

During the year ended December 31, 2016, we wrote-off $3,744,496 which represented the reversal of the second earn out consideration which Mr. Steel would have been entitled to receive as additional consideration for the purchase of Steel Media as further described in Note 7 of the notes to our consolidated financial statements appearing elsewhere in this report. This non-cash item is not considered part of normal operations.

Interest expense

Interest expense for the years December 31, 2017 and 2016 represents interest under notes issued pursuant to the Financing Agreement and factoring fees, amortization of debt costs and the accretion of the put liability under the Financing Agreement. The Financing Agreement is described in Note 3 of the notes to our consolidated financial statements appearing elsewhere in this report. Interest expense, net of interest income for the year ended December 31, 2017 decreased 12.3% as compared to the year ended December 31, 2016. This decrease in interest expense is attributable to the lower debt balance due to principal repayments and debenture conversions made earlier in the year, as well as an overall reduced rate of borrowing. In 2017, we also received $262,684 of interest income related to the settlement with Tronc.

Quarterly results of operations data

The following table sets forth our unaudited quarterly statements of operations data for the three months ended December 31, 2017 and 2016. We have prepared the quarterly data on a consistent basis with the audited consolidated financial statements included in this report. In the opinion of management, the unaudited quarterly financial information reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. This information should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

	Three months ended December 31,	
	2017	2016
	(unaudited)	(unaudited)
Revenue	$ 6,487,265	$ 11,513,459
Cost of revenue	950,647	6,796,791
Gross profit	5,536,618	4,716,668
Operating expense	5,603,335	5,566,124
Income (loss) from operations	(66,717)	(849,456
Interest income (expense)	244,792	(494,478)
Net income (loss)	$ 178,075	$ (1,343,934)
Net income (loss) per share, basic and diluted	$ 0.02	$ (0.22)
Weighted average shares outstanding	8,253,851	6,196,197

Non-GAAP financial measures

We use Adjusted net 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 interest and certain additional non-cash expenses. We believe the presentation of Adjusted net loss and Adjusted EBITDA enhances our investors' overall understanding of the financial performance of our business.

You should not consider Adjusted net loss and Adjusted EBITDA as an alternative to net income (loss), determined in accordance with accounting principles generally accepted in the United States of America (“GAAP”), as an indicator of operating performance. A directly comparable GAAP measure to Adjusted net loss and Adjusted EBITDA is net loss.

The following is a reconciliation of net loss to Adjusted net loss and Adjusted EBITDA for the periods presented:

	For the years ended December 31,	
	2017	2016
Net loss	$ (6,658,882)	$ (4,248,233)
Plus:		
Stock to be issued for services	—	678,000
Equity based compensation	2,085,988	1,625,843
Adjusted net loss	(4,572,894)	(1,944,390)
Interest (income) expense	3,661,914	(249,312)
Depreciation and amortization	528,622	387,034
Impairment of goodwill	—	670,000
Adjusted EBITDA	$ (382,358)	$ (1,136,668)

Liquidity and capital resources

Liquidity generally refers to the ability to generate adequate amounts of cash to meet our cash needs. We require cash to fund our operating expenses and working capital requirements, to make required payments of principal and interest under our outstanding debt instruments and, to a lesser extent, to fund capital expenditures.

Working Capital

The following table presents working capital as of December 31, 2017 and 2016:

	December 30, 2017	December 31, 2016
Current assets(1)	$ 6,134,838	$ 9,798,772
Current liabilities	(5,010,815)	(18,074,871)
Working capital	$ 1,124,023	$ (8,276,099)

(1) Includes cash and cash equivalents of $1.1 million and $1 million as of December 31, 2017 and 2016, respectively.

Our working capital increased by $9,400,122 in 2017.

Our current assets decreased by $3,663,934 primarily from decreases in accounts receivable generated from lower gross revenue from advertisers.

Our current liabilities decreased by $13,064,059 primarily from decreases in accounts payable as a result of payments made to outstanding vendors utilizing proceeds from issuance of convertible debentures and warrant exercise proceeds.

Liquidity is the ability of a company to generate sufficient cash to satisfy its needs for cash. Our primary need for liquidity is to fund working capital requirements of our business and other general corporate purposes, including debt repayment. At December 31, 2017, we had an accumulated deficit of 21,148,706. As of December 31, 2017, we had $1,017,299 in cash and cash equivalents and net working capital of $1,124,023 as compared to $1,048,762 in cash and cash equivalents and a deficit in net working capital of $8,276,099 at December 31, 2016. We are currently experiencing a period of limited liquidity resulting from the complete repayment of notes associated with a financing agreement previously held by Victory Park Management, LLC, the repurchase of the Series B Warrants in April 2017, and the satisfaction of amounts due under the Financing Warrant.

During the third quarter of 2017 we launched the BIGToken project. To date, we have not segregated the costs and expenses of BIGToken from our other Operating expenses. We estimate that we have spent an aggregate of approximately $193,061 on the project as of December 31, 2017. We anticipate that BIGToken will be financed independently from Social Reality through the sale of the subsidiary's equity, debt, or equity-linked securities. Based on our current development plans, and assuming there is no revenue for the first twelve months, we estimate that BIGToken will require approximately $5 million and $15 million for the initial and subsequent 12-month periods of operations, respectively, provided however that such capital requirements may increase or decrease based on the speed of development, user adoption rates and revenues. In the event that BIGToken is not able to secure independent funding, we may nonetheless continue to develop the BIGToken project internally albeit on a reduced scope and extended time frame. In such instance, we do not believe the project will initially result in a material increase to our operating expenses as the majority of BIGToken's initial expenses are either duplicative administrative expenses or related to customer acquisition once the platform is successfully launched.

As previously disclosed in October 2017, we engaged outside advisors to review strategic alternatives for SRAXmd. As a result, in late 2017, we commenced an auction process with regard to the SRAXmd assets. We believe that we are now entering the final stages of the auction process. Although management is optimistic regarding the successful completion of the auction process, there can be no assurances that the process will be completed, will be successful, or that if such process is completed, that it will be on terms favorable to us.

During January 2017, we satisfied all outstanding obligations under a financing agreement utilizing proceeds from the factoring of our receivables and sales of our securities. The repayment of these notes has adversely impacted our current liquidity. To address the immediate impact of this decreased liquidity, we developed certain operating plans that focus on increased revenue growth and cost reductions as further described herein. During April 2017, we raised $5,000,000 through the sale of 12.5% convertible debentures. We utilized $2,500,000 of the proceeds of this sale to satisfy the put obligation of the Series B Warrants issued to investors in the January 2017 offering. The balance of the debenture sales proceeds was used to satisfy the payment of accounts payable and other working capital requirements. During October 2017, we raised an additional $5,180,157 through the sale of similar 12.5% convertible debentures. We utilized $1,567,612 of the proceeds of this sale to satisfy obligations due under the Financing Warrant. The balance of the October 2017 debenture sales proceeds were also used to satisfy the payment of accounts payable and other working capital requirements.

As described in Part II, Item 1A. Risk Factors, the terms of both the April 2017 and October 2017 debentures could materially impact our liquidity and results of operations in future periods. If our revenue increases throughout the next twelve months as anticipated, additional liquidity is expected to be readily available under our accounts receivable factoring agreement with FastPay which is now subject to a cap of $4,000,000 that we agreed to as part of the debentures in April 2017.

Cash flows from operating activities

Net cash used in operating activities was $4,367,078 during the twelve months ended December 31, 2017 compared to net cash used by operating activities of $1,270,662 for the comparable period in 2016. During the twelve months ended December 31, 2017, the Company's accounts receivable decreased by $4,261,574 which compares with an increase in accounts receivable of $6,817,587 for the comparable period in 2016. Accounts payable and accrued liabilities during the twelve months ended December 31, 2017 decreased by $6,535,152 which compares to an increase in accounts payable and accrued liabilities of $8,020,903 for the comparable period in 2016.

Cash flows from investing activities

During the twelve months ended December 31, 2017 net cash used in investing activities was $756,876 as compared to $152,087 during the twelve months ended December 31, 2016. During the twelve months ended December 31, 2017, we also used cash to acquire equipment and develop internally used software.

Cash flows from financing activities

Capital Resources

Our sources of cash have historically consisted of proceeds from issuances of equity and debt securities and revenues generated from operations. We have also funded our operations with by factoring our receivables and, to a lesser extent, equipment leasing arrangements.

2017 Offerings

In 2017, we completed several private placement offerings of equity and debt securities in the aggregate of approximately $14 million, exclusive of placement agent fees and commissions and offering expenses paid by us.

Sufficiency of Cash Balances and Potential Sources of Additional Capital

Our capital requirements depend on many factors, including, among others: the acceptance of, and demand for, our products and services; our levels of net product revenues and any other revenues we may receive; the extent and timing of any investments in developing, marketing and launching new or enhanced products or technologies; the costs of developing, improving and maintaining our internal design, testing and development processes; the costs associated with maintaining, defending and enforcing our intellectual property rights; and the nature and timing of acquisitions and other strategic transactions or relationships in which we engage, if any.

We believe our existing cash balance, together with cash provided by our operations and taking into account cash expected to be used in our operations, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, our estimates of our operating revenues and expenses and working capital requirements could be incorrect and we may use our cash resources faster than we anticipate. Further, some or all of our ongoing or planned investments may not be successful and could further deplete our capital without immediate, or any, cash returns. Until we can generate sufficient revenues to finance our cash requirements from our operations, which we may never do, we may need to increase our liquidity and capital resources by one or more measures, which may include, among others, reducing operating expenses, restructuring our balance sheet by negotiating with creditors and vendors, entering into strategic partnerships or alliances, raising additional financing through the issuance of debt, equity or convertible securities or pursuing alternative sources of capital, such as through asset or technology sales or licenses or other alternative financing arrangements. Further, even if our near-term liquidity expectations prove correct, we may still seek to raise capital through one or more of these financing alternatives. However, we may not be able to obtain capital when needed or desired, on terms acceptable to us or at all.

Inadequate working capital would have a material adverse effect on our business and operations and could cause us to fail to execute our business plan, fail to take advantage of future opportunities or fail to respond to competitive pressures or customer requirements. A lack of sufficient funding may also require us to significantly modify our business model and/or reduce or cease our operations, which could include implementing cost-cutting measures or delaying, scaling back or eliminating some or all of our ongoing and planned investments in corporate infrastructure, research and development projects, business development initiatives and sales and marketing activities, among other activities. Modification of our business model and operations could result in an impairment of assets, the effects of which cannot be determined. Furthermore, if we continue to issue equity or convertible debt securities to raise additional funds, our existing stockholders may experience significant dilution, and the new equity or debt securities may have rights, preferences and privileges that are superior to those of our existing stockholders.

Additionally, if we are not able to maintain the listing of our common stock on the Nasdaq Capital Market, the challenges and risks of equity financings may significantly increase, including potentially increasing the dilution of any such financing or decreasing our ability to effect such a financing at all. If we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization or have other material consequences. If we pursue asset or technology sales or licenses or other alternative financing arrangements to obtain additional capital, our operational capacity may be limited and any revenue streams or business plans that are dependent on the sold or licensed assets may be reduced or eliminated. Moreover, we may incur substantial costs in pursuing any future capital-raising transactions, including investment banking, legal and accounting fees, printing and distribution expenses and other similar costs, which would reduce the benefit of the capital received from the transaction.

During the twelve months ended December 31, 2017 net cash provided by financing activities was $5,092,491 which represented the net proceeds from the net issuance of common stock of $4,020,401, proceeds from exercise of warrants of $1,085,004, and debentures of $8,566,406 offset by the complete repayment of our notes payable of $3,966,928, debt issuance expense of $582,392, payment of put liability of $1,500,000, and the repurchase of the Series B warrants of $2,500,000 directly paid by the debenture holder on behalf of the Company. During the comparable period in 2016, net cash in the amount of $1,380,325 was provided by financing activities which primarily consisted of proceeds from the sale of common stock of $4,643,799 and proceeds from notes payable of $2,100,000 offset by a $1,600,000 payment of contingent consideration and $3,763,474 in repayments of notes payable.

Critical accounting policies

The preparation of financial statements in conformity with 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 consolidated financial statements for the years ended December 31, 2017 and 2016 appearing elsewhere in this report.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. In addition, you should refer to our accompanying consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity (deficiency) and cash flows for the fiscal years ended December 31, 2017 and 2016, and the related notes thereto, for further discussion of our accounting policies.

Revenue Recognition

The Company applies paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured.

The Company's current payment terms on credits to its customers are ranging from 60 days to 9 months, depending on the creditworthiness of its customers.

Accounts receivable and allowance for doubtful accounts

Accounts receivable represent customer accounts receivables. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience, general economic environment trends, and a review of the current status of trade accounts receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. Such allowances, if any, would be recorded in the period the impairment is identified. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Uncollectible accounts receivables are charged against the allowance for doubtful accounts when all reasonable efforts to collect the amounts due have been exhausted.

Impairment of Long-Lived Assets

The Company's long-lived assets consist of property and equipment. The Company evaluates its investment in long-lived assets for recoverability whenever events or changes in circumstances indicate the net carrying amount may not be recoverable. It is possible that these assets could become impaired as a result of legal factors, market conditions, operational performance indicators, technological or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Debt Issuance Costs, Debt Discount and Detachable Debt-Related Warrants

Costs incurred to issue debt are deferred and recorded as a reduction to the debt balance in our consolidated balance sheets. We amortize debt issuance costs over the expected term of the related debt using the effective interest method. Debt discounts relate to the relative fair value of warrants issued in conjunction with the debt and are also recorded as a reduction to the debt balance and accreted over the expected term of the debt to interest expense using the effective interest method.

Income Taxes

The Company accounts for income taxes under the provisions of FASB ASC Topic 740, "Income Tax," which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a valuation when it is more likely than not that the assets will not be recovered.

ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes," defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred.

Going Concern Evaluation

In connection with preparing its consolidated financial statements, management evaluates whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year from the date that the financial statements are issued. See management's going concern evaluation for the year ended December 31, 2017 in the "Liquidity and Capital Resources" section above.

Stock-Based Compensation

The Company accounts for all stock-based payment awards made to employees and directors based on their fair values and recognizes such awards as compensation expense over the vesting period using the straight-line method over the requisite service period for each award as required by FASB ASC Topic No. 718, *Compensation-Stock Compensation*. If there are any modifications or cancellations of the underlying vested or unvested stock-based awards, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense, or record additional expense for vested stock-based awards. Future stock-based compensation expense and unearned stock- based compensation may increase to the extent we grant additional stock options or other stock-based awards.

Recent accounting pronouncements

See Note 2 — *"Summary of Significant Accounting Policies"* included in "Item 8 — Financial Statements and Supplementary Data" in this Report regarding the impact of certain recent accounting pronouncements on our financial statements.

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable for a smaller reporting company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Please see our consolidated financial statements beginning on page F-1 of this annual report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures . We are required to maintain “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were not 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 and our Chief Financial Officer, to allow timely decisions regarding required disclosure as a result of material weaknesses in our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting . Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of these controls. Based on this assessment, our management has concluded that while improvements were made in this area during 2016, our internal control over financial reporting overall was not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP as a result of material weaknesses.

These material weaknesses included:

- a lack of qualified accounting staff;
- inadequate controls and segregation of duties;
- limited checks and balances in processing cash transactions;
- substantial reliance on manual reporting processes and spreadsheets external to the accounting system;
- lack of adequate controls in the delivery and procurement of intangible inventory, products and services; and
- the existence of sophisticated, material financial transactions which are heavily dependent upon the use of estimates and assumptions and our lack of experience in monitoring and administering a complex financing agreement with a third-party lender.

The existence of the material weaknesses in our internal control over financial reporting increases the risk that a future restatement of our financials is possible. We are committed to improving our financial organization. In 2016, we continued to improve our financial organization through the establishment of an audit committee comprised of independent directors, and the engagement of a full-time Chief Financial Officer. In 2017, we hired additional accounting staff to create additional segregation of duties.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary, we do not expect, however, that the deficiencies in our disclosure controls will be remediated until such time as we have remediated the material weaknesses in our internal control over financial reporting.

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.

ITEM 9B. Other Information.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is set forth under the heading “Directors, Executive Officers and Corporate Governance” in our 2018 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for our 2018 Annual Meeting of Shareholders and is incorporated herein by reference. The 2018 Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K will be included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2018 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is set forth under the headings “Director Compensation” and “Executive Compensation” which will be contained in our 2018 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is set forth under the headings “Beneficial Owners of Shares of Common Stock” and “Equity Compensation Plan Information” which will be contained in our 2018 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is set forth under the heading “Certain Relationships and Related Transactions” which will be contained in our 2018 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is set forth under the heading “Independent Registered Public Accounting Firm” of our 2018 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial statements.

The consolidated financial statements and Report of Independent Registered Accounting Firm are listed in the "Index to Financial Statements and Schedules" beginning on page F-1 and included on pages F-2 through F-37.

(2) Financial statement schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instructions, are not applicable (and therefore have been omitted), or the required disclosures are contained in the consolidated financial statements herein.

(3) Exhibits.

The exhibits that are required to be filed or incorporated by reference herein are listed in the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

April 2, 2018

By: /s/ Chris Miglino
Chris Miglino, Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Christopher Miglino his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) and supplements to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Positions	Date
/s/ Christopher Miglino Christopher Miglino	Chairman of the Board of Directors, Chief Executive Officer; principal executive officer	April 2, 2018
/s/ Kristoffer Nelson Kristoffer Nelson	Chief Operating Officer, Director	April 2, 2018
/s/ Joseph P. Hannan Joseph P. Hannan	Chief Financial Officer, principal financial and accounting officer	April 2, 2018
/s/ Marc Savas Marc Savas	Director	April 2, 2018
/s/ Malcolm CasSelle Malcolm CasSelle	Director	April 2, 2018
/s/ Colleen DiClaudio Colleen DiClaudio	Director	April 2, 2018
/s/ Robert Jordan Robert Jordan	Director	April 2, 2018

The foregoing represents a majority of the Board of Directors.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Social Reality, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Social Reality, Inc. (the "Company"), as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ RBSM LLP

We have served as the Company's auditor since 2011

New York, New York
April 2, 2018

SOCIAL REALITY, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 1,017,299	$ 1,048,762
Accounts receivable, net	4,348,305	8,411,019
Prepaid expenses	468,336	332,503
Other current assets	300,898	6,488
Total current assets	6,134,838	9,798,772
Property and equipment, net	154,546	55,492
Goodwill	15,644,957	15,644,957
Intangible assets, net	1,642,760	1,365,241
Other assets	28,598	34,659
Total assets	$ 23,605,699	$ 26,899,121
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	5,010,815	13,156,083
Notes payable, net of unamortized costs		3,418,788
Put liability		1,500,000
Total current liabilities	5,010,815	18,074,871
Secured convertible debentures, net	1,711,146	—
Total liabilities	6,721,961	18,074,871
Commitments and contingencies (Note 11)		—
Stockholders' equity:		
Preferred stock, authorized 50,000,000 shares, $0.001 par value, no shares issued or outstanding at December 31, 2017 and 2016, respectively		—
Class A common stock, authorized 250,000,000 shares, $0.001 par value, 9,910,565 and 6,951,077 shares issued and outstanding at December 31, 2017 and 2016, respectively	9,911	6,951
Class B common stock, authorized 9,000,000 shares, $0.001 par value, no shares issued or outstanding at December 31, 2017 and 2016, respectively	—	—
Common stock to be issued	879,500	678,000
Additional paid in capital	37,143,033	22,529,303
Accumulated deficit	(21,148,706)	(14,390,004)
Total stockholders' equity	16,883,738	8,824,250
Total liabilities and stockholders' equity	$ 23,605,699	$ 26,899,121

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

SOCIAL REALITY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Revenue	$ 23,348,714	$35,763,047
Cost of revenue	9,328,893	23,226,995
Gross profit	14,019,821	12,536,052
Operating expense:		
General, selling and administrative expense	17,016,789	16,648,705
Impairment of goodwill		670,000
Write off of non-compete agreement	468,750	—
Restructuring Costs	377,961	—
Operating expense	17,863,500	17,318,705
Loss from operations	(3,843,679)	(4,782,653
Other income (expense):		
Write off of contingent consideration	—	3,744,496
Interest expense	(2,815,203)	(3,210,076)
Loss before provision for income taxes	(6,658,882)	(4,248,233)
Provision for income taxes	—	—
Net loss	$ (6,658,882)	$ (4,248,233)
Net loss per share, basic and diluted	$ (0.81)	$ (0.69)
Weighted average shares outstanding	8,253,851	6,196,197

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

SOCIAL REALITY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Preferred Stock		Common Stock		Common stock to be issued		Additional	Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Equity
Balance, December 31, 2015	—	$ —	5,622,046	$ 5,622	—	$ —	$ 14,012,078	$ (10,141,771)	$ 3,864,685
Proceeds from the sale of common stock units	—	—	1,042,392	1,042	—	—	4,642,757	—	4,643,799
Stock based compensation	—	—	—	—	—	—	1,062,621	—	1,062,621
Vested stock awards issued	—	—	10,000	10	—	—	(10)	—	—
Shares issued for services	—	—	19,862	20	—	—	137,480	—	137,500
Shares to be issued for services	—	—	—	—	100,000	678,000	—	—	678,000
Common stock issued as Earn Out Consideration	—	—	256,754	257	—	—	2,399,743	—	2,400,000
Rounding of shares for stock split	—	—	23	—	—	—	—	—	—
Warrant modification costs	—	—	—	—	—	—	274,634	—	274,634
Net loss	—	—	—	—	—	—	—	(4,248,233)	(4,248,233)
Balance, December 31, 2016	—	$ —	6,951,077	$ 6,951	100,000	$ 678,000	$ 22,529,303	$ (14,390,004)	$ 8,824,250

(Continued)

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

SOCIAL REALITY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Preferred Stock		Common Stock		Common stock to be issued		Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2016	—	$ —	6,951,077	$ 6,951	100,000	$ 678,000	$ 22,529,303	$ (14,390,004)	$ 8,824,250
Sale of common stock and warrants for cash	—	—	761,905	762	—	—	3,979,239	—	3,980,001
Fair value of put option	—	—	—	—	—	—	(2,500,000)	—	(2,500,000)
Cost of sale of common stock	—	—	—	—	—	—	(160,000)	—	(160,000)
Stock based compensation	—	—	—	—	—	—	444,051	—	444,051
Vested shares issued	—	—	51,667	52	—	—	(52)	—	—
Shares issued to consultant	—	—	75,000	75	—	—	97,425	—	97,500
Common stock issued for services	—	—	300,000	300	(100,000)	(678,000)	1,197,700	—	520,000
Common stock issued to directors	—	—	10,368	10	—	—	44,977	—	44,987
Executive Bonus Shares	—	—	20,409	20	—	—	99,980	—	100,000
Common stock issued for software asset	—	—	200,000	200	—	—	279,800	—	280,000
Shares to be issued for services	—	—	—	—	150,000	879,500	—	—	879,500
Conversion of debentures	—	—	1,111,670	1,112	—	—	3,333,888	—	3,335,000
Exercise of warrants	—	—	428,469	429	—	—	1,284,975	—	1,285,404
Warrants issued for software asset	—	—	—	—	—	—	337,069	—	337,069
April debenture warrants	—	—	—	—	—	—	866,182	—	866,182
October debenture BCF	—	—	—	—	—	—	3,166,567	—	3,166,567
October debenture warrants	—	—	—	—	—	—	1,093,591	—	1,093,591
Placement agent warrants	—	—	—	—	—	—	948,518	—	948,518
Repricing of warrants	—	—	—	—	—	—	99,820	(99,820)	—
Net loss	—	—	—	—	—	—	—	(6,658,882)	(6,658,882)
Balance, December 31, 2017	—	$ —	9,910,565	$ 9,911	150,000	$ 879,500	$ 37,143,033	$ (21,148,706)	$ 16,883,738

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

SOCIAL REALITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Net loss	$ (6,658,882)	$ (4,248,233)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of stock based prepaid fees	—	373,567
Stock to be issued for services	—	678,000
Stock based compensation	2,085,988	1,200,121
Amortization of debt issuance costs	1,082,830	1,076,634
Warrant modification costs	—	274,695
PIK interest expense accrued to principal	—	511,261
Amortization of debt discount	1,018,548	—
Impairment of goodwill	—	670,000
Write off of non-compete agreement	468,751	—
Accretion of contingent consideration, net of write-off	—	(3,585,435)
Accretion of put liability	—	63,718
Provision for bad debts	(195,172)	119,434
Depreciation expense	22,908	21,304
Amortization of intangibles	505,712	365,728
Changes in operating assets and liabilities:		
Accounts receivable	4,261,574	(6,817,597)
Prepaid expenses	(135,834)	(23,069)
Other current assets	—	29,602
Other assets	(288,349)	—
Accounts payable and accrued expenses	(6,535,152)	8,020,903
Unearned revenue	—	(1,295)
Net cash (used in) provided by operating activities	(4,367,078)	(1,270,662
Cash flows from investing activities		
Purchase of equipment	(121,962)	(32,862)
Development of software	(634,914)	(119,225)
Net cash used in investing activities	(756,876)	(152,087)
Cash flows from financing activities		
Proceeds from the issuance of common stock units	4,020,401	4,643,799
Proceeds from exercise of warrants	1,085,004	—
Proceeds from secured convertible debentures, net	6,066,406	—
Proceeds from note payable	—	2,100,000
Repayments of notes payable	(3,996,928)	(3,763,474)
Payment of contingent consideration	—	(1,600,000)
Payment of Financing Warrant	(1,500,000)	—
Debt issuance costs	(582,392)	—
Net cash provided by financing activities	5,092,491	1,380,325
Net decrease in cash and cash equivalents	(31,463)	(42,424)
Cash and cash equivalents		
Beginning of year	1,048,762	1,091,186
End of year	$ 1,017,299	$ 1,048,762

(Continued)

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

SOCIAL REALITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Supplemental schedule of cash flow information		
Cash paid for interest	$ 1,217,716	$ 1,312,293
Supplemental schedule of noncash financing activities		
Common stock issued for the payment of contingent consideration	$ —	$ 2,400,000
Proceeds paid by FastPay on behalf of the Company	$ —	$ 5,507,468
Common stock issued for preferred stock conversion and vesting grants	$ —	$ —
Put liability on issuance of put warrants	$ 2,500,000	$ —
Issuance of placement agent warrants	$ 948,518	$ —
Common stock to be issued	$ 678,000	$ —
Repurchase of series B warrants and accounts payable balances directly paid by debenture holder on behalf of Company	$ 4,113,753	$ —
Shares issued for convertible note conversions	$ 3,335,000	$ —
Repricing of warrants	$ 99,820	$ —
Common stock and warrants issued for asset purchase arrangements	$ 617,069	$ —
Debt and warrants discount on convertible debentures issuance	$ 5,126,340	$ —

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

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Social Reality, Inc. ("Social Reality", "we", "us", “our” or the "Company") is a Delaware corporation formed on August 2, 2011. Effective January 1, 2012 we acquired 100% 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 2,465,753 shares of our Class A common stock. The former members of Social Reality, LLC owned 100% of our Class A 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 many different digital advertising 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 (“RTB”) exchanges;
- sale and licensing of our *SRAX Social* platform and related media; and,
- creation of custom platforms for buying media on *SRAX* for large brands.

The 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 RTB exchanges. The *SRAX* platform integrates multiple market-leading demand sources. We also build custom platforms that allow our agency partners to launch and manage their own RTB campaigns by enabling them to directly place advertising orders on the platform dashboard and view and analyze results as they occur;
- *SRAXmd* is our 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 Social* is a social media and loyalty platform that allows brands to launch and manage their social media initiatives. Our team works with customers to identify their needs and then helps them in the creation, deployment and management of their social media presence; and.
- *SRAX app,* a recently launched new product, is a platform that allows publishers and content owners to launch native mobile applications through our *SRAX* platform.
- *SRAXfan* tools enable brands and agencies to connect with sports fans at home, the stadium or out-of-home at gathering locations, such as bars, restaurants, and universities, during live sporting events.
- *SRAXauto* tools enable targeting and engagement with potential auto buyers at dealerships, auto shows, and at home across desktop and mobile environments.

We offer our customers a variety of pricing options including cost-per-thousand-impression, or "CPM", whereby our customers pay based on the number of times the target audience is exposed to the advertisement, and on a monthly service fee.

Social Reality is also an approved Facebook advertising partner. 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.

Presentation of Financial Statements – Going Concern

Going Concern Evaluation

In connection with preparing consolidated financial statements for the year ended December 31, 2017, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to continue as a going concern within one year from the date that the financial statements are issued.
The Company considered the following:

- Net losses of $6,658,882 and $4,248,233 for the years ended December 31, 2017 and 2016, respectively.
- Negative cash flow from operating activities for 2017 and 2016.
- At December 31, 2017, the Company had an accumulated deficit of $21,148,706.
- Revenue decline in 2017 of $12,414,333.

Ordinarily, conditions or events that raise substantial doubt about an entity's ability to continue as a going concern relate to the entity's ability to meet its obligations as they become due.

The Company evaluated its ability to meet its obligations as they become due within one year from the date that the financial statements are issued by considering the following:

- The Company raised $14.0 million via equity debt financing during the year ended December 31, 2017.
- The Company has historically raised funds from debt and equity financings.
- As a result of the Company's restructurings that were implemented during the year ended December 31, 2017, the Company's cost structure is now in line with its future revenue projections.
- In 2017, the Company is in compliance with NASDAQ Capital Markets listing requirements.
- In 2017, the Company converted $3.3 million of long term debt, and repaid its short-term notes payable.
- Revenue declines were largely the result of a strategic shift away from lower margin sales the produced little to no positive cash flow benefit for the Company.

In addition to the recent capital raised 2017, management also believes that the Company will generate enough cash from operations to satisfy its obligations for the next twelve months from the issuance date.

The Company will take the following actions if it starts to trend unfavorably to its internal profitability and cash flow projections, in order to mitigate conditions or events that would raise substantial doubt about its ability to continue as a going concern:

- Raise additional capital through short-term loans.
- Implement additional restructuring and cost reductions.
- Raise additional capital through a private placement.
- Secure a commercial bank line of credit.
- Dispose of one or more product lines.
- Sell or license intellectual property.

At December 31, 2017, the Company had $1.1 million in cash and cash equivalents and $1 million of working capital.

Effect of Reverse Stock Split on Presentation

On September 20, 2016, the Company completed a 1 for 5 reverse stock split of our Class A common stock. The principal reason for the reverse stock split was to facilitate the up-listing of our Class A common stock to the NASDAQ Capital Market which has a minimum market (bid) price requirement for new applicants of $4.00 per share. Refer to Note 4 regarding a further discussion of the reverse stock split.

These consolidated financial statements give retroactive effect to the reverse stock split for all periods presented, unless otherwise specified.

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 of the subsidiary.

Use of Estimates

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles accepted in the United States of America (“GAAP”) and requires 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, purchase price for acquisition, goodwill, other intangible assets, put rights and valuation of liabilities.

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 revenue transactions as the Company is the primary obligor in the transactions. As such, 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 consolidated statements of operations.

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. Allowance for doubtful accounts was $59,703 and $254,875 at December 31, 2017 and 2016, respectively.

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 with financial institutions within the United States. The balances maintained at these financial institutions are generally more than the Federal Deposit Insurance Corporation insurance limits. The uninsured cash bank balances were $767,299 at December 31, 2017. The Company has not experienced any loss on these accounts. The balances are maintained in demand accounts to minimize risk.

At December 31, 2017, 4 customers accounted for more than 10% of the accounts receivable balance, for a total of 59.5%. For the year ended December 31, 2016, two customers accounted for 48% of total revenue.

Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value. The three tiers are defined as follows:

- Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The Company's financial instruments, including cash and cash equivalents, net accounts receivable, accounts payable and accrued expenses, are carried at historical cost. At December 31, 2017 and 2016, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments. Derivative instruments are carried at fair value, generally estimated using the Black Scholes Merton model.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets of three to seven years.

Expenditures for repair and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations. Management periodically reviews the carrying value of its property and equipment for impairment.

Intangible assets

Intangible assets consist of intellectual property, a non-complete agreement, and internally developed software and are stated at cost less accumulated amortization. Amortization is provided for on the straight-line basis over the estimated useful lives of the assets of five to six years. During 2016, the Company began capitalizing the costs of developing internal-use computer software, including directly related payroll costs. The Company amortizes costs associated with its internally developed software over periods up to three years, beginning when the software is ready for its intended use.

The Company capitalizes costs incurred during the application development stage of internal-use software and amortize these costs over the estimated useful life. Upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Software maintenance, training, data conversion, and business process reengineering costs are expensed in the period in which they are incurred.

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 and change to annual impairment testing period

Goodwill is comprised of the purchase price of business combinations in excess of the fair value assigned at acquisition to the net tangible and identifiable intangible assets acquired. Goodwill is not amortized. The Company assesses goodwill for impairment at least annually, or when events or changes in the business environment indicate the carrying value may not be fully recoverable. The Company also has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the Company to determine that it is more likely than not (that is, a likelihood of more than 50%) that goodwill is impaired. If the Company chooses to first assess qualitative factors and it is determined that it is not more likely than not goodwill is impaired, the Company is not required to take further action to test for impairment. The Company also has the option to bypass the qualitative assessment and perform only the quantitative impairment test, which the Company may choose to do in some periods but not in others. The Company performs its annual impairment review as of December 31st.

The Company had historically performed its annual goodwill and impairment assessment on September 30 th of each year; however, due to the elimination of the need to internally maintain certain segregated accounting records of the Steel Media business that occurred in the third quarter of 2016, following the determination that the second year Earn Out Consideration would not be achieved (See Note 2), this was reevaluated by the Company. Further, given the seasonal and cyclical nature of advertising sales in general, timing of the Company’s annual budgeting process, and the short-term nature of the Company’s advertising sales contracts, it was determined that it would be more effective and efficient to conduct the annual impairment analysis instead at December 31st of each year. This would also better align the Company with other advertising sales companies who also generally conduct this annual analysis in the fourth quarter. The Company does not believe this change will have any material impact on its consolidated financial statements, and continues to evaluate potential interim impairment to goodwill consistent with its historical practices.

When evaluating the potential impairment of goodwill, management 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 100% 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 specifically identified 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.

Although the Company now operates within one business segment, it was determined that a portion of the goodwill originally assigned to the Steel Media, a California corporation (“Steel Media”), acquisition had become impaired as of June 30, 2016. Accordingly, we recorded a goodwill impairment charge of $670,000 during the year ended December 31, 2016. The impairment charge represents the excess of the carrying amount of the goodwill recorded in the acquisition over the implied fair value of the goodwill. The implied fair value of the goodwill is the residual fair value based on an income approach that utilized a discounted cash flow model based on revenue and profit forecasts. The Company performed its annual impairment test as of December 31, 2017 and no further impairment was required.

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. No impairments have been recorded regarding its identifiable intangible assets or other long-lived assets during the years ended December 31, 2017 or 2016, respectively.

Derivatives

The Company analyzes all financial instruments with features of both liabilities and equity under FASB ASC Topic No. 480, *Distinguishing Liabilities From Equity* and FASB ASC Topic No. 815, *Derivatives and Hedging*. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments.

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 5,246,692 common share equivalents at December 31, 2017 and 3,818,080 at December 31, 2016. For the years ended December 31, 2017 and 2016, respectively, 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 consolidated 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.

Common stock awards

The Company grants common stock awards to non-employees in exchange for services provided. The Company measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees is recorded on the consolidated statement of comprehensive loss in the same manner and charged to the same account as if such settlements had been made in cash.

Warrants

In connection with certain financing, consulting and collaboration arrangements, the Company has issued warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of the awards using the Black-Scholes option pricing model as of the measurement date. Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants are recorded at fair value as expense over the requisite service period or at the date of issuance, if there is not a service period. Warrants granted in connection with ongoing arrangements are more fully described in Note 4, *Stockholders' Equity*.

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.

Liquidity

In connection with preparing its consolidated financial statements, management evaluates whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year from the date that the financial statements are issued. The Company had an accumulated deficit at December 31, 2017 of $21,148,706. As of December 31, 2017, the Company had $1,017,299 in cash and cash equivalents and net working capital of $1,124,023 as compared to $1,048,762 in cash and cash equivalents and a deficit in working capital of $8,276,099 at December 31, 2016, respectively. While the Company believes it has established an ongoing source of revenue that is sufficient to cover its operating costs over the next twelve months, the Company is currently experiencing a period of limited liquidity resulting from recent activity related to the Financing Agreement.

Between September 2016 and January 2017, we satisfied all outstanding obligations under the Financing Agreement utilizing proceeds from the factoring of our receivables and sales of our securities. While the satisfaction of the amounts owed under the Financing Agreement resulted in overall savings to us in 2017 through the elimination of both the associated interest expense as well as the internal costs related to the reporting obligations under its terms, the payment of these amounts adversely impacted our current liquidity. To address the immediate impact of this decreased liquidity, we have recently made certain reductions in staffing, delayed certain previously budgeted expenditures, eliminated certain legacy operating expenses associated with the Steel Media acquisition, restructured sales management compensation structures, extended payments to certain vendors, and in October 2017 issued addition Debentures totaling $5,180,158. If our revenues continue to increase throughout the next twelve months as anticipated, additional liquidity is also anticipated to be readily available under our accounts receivable factoring agreement with FastPay Partners. As of March 31, 2018, we had approximately $1,346,670 of factored accounts receivable outstanding on a total available line of $8,000,000.

Recently Issued Accounting Standards

In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842). The effective date for ASU 2017-13 is for fiscal years beginning after December 15, 2018. The adoption of this ASU will not have a material impact to our consolidated financial statements.

In July 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): Part 1 – Accounting for Certain Financial Instruments with Down Round Features and Part 2 – Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with Scope Exception* ("ASU No. 2017-11"). Part 1 of ASU No. 2017-11 addresses the complexity of accounting for certain financial instruments with down round features. Down round features are provisions in certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of ASU No. 2017-11 addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the *FASB Accounting Standards Codification®*. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. For public business entities, the amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We early adopted the proposed guidance under ASU 2017-11 for the year end December 31, 2017, and recognized warrants issued in the fourth quarter of 2017 with a down round feature as equity. Adjustments were required for the retrospective application of this standard.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU No. 2017-04"). ASU No. 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. A public business entity that is a SEC filer should adopt the amendments of ASU No. 2017-04 for its annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect any impact from the adoption of this standard on its consolidated financial statements.

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16 - Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 will require the tax effects of intercompany transactions, other than sales of inventory, to be recognized currently, eliminating an exception under current GAAP in which the tax effects of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. The guidance will be effective for the first interim period of our 2019 fiscal year, with early adoption permitted.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides guidance regarding the classification of certain items within the statements of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017 with early adoption permitted.

In connection with its financial instruments project, the FASB issued ASU 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments in June 2016 and ASU 2016-01 - Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities in January 2016.

- ASU 2016-13 introduces a new impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a forward-looking "expected loss" model that will replace the current "incurred loss" model and generally will result in earlier recognition of allowances for losses. The guidance will be effective for the first interim period of our 2021 fiscal year, with early adoption in fiscal year 2020 permitted.

- ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other provisions, the new guidance requires the fair value measurement of investments in certain equity securities. For investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. All changes in measurement will be recognized in net income. The guidance will be effective for the first interim period of our 2019 fiscal year. Early adoption is not permitted, except for certain provisions relating to financial liabilities.

In April 2016, the FASB issued Accounting Standards Update, or ASU, No. 2016-10, *Identifying Performance Obligations and Licensing (Topic 606)*, which amends certain aspects of the FASB's new revenue standard, ASU 2014-09, *Revenue from Contracts with Customer (Topic 606)*. ASU 2016-10 identifies performance obligations and provides licensing implementation guidance. The effective date for ASU 2016-10 is the same as the effective date of ASU No. 2014-09. ASU No. 2015-14 *(Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date)* defers the effective date of ASU No. 2014-09 by one year, for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718*), which is part of the FASB's Simplification Initiative. The updated guidance simplifies the accounting for share-based payment transactions. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customer (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, or ASU 2016-08, that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. ASU 2016-08 clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer and provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The effective date for ASU 2016-08 is the same as the effective date of ASU No. 2014-09. ASU No. 2015-14 defers the effective date of ASU No. 2014-09 by one year, for fiscal years beginning after December 15, 2017. The Company has performed an evaluation of the impact of the adoption of this standard on its consolidated financial statements, and given its revenue recognition practices already in place, it does not appear this will have a material impact on the Company's future presentation of consolidated financial statements. The Company will continue to evaluate new revenue streams as they develop from future new product launches.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which establishes a new lease accounting model for lessees. The updated guidance requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-3, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-3") which changes the presentation of debt issuance costs in financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-3 became effective for public companies during interim and annual reporting periods beginning after December 15, 2015. The Company adopted ASU 2015-3 on January 1, 2016. The adoption of this ASU did not have a material impact to our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The amendments in this update apply to all reporting entities and require an entity's management, in connection with preparing financial statements for each annual and interim reporting period, to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). This ASU is effective for annual periods ending after December 15, 2016. We adopted this standard for the year ended December 31, 2016. Based on the results of our analysis, we have determined that the disclosures were as required by ASU No. 2014-15.

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

NOTE 2 – ACQUISITIONS

Acquisition of Steel Media

On October 30, 2014, we acquired 100% of the capital stock of 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").

As consideration for the purchase of Steel Media, we agreed to pay Mr. Steel up to $20,000,000, consisting of: (i) a cash payment at closing of $7,500,000; (ii) a cash payment of $2,000,000 which was 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 $2,500,000 (the "Note") which was secured by 477,373 shares of our Class A common stock (the "Escrow Shares"); and (iv) earn out payments of up to $8,000,000 (the "Earn Out Consideration").

The Earn Out Consideration target was achieved for the first earn out period ended October 31, 2015. As such, at December 31, 2015, we recorded $7,585,435 associated with the first and second portions of the earn out, and on January 29, 2016 we paid Mr. Steel $4,000,000. Of this amount, $1,600,000 was paid in cash and the balance was paid through the issuance of 256,754 shares of our Class A common stock in accordance with the terms of the Stock Purchase Agreement.

The Company determined the remaining Earn Out Consideration would not be achieved for the second earn out period ended October 31, 2016 and reversed the second portion of the earn out liability of $3,585,435 in September 2016.

NOTE 3 – NOTES PAYABLE

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

On October 30, 2014 (the "Financing Agreement Closing Date"), the Company entered 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 initial and subsequent notes issued (the “Financing Notes”) bore 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 achieved a reduction in the leverage ratio as described in the Financing Agreement, the PIK interest rate declined on a sliding scale from 4% to 2%. The Financing Notes issued under the Financing Agreement were scheduled to mature on October 30, 2017.

During the twelve months ended December 31, 2017, we completely repaid the Financing Notes and made principal and PIK interest repayments in the amount of $3,996,928.

Notes payable consisted of the following at December 31, 2016:

	December 31, 2016
Current portion of notes payable and PIK interest	$ 3,996,928
Non-current portion of notes payable	—
Total notes payable and PIK interest	3,996,928
Less deferred financing costs	(578,140)
Notes payable and PIK interest, net of deferred costs	$ 3,418,788

We incurred a total of $3,178,011 of costs related to the Financing Agreement. These costs were amortized to interest expense over the life of the debt. During the twelve months ended December 31, 2017 and 2016, $2,101,377 and $1,076,634, respectively, of debt issuance costs were amortized as interest expense. As of December 31, 2017, all deferred debt issuance costs have been completely amortized.

During the twelve months ended December 31, 2017 and 2016, $67,612 and $510,859, respectively, were recorded as PIK interest expense.

Pursuant to the Financing Agreement, the Company issued to the lender a five-year warrant to purchase 580,000 shares of its Class A common stock at an exercise price of $5.00 per share (the "Financing Warrant"). The warrant holder was not, however, permitted to exercise the Financing Warrant for shares of Class A common stock that would cause such holder to beneficially own shares of Class A common stock that exceeds 4.99% of the Company's outstanding shares of Class A common stock following such exercise. Pursuant to the Financing Warrant, the warrant holder had the right, at any time after the earlier of April 30, 2016 and the maturity date of the Financing Notes issued, but prior to October 30, 2019, 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 had not been previously exercised. In connection with any exercise of this put right, the purchase price was to 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 consolidated revenue for the Company for the trailing 12-month period ending with the Company's then-most recently completed fiscal quarter, and (b) $1,500,000. In May 2017, the Company was notified by the warrant holder that it was exercising its put right. We had a period of 45 days from the date of notice to repay the right or negotiate a settlement. If the right remained unpaid after the 45-day period, interest would accrue on the unpaid balance at a rate of 14% per annum. On October 27, 2017, the Company paid the warrant holder $1,567,612, which was comprised of the $1,500,000 warrant value and an additional $67,612 of accrued interest.

As contemplated under the Financing Agreement, the Company also entered a registration rights agreement on the Financing Agreement Closing Date (the "Financing Registration Rights Agreement") with the holder of the Financing Warrant, pursuant to which the Company granted to such holder certain "piggyback" rights to register the shares of the Company's Class A common stock issuable upon exercise of the Financing Warrant. Specifically, the holder of the Financing Warrant had the right, subject to certain allocation provisions set forth in the Financing Registration Rights Agreement, to include the shares underlying the Financing Warrant in registration statements for offerings by the Company of its Class A common stock, as well as offerings of the Company's Class A common stock held by third parties. The shares underlying the Financing Warrant were initially included in a Post-Effective Amendment No. 1 to the registration statement on Form S-1 that was declared effective by the SEC in March 2016.

Financing and Security Agreement with FastPay

In September 2016, the Company executed a Financing and Security Agreement, as amended (collectively, the "FastPay Agreement"), with FastPay creating an accounts receivable-based credit facility.

Under the terms of the FastPay Agreement, FastPay may, at its sole discretion, purchase the Company's eligible accounts receivable. Upon any acquisition of accounts receivable, FastPay will advance the Company up to 80% of the gross value of the purchased accounts, up to a maximum of $8,000,000 in advances. As a result of the Debentures that we issued in April 2017 as further described in Note 10, the Company agreed to reduce the amount of receivables to be purchased to a maximum of $4,000,000. Each account receivable purchased by FastPay will be subject to a factoring fee rate specified in the FastPay Agreement calculated as a percentage of the gross value of the account outstanding and additional fees for accounts outstanding over 30 days. The Company is subject to a concentration limitation on the percentage of debt from any single customer of 25% to the total amount outstanding on its purchased accounts, subject to increase to 50% for its larger customer.

The Company is obligated to repurchase accounts remaining uncollected after a specified deadline, and FastPay will generally have full recourse against the Company in the event of nonpayment of any purchased accounts. The Company's obligations under the FastPay Agreement are secured by a first position security interest in its accounts receivable, deposit accounts and all proceeds therefrom.

The FastPay Agreement contains covenants that are customary for agreements of this type and are primarily related to accounts receivable and audit rights. The Company is also required to provide FastPay with 30-day notice of any transaction that result, or would result in, a “change of control” as defined in the FastPay Agreement. The failure to satisfy covenants under the FastPay Agreement or the occurrence of other specified events that constitute an event of default, as defined, could result in the termination of the FastPay Agreement and/or the acceleration of the Company's obligations. The FastPay Agreement contains provisions relating to events of default that are customary for agreements of this type.

The FastPay Agreement has an initial one-year term and automatically renews for successive one-year terms thereafter, subject to earlier termination by written notice by the Company, provided all obligations are paid, including the payment of an early termination fee.

At December 31, 2017, $2,082,822 of accounts receivable purchased by FastPay remain outstanding and are subject to repurchase under the terms of the FastPay Agreement.

Secured Convertible Debentures, Net

In April 2017, the Company entered into definitive securities purchase agreements (the “Securities Purchase Agreements”) with certain accredited investors (the “Purchasers”) for the purchase and sale of an aggregate of : (i) $5,000,000 principal amount of 12.5% secured convertible debentures (the “Debentures”); and (ii) five-year Series A warrants (the “Debenture Warrants”) representing the right to acquire up to 833,337 shares of our Class A common stock in a transaction exempt from registration under the Securities Act, in reliance on an exemption provided by Rule 506(b) of Regulation D and Section 4(a)(2) of the Securities Act.

The Debentures, which mature three years from the date of issuance, pay interest in cash at the rate of 12.5% per annum, payable quarterly on January 1, April 1, July 1 and October 1, beginning on July 1, 2017. Our obligations under the Debentures are secured by a second position security interest in our accounts receivable and a first position security interest in the balance of our assets, and we are subject to continued compliance with certain financial covenants. The Debentures are convertible at the option of the holder into shares of our Class A common stock at an initial conversion price of $3.00 per share, subject to adjustment as hereinafter set forth. Subject to our compliance with certain equity conditions set forth in the Debentures, upon 20 trading days' notice to the holders we have the right to redeem the Debentures in cash at a 120% premium during the first year and a 110% premium during the remaining term of the Debentures. Upon any optional redemption, we are obligated to issue the holder five-year warrant Series B warrants, the terms of which will be identical to the Debenture Warrants, to purchase a number of shares of our Class A common stock as shall equal 50% of conversion shares issuable on an as-converted basis as if the principal amount of the Debenture had been converted immediately prior to the optional redemption. In the event of future financings by us, subject to certain exempt issuances, the holders have the right to cause us to allocate 20% of the proceeds we may receive as a mandatory redemption of a portion of the principal amount then outstanding. We are also required to redeem the Debentures upon our failure to maintain certain financial covenants which include a minimum monthly current ratio, a maximum quarterly corporate expense ratio, and maintain minimum quarterly revenue and EBITDA related to *SRAXmd.* As of December 31, 2017, we are in compliance with all financial covenants.

The Debenture also contains certain customary events of default (including, but not limited to, default in payment of principal or interest thereunder, breaches of covenants, agreements, representations or warranties thereunder, the occurrence of an event of default under certain material contracts of the Company, changes in control of the Company and the entering or filing of certain monetary judgments against the Company). Upon the occurrence of any such event of default, the outstanding principal amount of the Debenture, plus liquidated damages, interest and other amounts owing in respect thereof through the date of acceleration, shall become, at the holder’s election, immediately due and payable in cash. The Company is also subject to certain customary non-financial covenants under the Debenture. The Debenture holders were granted board observation rights so long as the lead investor continues to hold the Debentures.

The Debenture Warrants are initially exercisable at $3.00 per share and, if at any time after the six-month anniversary of the issuance the underlying shares of our Class A common stock are not covered by an effective resale registration statement, the Debenture Warrants are exercisable on a cashless basis. The conversion price of the Debentures and the exercise price of the Debenture Warrants are subject to adjustments upon certain events, including stock splits, stock dividends, subsequent equity transactions (other than specified exempt issuances), subsequent rights offerings, and fundamental transactions, subject to a floor of $1.40 per share. If we fail to timely deliver the shares of our Class A common stock upon any conversion of the Debentures or exercise of the Debenture Warrants we will be subject to certain buy-in provisions. Pursuant to the terms of the Debentures and Debenture Warrants, a holder will not have the right to convert any portion of the Debentures or exercise any portion of the Debenture Warrants if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of shares of Class A common stock outstanding immediately after giving effect to such conversion or exercise, as such percentage ownership is determined in accordance with the terms of the Debentures and the Debenture Warrants; provided that after the Shareholder Approval Date, as defined below, at the election of a holder and notice to us such percentage ownership limitation may be increased or decreased to any other percentage, not to exceed 9.99%; provided that any increase will not be effective until the 61st day after such notice is delivered from the holder to us.

In accordance with the Nasdaq Marketplace Rules, until such time as our stockholders have approved the Securities Purchase Agreements and the transactions thereunder (the "Shareholder Approval Date"), we were not obligated to issue any shares of our Class A common stock upon any conversion of the Debentures and/or exercise of the Debenture Warrants, and the holders had no right to receive upon conversion and/or exercise thereof any shares of our Class A common stock, to the extent the issuance of such shares of Class A common stock would exceed 20% of our outstanding Class A common stock prior to the transaction. We held a special meeting of the shareholders on June 23, 2017 whereby we obtained approval of the Securities Purchase Agreements and the transactions thereunder.

We agreed to file a registration statement registering the resale of the shares of our Class A common stock underlying the Debentures and the Debenture Warrants. Under the terms of the Securities Purchaser Agreements, we also granted the Purchasers of the Debentures the right to purchase an additional $3,000,000 of Debentures upon the same terms and conditions for a period beginning on the Shareholder Approval Date and expiring on earliest of the date that (a) the initial registration statement has been declared effective by the SEC, (b) all of the underlying shares have been sold pursuant to Rule 144 or may be sold pursuant to Rule 144 without the requirement for our company to be in compliance with the current public information required under Rule 144 and without volume or manner-of-sale restrictions, (c) following the one year anniversary of the closing date provided that a holder of the underlying shares is not an affiliate of the Company or (d) all of the underlying shares may be sold pursuant to an exemption from registration under Section 4(a)(1) of the Securities Act. The shares underlying the Debentures and Debenture Warrants were included in a resale registration statement on Form S-3 that was declared effective by the SEC in June 2017.

Chardan Capital Markets, LLC (“Chardan Capital”), Noble Capital Markets, Inc. ("Noble") and Aspenwood Capital (an independent branch of Colorado Financial Services Corporation) (“Aspenwood”), all broker-dealers and members of FINRA, acted as either our placement agent or a finder in connection with the sale of the securities pursuant to the Securities Purchase Agreements. In addition, an affiliate of Noble purchased Debentures amounting to $720,000 and was issued Debenture Warrants to purchase 120,000 shares of our Class A common stock in this offering. We paid aggregate cash commissions amounting to $276,700 to these broker-dealers in connection with the sale of the Debentures. Additionally, we issued Chardan Capital placement agent warrants ("Chardan Placement Agent Warrants") to purchase 100,000 shares of our Class A common stock at an exercise price of $3.75 per share which are exercisable for 5.5 years commencing six months from the issuance date. We issued Noble placement agent warrants (“Noble Placement Agent Warrants”) to purchase up to 66,800 shares of our Class A common stock at an exercise price of $3.00 per share which will become exercisable six months from the date of issuance. We also issued Colorado Financial Service Corporation and its designees warrants (“Aspenwood Warrants”) to purchase 7,700 shares of our Class A common stock at an exercise price of $3.75 per share which are exercisable for 5.5 years commencing six months from the issuance date. We included the shares underlying the Chardan Placement Agent Warrants, the Noble Placement Agent Warrants, and the Aspenwood Warrants in the afore-described resale registration statement that was declared effective by the SEC in June 2017.

The net proceeds to us from the offering, after deducting placement agent fees and estimated offering expenses, were approximately $4,566,405. We utilized $2,500,000 of the net proceeds to satisfy a put obligation under the Series B Warrants issued to investors in a registered direct offering that we conducted in January 2017 as described in Note 11. The balance of the net proceeds was used to pay down accounts payable and satisfy other working capital requirements.

In October 2017, we entered into securities purchase agreements to sell an aggregate of $5,180,157.78 of our 12.5% secured convertible debentures and issued 863,365 Series A Common Stock Purchase Warrants. The debentures mature on 4/21/2020, bear interest at an annual rate of 12.5%, payable quarterly on January 1, April 1, July 1, and October 1, beginning on January 1, 2018. Pursuant to the greenshoe provision contained in our April 2017 debenture offering, $2,000,000 of debentures were purchased pursuant to the greenshoe provision and the remaining $3,180,157.78 were purchased separately. Of the 863,365 warrants issued, a total of 333,335 were purchased pursuant to the greenshoe provision and 630,030 were purchased separately. The debentures are convertible into shares of our Class A common stock at $3.00 per share, subject to adjustment, and contain anti-dilution protection for subsequent financings and have a conversion price floor of $1.40 per share (pursuant to shareholder vote approving the offering that occurred on December 29, 2017). The warrants have an exercise price of $3.00 per share, subject to adjustment and contain anti-dilution protection for subsequent financings and have an exercise price floor of $1.40 per share.

In connection with the offering we issued Chardan Capital Markets 160,000 placement agent warrants, of which: (i) 129,176 have an exercise price of $3.75 and (ii) 54,161 have an exercise price of $4.49. We also issued Aspenwood Capital 23,337 placement agent warrants with an exercise price of $3.75. All placement agent warrants have a term of five and a half years (exercisable beginning 6 months after issuance).

During the year ended December 31, 2017, the Company made no repayments on secured convertible debentures. During the year ended December 31, 2017, certain holders of convertible debentures exercised their rights to convert amounts of principal totaling $3,335,000 into 1,111,667 shares of the Company's common equity.

During the year ended December 31, 2017, the Company recorded interest expense on the above convertible debenture totaling $505,418.

Convertible Notes

Future minimum principal payments under senior secured convertible notes as of December 31, 2017, were as follows:

Year Ending December 31,	Convertible Notes
2018	$ —
2019	—
2020	6,845,157
Total minimum principal payments	6,845,157
Less: debt discount	(4,107,792)
Less: debt issuance costs	(1,026,219)
Convertible notes, net	$ 1,711,146

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 were designated as Series 1 Preferred Stock. Our board of directors, without further stockholder approval, may issue preferred stock in one or more series from time to time and fix or alter the designations, relative rights, priorities, preferences, qualifications, limitations and restrictions of the shares of each series. The rights, preferences, limitations and restrictions of different series of preferred stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. Our board of directors may authorize the issuance of preferred stock, which ranks senior to our common stock for the payment of dividends and the distribution of assets on liquidation. In addition, our board of directors can fix limitations and restrictions, if any, upon the payment of dividends on both classes of our common stock to be effective while any shares of preferred stock are outstanding.

On August 16, 2013, our Board of Directors approved a Certificate of Designations, Rights and Preferences pursuant to which it designated a series consisting of 200,000 shares of its blank check preferred stock as Series 1 Preferred Stock. The designations, rights and preferences of the Series 1 Preferred Stock are as follows:

- each share has a stated and liquidation value of $0.001 per share,
- the shares do not pay any dividends, except as may be declared by our Board of Directors, and are not redeemable,
- the shares do not have any voting rights, except as may be provided under Delaware law,
- each share is convertible into 10 shares of our Class A common stock, subject to customary anti-dilution provisions in the event of stock splits, recapitalizations and similar corporate events, and
- the number of shares of Series 1 Preferred Stock, as well as the number of shares of Class A common stock issued upon a conversion of shares of Series 1 Preferred Stock, that a holder may sell, transfer, assign, hypothecate or otherwise dispose of (collectively or severally, a "Disposition") at any one time shall be limited to an amount which is pari passu to any Disposition of Class A common stock by either Christopher Miglino and/or Erin DeRuggiero, executive officers and directors of our company. Notwithstanding anything contained in the designations, the holder of Series 1 Preferred Stock is not obligated to make any Dispositions of Series 1 Preferred Stock or Class A common stock issued upon the conversion of Series 1 Preferred Stock.

Following the conversion of the remaining shares of our Series 1 Preferred Stock during 2015 into shares of our Class A common stock, in February 2016, we filed a Certificate of Elimination with the Secretary of State of Delaware returning all shares of previously designated Series 1 Preferred Stock to our blank check preferred stock. No shares of Series 1 Preferred Stock were outstanding at December 31, 2016.

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. There were no shares of Class B common stock outstanding at December 31, 2017 or 2016, respectively.

On February 23, 2016, our Board of Directors approved the adoption of our 2016 Equity Compensation Plan (the “2016 _Plan”) and reserved 600,000 shares of our Class A common stock for grants under this plan. The terms of the 2016 Plan, which is administered by our Board of Directors, are identical to those of our 2014 Equity Compensation Plan and 2012 Equity Compensation Plan. We have reserved 600,000 shares of our Class A common stock for awards under the 2016 Plan.

During January 2016 and February 2016, we received aggregate proceeds of $500,000 from the sale of 100,000 shares of our Class A common stock.

During January 2016, we issued 256,754 shares of Class A common stock, valued at $2,400,000, to Richard Steel as partial payment of the first year Earn Out Consideration. Refer to Note 2 regarding a further description of the Earn Out Consideration.

During February 2016, we issued 6,786 shares of Class A common stock, valued at $47,500, to members of our board of directors for services. We also issued 10,000 shares of Class A common stock, valued at $70,000, to an employee as compensation which we expensed in 2014 and 2015.

On February 23, 2016, we issued an aggregate of 10,000 shares of our Class A common stock, valued at $70,000, as partial compensation for services under the terms of a consulting agreement.

On August 16, 2016, we issued 3,077 shares of our Class A common stock, valued at $20,000, to a new member of our board of directors for services.

On September 22, 2016, we issued 23 shares of our Class A common stock which resulted from rounding up to whole shares related to the reverse stock split.

On September 30, 2016, we sold an aggregate of 665,000 units of our securities to fourteen accredited investors in a private placement exempt from registration under the Securities Act of 1933, as amended, in reliance on exemptions provided by Section 4(a)(2) and Rule 506(b) of Regulation D. The units were sold at a purchase price of $5.00 per unit resulting in gross proceeds to us of $3,325,000. Each unit consisted of one share of our Class A common stock and one three year Class A Common Stock Purchase Warrant (“Purchase Warrants”) to purchase 0.5 shares of our Class A common stock at an exercise price of $7.50 per share. We agreed to file a registration statement with the Securities and Exchange Commission within 90 days after the final closing in this offering registering for resale the shares of our Class A common stock issuable upon the exercise of the Purchase Warrants included in the units sold in this offering, together with the shares of our Class A common stock underlying the Purchase Warrants. If we fail to timely file this resale registration, or at any time thereafter that the prospectus contained in the effective resale registration is not available for the issuance of the shares to the holder upon the exercise of the Purchase Warrants for a period of at least 60 days following the delivery by us of a suspension notice, then the Purchase Warrants are exercisable on a cashless basis. T.R. Winston & Company, LLC, a broker-dealer, acted as placement agent for us in this offering. We paid the placement agent commissions totaling $266,000 and agreed to issue it Purchase Warrants to purchase 53,200 shares of our Class A common stock at an exercise price of $7.50 per share. We also paid compensation for services provided by Noble Financial Capital Markets in the amount of $180,000 regarding their assistance in this transaction. T.R. Winston & Company, LLC has reallocated a portion of the commissions and Purchase Warrants to a selected dealer member of the selling group. We also agreed to pay T.R. Winston & Company, LLC a fee of 4% of the proceeds we may receive upon the exercise of the Purchase Warrants included in the units. We used $2,000,000 of the net proceeds received by us in this offering to further reduce our obligations which were outstanding under the Financing Agreement, as amended, with the Agent. We will use the balance of the proceeds for general working capital.

On October 31, 2016, the Company sold an aggregate of 255,000 units of its securities to nine accredited investors in a private placement exempt from registration under the Securities Act of 1933, as amended, in reliance on exemptions provided by Section 4(a)(2) and Rule 506(b) of Regulation D. The units were sold at a purchase price of $5.00 per unit resulting in gross proceeds to us of $1,275,000. This was the final closing of a private placement commenced in September 2016. Each unit consisted of one share of our Class A common stock and one three year Class A Common Stock Purchase Warrant to purchase 0.5 shares of our Class A common stock at an exercise price of $7.50 per share. We agreed to file a registration statement with the Securities and Exchange Commission within 90 days after the final closing in this offering registering for resale the shares of our Class A common stock issuable upon the exercise of the warrants included in the units sold in this offering, together with the shares of our Class A common stock underlying the Placement Agent Warrants. If we fail to timely file this resale registration, or at any time thereafter that the prospectus contained in the effective resale registration is not available for the issuance of the shares to the holder upon the exercise of the warrant for a period of at least 60 days following the delivery by us of a suspension notice, then the warrants are exercisable on a cashless basis. T.R. Winston & Company, LLC, a broker-dealer, acted as placement agent for us in this offering and received 22,392 units in lieu of a cash placement agent commission totaling $109,956 and reimbursement of certain expenses. We also agreed to issue it three year warrants (“Placement Agent Warrants”) to purchase 15,200 shares of our Class A common stock at an exercise price of $7.50 per share. T.R. Winston & Company, LLC also reallocated a portion of the gross placement agent commissions and Placement Agent Warrants to a selected dealer member of the selling group resulting in the payment by us of a cash commission of $2,000 and the issuance of an additional 400 Placement Agent Warrants. We also agreed to pay T.R. Winston & Company, LLC a fee of 4% of the proceeds we may receive upon the exercise of the warrants included in the units. We are using the net proceeds for general working capital.

On January 4, 2017, the Company entered a definitive securities purchase agreement with two fundamental institutional investors (the “Investors”) for the purchase and sale of an aggregate of: (i) 761,905 shares of the Company’s Class A common stock; and (ii) five-year Series B Warrants (the “Series B Warrants”) representing the right to acquire up an additional 380,953 shares of our Class A common stock at an exercise price of $7.00 per share. The shares of our Class A common stock and the Series B Warrants were sold in a registered direct offering and we received gross proceeds of $3,980,001. Simultaneously we conducted a private placement with the same Investors for no additional consideration of Series A Warrants (the “Series A Warrants”) representing the right to acquire up to an additional 380,953 shares of our Class A common stock at an exercise price of $6.70 per share. The Series A Warrants are exercisable for five years commencing 6 months from the date of closing of the private sale of the Series A Warrants to the Investors.

The exercise price of the Series A Warrants is subject to full ratchet adjustment in certain circumstances, subject to a floor price of $1.20 per share. The adjustment provisions under the terms of the Series A Warrants will be extinguished at such time as our Class A common stock trades at or above $10.00 per share for 20 consecutive trading days, subject to the satisfaction of certain equity conditions. In addition, if there is no effective registration statement covering the shares issuable upon the exercise of the Series A Warrants, the warrants are exercisable on a cashless basis. If we fail to timely deliver the shares underlying the warrants, we will be subject to certain buy-in provisions. As a result of the sale of the Debentures, the exercise price of the Series A Warrants issued to investors in our January 2017 private offering were reset to $2.245 per share.

Beginning 100 days after the issuance date of the Series B Warrants, at any time the market price of our Class A common stock is less than $5.25 per share, the holders had the right to exercise the Series B Warrants on a cashless basis for shares of our Class A common stock calculated pursuant to a formula set forth in the Series B Warrants. We had the right, in lieu of delivery of such shares of our Class A common stock, to pay the holder of the Series B Warrants being exercised on a cashless basis, a specified amount in cash, with a maximum cash payment of $2,500,000. The holders of the Series B Warrants exercised their right in April 2017 and we repurchased the Series B Warrants for $2,500,000.

Pursuant to the terms of the warrants, a holder of a warrant will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 9.99% of the number of shares of Class A common stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants; provided that at the election of a holder and notice to us such percentage ownership limitation may be increased or decreased to any other percentage, not to exceed 9.99%; provided that any increase will not be effective until the 61st day after such notice is delivered from the holder to the Company.

In the event of any extraordinary transaction, as described in the warrants and generally including any merger with or into another entity, sale of all or substantially all of our assets, tender offer or exchange offer, or reclassification of our common stock, the holder will have the right to have the warrants and all obligations and rights thereunder assumed by the successor or acquiring corporation. Also, at the election of the holder of each warrant, in the event of an extraordinary transaction, we or any successor entity may be required to repurchase such warrant for an amount of cash equal to the value of the warrant as determined in accordance with the Black Scholes option pricing model and the terms of the warrants.

Pursuant to an engagement letter dated December 29, 2016 (the “Placement Agent Agreement”) by and between the Company and Chardan Capital Markets, Chardan Capital agreed to act as the Company’s placement agent in connection with both the registered direct offering and a concurrent private placement. Pursuant to the Placement Agent Agreement, the Company paid Chardan Capital a cash fee equal to $160,000 (4% of the gross proceeds), as well as reimbursement of its expenses related to the offering in the amount of $15,000. In addition, the Company granted Chardan Capital a warrant to purchase 76,190 shares of Class A common stock (the “Placement Warrants”). The Placement Warrants have an exercise price of $6.50 per share and are exercisable for 5.5 years commencing six months from the issuance date. The shares underlying the Placement Warrants were included in a resale registration statement on Form S-3 that was declared effective by the SEC in June 2017.

The net proceeds to the Company from the offering, after deducting placement agent fees and estimated offering expenses, were $3,830,000. The proceeds of the offering were used to satisfy the outstanding notes issued under the terms of the Financing Agreement. In connection with the January 2017 capital raise, Victory Park Management, LLC agreed not to exercise the put right under the Financing Warrant prior to May 20, 2017. Victory Park Management, LLC exercised the put right on May 22, 2017. We had had 45 days to satisfy this obligation which remains unpaid. On October 27, 2017, the Company satisfied this obligation in full utilizing a portion of net proceeds from a second debenture financing.

The Class A shares of common stock and Series B Warrants were sold and issued pursuant to the Prospectus Supplement, dated January 4, 2017, to the Prospectus included in the Company’s Registration Statement on Form S-3 (Registration No. 333-214644) filed with the SEC on November 16, 2016 and declared effective on November 28, 2016.

In connection with an advisory agreement with kathy ireland Worldwide LLC ("kiWW"), the Company issued affiliates and designees of kiWW 100,000 shares of its Class A common stock valued at $678,000 on January 2, 2017.

In January 2017, we issued 3,858 shares of our Class A common stock valued at $12,500 to Mr. Derek J. Ferguson upon his appointment to our board of directors and the audit committee of the board. He is an accredited investor and the issuance was exempt from registration under the Securities Act pursuant to an exemption provided by Section 4(a)(2) of that act.

In February 2017, the Company issued Mr. Steven Antebi 150,000 shares of our Class A common stock valued at $540,000 as compensation for services under the terms of a consulting agreement. He is a principal stockholder of the Company.

In March 2017, we issued 51,667 shares of Class A common stock for vested stock awards.

In March 2017, we issued 6,510 shares of our Class A common stock valued at $12,500 to Mr. Robert Jordan upon his appointment to our board of directors and the audit committee of the board. He is an accredited investor and the issuance was exempt from registration under the Securities Act pursuant to an exemption provided by Section 4(a)(2) of that act.

In August 2017, we issued 200,000 shares in conjunction with our acquisition of certain intellectual property assets from Leapfrog Media Trading, Inc.

In September 2017, we issued 7,813 shares to a new member of our board of directors.

Between September 2017 and January 2018, we issued an aggregate of 225,000 shares of Class A common stock valued at $1,137,650 as consideration for media and marketing services.

In October 2017, we issued 70,409 shares of our Class A common stock to Joseph P. Hannan, our chief financial officer, pursuant to his October 2017 employment agreement. The shares were issued pursuant to our 2016 equity compensation plan.

In October 2017, we entered into securities purchase agreements to sell an aggregate of $5,180,157.78 of our 12.5% secured convertible debentures and issued 863,365 Series A Common Stock Purchase Warrants. The debentures mature on 4/21/2020, bear interest at an annual rate of 12.5%, payable quarterly on January 1, April 1, July 1, and October 1, beginning on January 1, 2018. Pursuant to the greenshoe provision contained in our April 2017 debenture offering, $2,000,000 of debentures were purchased pursuant to the greenshoe provision and the remaining $3,180,157.78 were purchased separately. Of the 863,365 warrants issued, a total of 333,335 were purchased pursuant to the greenshoe provision and 630,030 were purchased separately. The debentures are convertible into shares of our Class A common stock at $3.00 per share, subject to adjustment, and contain anti-dilution protection for subsequent financings and have a conversion price floor of $1.40 per share (pursuant to shareholder vote approving the offering that occurred on December 29, 2017). The warrants have an exercise price of $3.00 per share, subject to adjustment and contain anti-dilution protection for subsequent financings and have an exercise price floor of $1.40 per share. In connection with the offering we issued Chardan Capital Markets 160,000 placement agent warrants, of which: (i) 129,176 have an exercise price of $3.75 and (ii) 54,161 have an exercise price of $4.49 (. We also issued Aspenwood Capital 23,337 placement agent warrants with an exercise price of $3.75. All placement agent warrants have a term of five and a half years (exercisable beginning 6 months after issuance).

Stock Awards

On September 22, 2015, we granted an aggregate of 44,000 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.

In April 2016, we granted a total of 20,000 shares of our Class A common stock awards to an employee. The shares vest over a two-year period. The fair value of this grant amounted to $166,000 and will be expensed over the vesting period as additional compensation.

In October 2016, we granted a total of 100,000 shares of our Class A common stock awards to an employee. The shares vest over a two-year period. The fair value of this grant amounted to $673,500 and will be expensed over the vesting period as additional compensation.

On November 14, 2016, the Company entered an Advisory Agreement with kathy ireland Worldwide LLC ("kiWW"). Under the terms of this agreement, which expires on December 31, 2018, the Company engaged kiWW to provide a variety of advisory and consulting services to the Company, including (i) if the Company forms an Advisory Committee of independent, third party brand, marketing and/or consumer product C-level executives, to serve on such committee on terms no less favorable than the highest compensated person on such committee, (ii) as an advisor, hold the non-executive designation of Chief Branding Advisor, (iii) provide reasonable input to the Company on various aspects of corporate branding, and (iv) use good faith efforts to introduce the Company to potential business customers. As compensation for such services, the Company will issue kiWW 100,000 shares valued at $678,000 of its Class A common stock on January 2, 2017 and reimburse kiWW for incurred expenses. Although the shares to be issued are for future services over the term of the agreement, we have recognized the value of these services as an expense during the year ended December 31, 2016. The agreement contains customary confidentiality and indemnification provisions.

Awards in the amount of 0 and 35,500 common shares were forfeited during the years ended December 31, 2017 and 2016, respectively.

Stock Options and Warrants

In February 2015, we granted 2,400 common stock options to a director. The options vest quarterly over one year. The options have an exercise price of $6.00 per s hare and a term of five years. These options had a grant date fair value of $3.10 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.

In August 2015, we granted 40,000 common stock options to an employee. The options 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 $8.25 per s hare and expire three years following the vesting date. These options had a grant date fair value of $3.70 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.

In September 2015, we granted 77,000 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 $8.65 per s hare and expire three years following the vesting date. These options had a grant date fair value of $3.95 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.

In October 2016, we granted an aggregate of 146,000 stock options to three employees. The options will vest over three years. The options have an exercise price of $7.50 per share and a term of five years. These options had a grant date fair value of $4.98 per option, determined using the Black Scholes method based on the following assumptions: (1) risk free interest rate of 1.125%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 112%; and (4) an expected life of the options of 5 years.

During the years ended December 31, 2017 and 2016, we recorded compensation expense of $992,732 and $1,200,121, respectively, related to stock based compensation. During the years ended December 31, 2017 and 2016, 161,500 options and 47,000 options were forfeited, respectively.

On September 19, 2016, the Company extended the expiration date of common stock purchase warrants issued and sold in 2013 to purchase an aggregate of 642,000 shares of its Class A common stock at an exercise price of $5.00 per share from between October 8, 2016 and November 6, 2016 to March 31, 2017, for which, the Company applied ASC 718-20-35-3 modification of equity-classified contracts and therefore the incremental fair value from the modification (the change in the fair value of the instrument before and after the modification) of $274,634 is recognized as an expense in the consolidated statements of operations to the extent the modified instrument has a higher fair value.

On November 16, 2016, the Company entered an Investor Relations and Consulting Agreement (“Consulting Agreement”) with Market Street Investor Relations, LLC (“Consultant”). The Company engaged the Consultant to provide certain investor relations and public relations services on behalf of the Company as are more fully described in the Consulting Agreement. The term of the Consulting Agreement is for a period of six-months from the effective date and may be extended for an additional six-month term. In lieu of cash payments for the services rendered by the Consultant, the Company issued the Consultant a three year Class A common stock purchase warrant to purchase 400,000 shares of the Company’s Class A common stock at an exercise price of $7.50 per share. The warrants vest based on specific milestones described within the Consulting Agreement. The value of the warrants at the date of grant was $1,390,264. At the direction of the Consultant, a warrant to purchase 200,000 shares was issued to the Consultant and a warrant to purchase 200,000 shares was issued to Steve Antebi (a principal stockholder in the Company). The Company also advanced the Consultant $100,000 on the effective date to cover anticipated expenses regarding the services to be performed by the Consultant. The Company is recognizing the value of the services rendered over the term of the Consulting Agreement.

Reverse Stock Split

On September 20, 2016, the Company completed a reverse stock split. The principal reason for the reverse stock split was to facilitate the up-listing of our Class A common stock to the NASDAQ Capital Market which has a minimum market (bid) price requirement for new applicants of $4.00 per share.

After giving effect to the reverse stock split, each five shares of the Company's Class A common stock issued and outstanding, or held as treasury shares, immediately prior to the effective date of the reverse stock split became one share of its Class A common stock on the effective date of the reverse stock split. No fractional shares of Class A common stock were issued to any stockholder and all fractional shares which might otherwise be issuable because of the reverse stock split were rounded up to the nearest whole share. On the effective date of the reverse stock split, all outstanding options and warrants to purchase shares of the Company's Class A common stock were proportionally adjusted based upon the split ratio and became exercisable into one-fifth of the number of shares of the Company's Class A common stock as it was prior to the reverse stock split at an exercise price which is five times the exercise price prior to the reverse stock split.

After the effective date of the reverse stock split, each certificate representing shares of pre-reverse stock split Class A common stock was deemed to represent one-fifth of a share of the post-reverse stock split Class A common stock, subject to rounding for fractional shares, and the records of the Company's transfer agent, Transfer Online, Inc., were adjusted to give effect to the reverse stock split. Following the effective date of the reverse stock split, the share certificates representing the pre-reverse stock split Class A common stock continue to be valid for the appropriate number of shares of post-reverse stock split Class A common stock, adjusted for rounding.

These consolidated financial statements give retroactive effect to the reverse stock split for all periods presented, unless otherwise specified.

On October 13, 2016, the Company's Class A common stock began trading on The NASDAQ Stock Market LLC under the symbol "SRAX."

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2017	2016
Office equipment	$ 251,415	119,091
Accumulated depreciation	(96,869)	(63,599)
Property and equipment, net	$ 154,546	55,492

Depreciation expense for the years ended December 31, 2017 and 2016 was $22,908 and $21,304, respectively.

NOTE 6 – INTANGIBLE ASSETS

Intangible assets consist of the following at December 31:

	2017	2016
Non-compete agreement	$ 1,250,000	$1,250,000
Intellectual property	756,000	$756,000
Acquired Software	617,069	—
Internally developed software	754,140	119,225
Total cost	3,377,209	2,125,225
Accumulated amortization	1,734,449	759,984
Intangible assets, net	$ 1,642,760	1,365,241

Amortization expense was $151,200 for intellectual property, $677,083 for the non-compete agreement and $146,181 for internally developed software for the year ended December 31, 2016. Amortization expense was $151,200 for intellectual property, $208,333 for the non-compete agreement, and $6,195 for internally developed software for the year ended December 31, 2016.

The estimated future amortization expense for the years ended December 31, are as follows:

2018	$ 729,797
2019	608,270
2020	304,693
	$ 1,642,760

NOTE 7 – RELATED PARTY TRANSACTIONS

We were obligated to Mr. Steel for contingent Earn Out Consideration of up to $8,000,000 that occurred through the acquisition of Steel Media, as described in Note 2 upon Steel Media meeting certain predefined measurements. The Company had initially recorded the liability at its present value of $6,584,042. Additional changes in the value were recorded in the consolidated statement of operations. The Earn Out Consideration target was achieved for the first earn out period ended October 31, 2015 and on January 29, 2016 we paid Mr. Steel $4,000,000, of which $1,600,000 was paid in cash and the balance was paid through the issuance of 256,754 shares of our Class A common stock in accordance with the terms of the Stock Purchase Agreement. As discussed in Note 2, during the year ended December 31, 2016, the Company determined the Earn Out Consideration would not be achieved for the second earn out period ended October 31, 2016. The Company determined the fair value of the second Earn Out Consideration to be zero as of December 31, 2016 and recognized the write-off of the remaining Earn Out Consideration in the consolidated statement of operations.

Activity for the contingent consideration payable at December 31, was:

	2017	2016
Contingent consideration payable to related party, beginning of year	$ —	7,585,435
Accretion in value	—	159,061
Payment of Earn Out Consideration	—	(4,000,000)
Forfeiture of Earn Out Consideration	—	(3,744,496)
Contingent consideration payable to related party, end of year	$ —	—

Malcolm CasSelle, a member of our board of directors, is the former Chief Technology Officer and President of New Ventures of Tronc, Inc., one of our major advertisers. Revenue from New Ventures of Tronc, Inc. amounted to $0 and $4,395,124 for the years ended December 31, 2017 and 2016, respectively.

Steve Antebi, a principal stockholder in the Company, serves as a consultant to the Company. We paid him $0 and $467,230 for services provided to us during the years ended December 31, 2017 and 2016, respectively. Additionally, the Company entered a Consulting Agreement with a Consultant that is controlled by Mr. Antebi. For further details regarding this arrangement, refer to Note 4.

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, are comprised of the following:

	2017	2016
Accounts payable, trade	$ 2,858,871	11,745,026
Accrued expenses	1,800,621	260,818
Accrued compensation	256,164	319,246
Accrued commissions	95,159	830,993
Accounts payable and accrued expenses	$ 5,010,815	13,156,083

NOTE 9 – INCOME TAXES

Income tax (benefit) expense from continuing operations for the year ended December 31, 2017 consisted of the following:

	Current	Deferred	Total
Federal	$ —	$ 861,445	$ 861,445
State	—	30,351	30,351
Subtotal	—	891,796	891,796
Valuation allowance	—	(891,796)	(891,796)
Total	$ —	$ —	$ —

Income tax (benefit) expense from continuing operations for the year ended December 31, 2016 consisted of the following:

	Current	Deferred	Total
Federal	$ —	$ (1,785,238)	(1,785,238)
State	—	(257,877)	(257,877)
Subtotal	—	(2,043,115)	(2,043,115)
Valuation allowance	—	2,043,115	2,043,115
Total	$ —	$ —	$ —

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate is as follows:

	2017	2016
Federal statutory income tax rate	34.0%	34.0%
State income taxes, net of federal tax benefit	2.8%	4.1%
Stock based compensation	—	—
Goodwill impairment	—	-5.5%
Permanent differences	1.1%	0.0%
Earn out accretion	—	26.6%
Other	-18.8%	-1.1%
True-up to deferred tax rate	-35.3%	—
Provision to return	2.5%	-6.6%
Warrant modification cost	—	-2.3%
Change in valuation allowance	13.7%	-49.2%
Provision for income taxes	—%	—%

The tax effects, rounded to thousands, of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2017 and 2016 are presented below:

	2017	2016
Deferred tax assets		
Net operating loss carryforwards	$ 3,958,665	$ 2,602,000
Fixed assets	(11,004)	15,000
Accrued interest	—	190,000
Intangibles	—	299,000
Stock based compensation	579,085	1,383,000
Other accruals	67,650	62,000
Total deferred tax assets	4,594,396	4,551,000
Deferred tax liabilities		
Stock based compensation	—	—
Intangibles	(920,142)	—
Prepaid Expense	(14,623)	—
Total deferred tax liabilities	(934,765)	—
Net deferred tax assets	3,659,631	4,551,000
Valuation allowance	(3,659,631)	4,551,000
Net deferred tax liability	$ —	$ —

Deferred tax assets and liabilities are computed by applying the federal and state income tax rates in effect to the gross amounts of temporary differences and other tax attributes, such as net operating loss carry-forwards. In assessing if the deferred tax assets will be realized, the Company considers whether it is more likely than not that some or all of these deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these deductible temporary differences reverse.

During the year ended December 31, 2017, the valuation allowance decreased by $891,370 to $3,659,639. All of this increase was recorded to deferred tax expense with the remainder as an offset to deferred tax asset not previously recorded. The total valuation allowance results from the Company's estimate of its inability to recover its net deferred tax assets.

The Tax Cut and Jobs Act ("TCJA") was enacted on December 22, 2017. Under ASC 740, the impact of changes in tax law must be recorded in the financial statements in the reporting period that included the date of enactment. However, the SEC and the FASB both recognize that the magnitude of this law change will require extensive analysis and calculations to conform to the new provisions. The SEC issued Staff Accounting Bulletin ('SAB") on December 22, 2017. SAB 118 provides registrants with guidance on when and how to report the impact of the law change when not all necessary information is available. Due to the Company's valuation allowance, the TCJA is not expected to have an impact on the Company's financial statements – this conclusion represents a provisional amount that will be finalized upon the filing of the Company's federal income tax return for the year ended December 31, 2017. The filing of this return will occur prior to the Company's year ending December 31, 2018 which is within the measurement period.

At December 31, 2017, the Company has federal and state net operating loss carry forwards, which are available to offset future taxable income, of approximately $14,255,934 and $16,653,491, respectively, both of which begin to expire in 2033 and 2032 respectively. These carry forwards may be subject to an annual limitation under Section 382 and 383 of the Internal Revenue Code of 1986, and similar state provisions if the Company experienced one or more ownership changes which would limit the amount of NOL and tax credit carryforwards that can be utilized to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382 and 383, results from transactions increasing ownership of certain stockholders or public groups in the stock of the corporation by more than 50 percentage points over a three-year period. The Company has not completed an IRC Section 382/383 analysis. If a change in ownership were to have occurred, NOL and tax credit carryforwards could be eliminated or restricted. If eliminated, the related asset would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance. Due to the existence of the valuation allowance, limitations created by future ownership changes, if any, will not impact the Company's effective tax rate.

The Company files income tax returns in the United States and various state jurisdictions. Due to the Company's net operating loss posture all tax years are open and subject to income tax examination by tax authorities. The Company's policy is to recognize interest expense and penalties related to income tax matters as tax expense. At December 31, 2017, there are no unrecognized tax benefits, and there are no significant accruals for interest related to unrecognized tax benefits or tax penalties.

NOTE 10 – STOCK OPTIONS, AWARDS AND WARRANTS

2012, 2014 and 2016 Equity Compensation Plans

In January 2012, our board of directors and stockholders authorized the 2012 Equity Compensation Plan, which we refer to as the 2012 Plan, covering 600,000 shares of our Class A common stock. On November 5, 2014, our board of directors approved the adoption of our 2014 Equity Compensation Plan (the " 2014 Plan ") and reserved 600,000 shares of our Class A common stock for grants under this plan. On February 23, 2016, our board of directors approved the adoption of our 2016 Equity Compensation Plan (the "2016 Plan") and reserved 600,000 shares of our Class A common stock for grants under this plan. The purpose of the 2012, 2014 and 2016 Plans is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to our employees, directors and consultants and to promote the success of our company's business. The 2012, 2014 and 2016 Plans are administered by our board of directors. Plan options may either be:

- incentive stock options (ISOs),
- non-qualified options (NSOs),
- awards of our common stock,
- stock appreciation rights (SARs),
- restricted stock units (RSUs),
- performance units,
- performance shares, and
- other stock-based awards.

Any option granted under the 2012, 2014 and 2016 Plans must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of grant, but the exercise price of any ISO granted to an eligible employee owning more than 10% of our outstanding common stock must not be less than 110% of fair market value on the date of the grant. The plans further provide that with respect to ISOs the aggregate fair market value of the common stock underlying the options which are exercisable by any option holder during any calendar year cannot exceed $100,000. The exercise price of any NSO granted under the 2012, 2014 or 2016 Plans is determined by the Board at the time of grant, but must be at least equal to fair market value on the date of grant. The term of each plan option and the manner in which it may be exercised is determined by the board of directors or the compensation committee, provided that no option may be exercisable more than 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the common stock, no more than five years after the date of the grant. The terms of grants of any other type of award under the 2012, 2014 or 2016 Plans is determined by the Board at the time of grant. Subject to the limitation on the aggregate number of shares issuable under the plans, there is no maximum or minimum number of shares as to which a stock grant or plan option may be granted to any person.

Transactions involving our stock options for the years ended December 31, 2017 and 2016, respectively, are summarized as follows:

	2017		2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period	575,800	$6.97	476,800	$7.00
Granted during the period	—	—	146,000	7.50
Exercised during the period	—	—	—	—
Forfeited during the period	(161,500)	7.26	(47,000)	8.21
Outstanding, end of the period	409,300	$6.97	575,800	$7.03
Exercisable at the end of the period	288,630	6.65	189,960	$6.23

At December 31, 2017 options outstanding totaled 409,300 with a weighted average exercise price of $6.97. Of these options, 288,630 are exercisable at December 31, 2017, with an intrinsic value of $74,425 and a remaining weighted average contractual term of 2.71years. Compensation cost related to the unvested options not yet recognized is approximately $583,412 at December 31, 2017. We have estimated that approximately $356,852 will be recognized during 2018.

The weighted average remaining life of the options is 3.1years.

Transactions involving our common stock awards for the years ended December 31, 2017 and 2016, respectively, are summarized as follows:

	2017 Number	2016 Number
Outstanding, beginning of the period	116,666	103,167
Granted during the period	—	120,000
Vested during the period	(55,998)	(71,001)
Forfeited during the period	(6,000)	(35,500)
Unvested at the end of the period	54,669	116,666

Unrecognized compensation cost related to our common stock awards is approximately $162,741 and $691,000 at December 31, 2017 and 2016, respectively. We have estimated that we will recognize future compensation expense approximating $162,741 during the year ended December 31, 2018.

Transactions involving our stock warrants for the years ended December 31, 2017 and 2016, respectively, are summarized as follows:

	2017		2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period	2,976,863	$6.45	2,030,276	$ 5.95
Granted during the period	2,121,433	3.73	946,587	7.50
Exercised during the period	(428,469)	3.00	—	—
Forfeited during the period	(2,184,822)	6.04	—	—
Outstanding, end of the period	2,485,005	5.09	2,976,863	$ 6.45
Exercisable at the end of the period	2,485,005	5.09	2,976,863	$ 6.45

The weighted average remaining life of the warrants is 3.2 years.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases offices under operating leases that have now expired and now operate on a month-to-month basis, with certain notice of termination provisions. Future minimum lease payments required under the operating leases amount to $67,515 for the year ended December 31, 2018.

Rent expense for office space amounted to $211,680 and $206,312 for the years ended December 31, 2017 and 2016, 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 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 due to 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 agreement. Such indemnification agreements may not be subject to maximum loss clauses.

Employment agreements

We have entered employment agreements with key 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 12. – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of certain financial instruments, including cash and cash equivalents, restricted cash and accounts payable, approximate their respective fair values due to the short-term nature of such instruments.

The fair value of the 2017 Senior Secured Convertible Notes was $6,845,147 as of December 31, 2017. All Convertible Notes fall within Level 3 of the fair value hierarchy as their value is based on the credit worthiness of the Company, which is an unobservable input. The Company used a Tsiveriotis-Fernandes model to value the 2017 Senior Convertible Notes as of December 31, 2017.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. This determination requires significant judgments to be made. The following table summarizes the conclusions reached regarding fair value measurements as of December 31, 2017 and 2016 (in thousands):

	Balance as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Put Warrant liability	$ —	$ —	$ —	$ —
Embedded Warrant Put Option	—	—	—	—
Embedded Derivatives in Convertible Notes	—	—	—	—
Total liabilities	$ —	$ —	$ —	$ —
Securities:				
Certificates of deposit	—	—	—	—
Money Market funds	31,604	31,604	—	—
U.S. government-sponsored agency securities	3,004	—	3,004	—
Total assets	$ 34,608	$ 31,604	$ 3,004	$ —

	Balance as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Put Option Liability	$ 1,500,000	$ —	$ —	$ —
Contingent Consideration	—	—	—	—
Embedded Warrant Put Option	—	—	—	—
Embedded Derivatives	—	—	—	—
Total liabilities	$ 1,500,00	$ —	$ —	$ —
Securities:				
Certificates of deposit	7,788	7,788	—	—
Money Market Funds	37,066	37,066	—	—
U.S. government-sponsored agency securities	14,349	—	14,349	—
Total assets	$ 59,203	$ 44,854	$ 14,349	$ —

The Company's Warrant liability, embedded Warrant Put Option and the contingent consideration payments as well as the securities are measured at fair value on a recurring basis. As of December 31, 2017 and 2016, the Underwriter Warrant liability, and embedded Warrant Put Option and the fundamental change and make-whole interest provisions embedded in the 2020 Notes are reported on the balance sheets in derivative and warrant liability, while the trading securities are reported on the balance sheets in marketable securities and long-term investments. As of December 31, 2016, the embedded Put Option is reported on the balance sheet in derivative and warrant liability. The Company used the settlement value for liability, the Put Option at December 31, 2016. The outstanding put option at December 31, 2016 was settled in October 2017. The Company incurred a warrant put option liability as a result of warrants issued in the January 2017 equity financing. This warrant put option liability was settled in April 2017 as it fair value of $2.5 million. Changes in the fair value of the Put Option liability in the 2016 was reflected in the statements of operations as a change in value adjustment.

A reconciliation of the beginning and ending balances for the derivative and warrant liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows (in thousands):

	2017	2016
Balance as of beginning of period	$ 1,500,000	$ 1,500,000
Payments	(1,500,000)	—
Adjustment to fair value	—	—
Balance as of end of period	$ —	$ 1,500,000

NOTE 13 – SUBSEQUENT EVENTS

In January 2018, we issued Colleen DiClaudio, a board member, 7,813 Class A common shares valued at $10,000 as payment for 2017 services on our board of directors. The shares were issued from our 2016 equity compensation plan

In January 2018, we issued Hardy Thomas, a former board member, 7,195 Class A common shares valued at $10,000 as payment for 2017 services on our board of directors. The shares were issued from our 2016 equity compensation plan.

In January 2018, we issued Marc Savas and Malcolm CasSelle each 3,774 Class A common shares valued at $10,000 as payment for their respect 2017 service on our board of directors. The shares were issued from our 2016 equity compensation plan.

INDEX TO EXHIBITS

Exhibit No.	Description	Filed/ Furnished Herewith	Incorporated by Reference Form	Exhibit No.	File No.	Filing Date
3.01(i)	Certificate of Incorporation, filed on 8/3/11		S-1	3.01(i)	333-179151	1/24/12
3.02(i)	Certificate of Correction to Certificate of Incorporation, filed on 8/31/11		S-1	3.01(ii)	333-179151	1/24/12
3.03(i)	Certificate of Amendment to Certificate of Incorporation authorizing 1:5 reverse stock split		8-K	3.5	000-54996	9/19/16
3.04(i)	Certificate of Designation of Series 1 Preferred Stock		8-K	3.4	000-54996	8/22/13
3.05(ii)	Bylaws of Social Reality, Inc. adopted in August 2011		S-1	3.03	333-179151	1/24/12
4.01	Specimen of Class A Common Stock Certificate		8-A12B	4.1	001-37916	10/12/16
4.02	Class A Common Stock Purchase Warrant Issued to Investors in October 2014		8-K	4.7	000-54996	11/4/14
4.03	Class A Common Stock Purchase Warrant issued in Steel Media Transaction dated October 30, 2014		8-K	4.8	000-54996	11/4/14
4.04	Class A Common Stock Warrant issued in September 2016 Offering		8-K	4.6	000-54996	10/6/16
4.05	Class A Common Stock Warrant issued to October 2013 Offering		8-K	4.7	000-54996	10/24/13
4.06	Class A Common Stock Warrant issued to T.R. Winston & Company issued 8/22/13		10-Q	4.5	000-54996	11/13/13
4.07	Class A Common Stock Warrant issued to Investors in January 2014 Offering		8-K	4.6	000-54966	1/27/14
4.08	Class A Common Stock Warrant issued to Investors in September 2016		8-K	4.6	000-54966	10/6/16
4.09	Class A Common Stock Warrant issued to Investors in January 2017 Offering		8-K	4.1	001-37916	1/4/17
4.10	Class A Common Stock Warrant issued to Investors in January 2017 Offering (2nd Warrant)		8-K	4.2	001-37916	1/4/17
4.11	Class A Common Stock Placement Agent Warrant issued in January 2017 Offering		8-K	4.3	001-37916	1/4/17
4.12	Class A Common Stock Placement Agent Warrant issued in October 2016 Offering		10-K	4.12	001-37916	3/31/17
4.13	Class A Common Stock Warrant issued in Leapfrog Media Trading Acquisition	*				
4.14	Form of 12.5% Secured Convertible Debenture issued in April 2017 Offering		8-K	4.2	001-33672	4/21/17
4.15	Class A Common Stock Warrant issued in April 2017 Offering		8-K	4.1	001-33672	4/21/17

4.16	Form of Class A Common Stock Placement Agent Warrant issued in April 2017 Offering		8-K	4.3	001-33672	4/21/17
4.17**	2016 Equity Compensation Plan		1/20/17	A-1	001-37916	1/20/17
4.18**	2014 Equity Compensation Plan		8-K	10.33	000-54996	11/10/14
4.19	2012 Equity Compensation Plan		S-1	4.02	333-179151	1/24/12
4.20	Form of Stock Option Agreement for 2012, 2014 and 2016 Equity Compensation Plan		S-1	4.03	333-179151	1/24/12
4.21	Form of Restricted Stock Unit Agreement for 2012, 2014 and 2016 Equity Compensation Plan		8-K	4.04	333-179151	1/24/12
4.22	Form of Restricted Stock Award Agreement for 2012, 2014 and 2016 Equity Compensation Plan		8-K	4.05	333-179151	1/24/12
4.23	Form of 12.5% Secured Convertible Debenture issued in October 2017 Offering		8-K	4.01	001-37916	10/27/17
4.24	Class A Common Stock Warrant Issued to Investors and Placement Agents in October 2017 Offering		8-K	4.02	001-37916	10/27/17
10.01	Purchase Agreement among Richard Steel, Steel Media, and Social Reality, dated 10/30/14		8-K	2.1	000-54996	11/4/14
10.02	Asset Purchase Agreement with LeapFrog Media Trading dated 4/20/17	*				
10.03	Amendment to Asset Purchase Agreement with Leapfrog Media Trading dated 8/17/17	*				
10.04	Transition Services Agreement in Leapfrog Media Trading Transaction	*				
10.05	Sample Leakout Agreement in Leapfrog Media Trading Transaction	*				
10.06	Form of Securities Purchase Agreement for April 2017 Offering		8-K	10.1	001-37916	4/21/17
10.07	Form of Security Agreement for April 2017 Offering		8-K	10.2	001-37916	4/21/17
10.08	Form of Registration Rights Agreement for April 2017 Offering		8-K	10.3	001-37916	4/21/17
10.09	Form of Securities Purchase Agreement for October 2017 Offering		8-K	10.01	001-37916	10/27/17
10.10	Form of Registration Rights Agreement for October 2017 Offering		8-K	10.02	001-37916	10/27/17
10.11**	Employment Agreement with Christopher Miglino dated 1/1/12		S-1	10.01	333-179151	1/24/12
10.12**	Employment Agreement with Erin DeRuggiero dated 10/19/15		10-K	10.3	000-54996	2/26/16
10.13**	Employment Agreement with Joseph P. Hannan dated 10/17/16		10-Q	10.48	001-37916	11/14/16
10.14**	Employment Agreement with Richard Steel dated 10/30/14		8-K	10.27	000-54996	11/4/14
10.15**	Employment Agreement with Chad Holsinger dated 10/30/14		8-K	10.28	000-54996	11/4/14
10.16	Employment Agreement with Adam Bigelow dated 10/30/14		8-K	10.29	000-54996	11/4/14
10.17**	Separation Agreement and Release with Richard Steel dated 1/25/17		8-K	10.1	333-215791	1/27/17

10.18**	Employment Agreement with Dustin Suchter dated 12/19/14		8-K	10.36	000-54996	12/22/14
10.16**	Form of Proprietary Information, Inventions and Confidentiality Agreement		S-1	10.03	333-179151	1/25/12
10.17**	Form of Indemnification Agreement with Officers and Directors		S-1	10.04	333-179151	1/25/12
10.18	Indemnification Agreement with Richard Steel dated 10/30/14		8-K	10.30	333-215791	11/4/14
10.19	Sublease for principal executive offices dated 8/12/12 with TrueCar, Inc.		S-1	10.16	333-193611	1/28/14
10.20	Services Agreement with Servicios y Asesorias Planic, S.A. de cv dated 1/25/13		10-K	10.9	000-54996	3/31/15
10.21	Sublease Agreement with Amarcore, LLC dated 1/1/15		S-1	10.17	333-206791	9/4/15
10.22	Advisory Agreement with Kathy Ireland Worldwide, LLC dated 11/14/16		10-Q	10.49	001-37916	11/14/16
10.23	Financing and Security Agreement with FastPay Partners, LLC		8-K	10.41	000-54996	9/23/16
10.24	Share Acquisition and Exchange Agreement with Five Delta, Inc.		8-K	10.34	000-54996	12/22/14
10.25	Secured Subordinated Promissory Note to Richard Steel dated 10/30/14		8-K	10.18	000-54996	11/4/14
10.27	Subordination Agreement with Richard Steel and Victory Park Management, LLC dated 10/30/14		8-K	10.22	000-54996	11/4/14
10.28	Securities Purchase Agreement for January 2017 Offering		8-K	10.1	001-37916	1/4/17
10.29	Placement Agent Agreement for January 2017 Offering with Chardan Capital Markets		8-K	10.2	001-37916	1/4/17
10.30	Financing Agreement with certain Lenders and Victory Park Management, LLC		8-K	10.23	000-54996	11/4/14
10.31	First Amendment to Financing Agreement dated 5/14/15		10-Q	10.38	000-54996	5/15/15
10.32	Pledge and Security Agreement with Steel Media and Victory Park Management, LLC dated 10/30/14		8-K	10.25	000-54996	11/4/14
10.33	Registration Rights Agreement dated 10/30/14		8-K	10.26	000-54996	11/4/14
10.34	Forbearance Agreement with Steel Media, Five Delta, Inc, Lenders and Victory Park Management, LLC dated 8/22/16		8-K	10.46	000-54996	8/24/16
10.36	Letter Agreement dated 1/5/17		10-K	10.35	001-37916	3/31/17
10.37	Insider Trading Policy adopted as of 2/23/16		10-K	10.36	001-37916	3/31/17
14.01	Social Reality Code of Conduct and Ethics		S-1/A	99.1	333-179151	6/4/12
18.01	Preference Letter regarding Change in Accounting Principle		10-Q	18.1	001-37916	11/14/16
21.01	Subsidiaries of Registrant	*				
23.01	Consent of RBSM, LLP	*				

31.1 / 31.2	Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
32.1 / 32.2	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. § 1350	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase	*
101.LAB	XBRL Taxonomy Extension Label Linkbase	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*

*** Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.*