10-Q 1 srax_10q.htm QUARTERLY REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from________ to ________

Commission File Number 001-37916

SOCIAL REALITY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**45-2925231**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
456 Seaton Street, Los Angeles, CA	**90013**
(Address of principal executive offices)	*(Zip Code)*

(323) 694-9800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO þ

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	SRAX	Nasdaq Capital Market

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 12,346,022 shares of Class A common stock are issued and outstanding as of May 14, 2019.

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “targets,” “likely,” “aim,” “will,” “would,” “could,” and similar expressions or phrases identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operation, business strategy and financial needs. Forward-looking statements include, but are not limited to, statements about:

- our history of losses;
- our ability to continue as a going concern;
- our reliance on third party vendors;
- our dependence on revenues from a limited number of customers;
- our ability to maintain our technology platforms and expand our product offerings;
- our ability to manage our relationships with our publishers;
- risks associated with loss of access to real time bidding inventory buyers and RTB platforms;
- our potentially required cash payments to redeem the points of certain users of our BIGToken platform;
- our dependence on our executive officers;
- the continued appeal of Internet advertising;
- the possible price adjustments of Series A warrants in our January 2017 financing and the Debenture Warrants issued in the April 2017 and October 2017 financing transactions as well as the Series B Warrants issued on redemption of the Debentures in November 2018;
- the limited market for our Class A common stock;
- risks associated with securities litigation;
- our failure to meet financial performance guidance;
- risks associated with material weaknesses in our internal control over financial reporting;
- anti-takeover provisions of Delaware law;
- the possible issuance of shares of our Class B common stock;
- limited, inaccurate or unfavorable research about us or our business by securities or industry analysts; and
- concentration of ownership by our management.

Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety, including the risks described in Part I, Item 1A. - Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission (“SEC”) on April 16, 2019 as well as other filings with the SEC. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events.

OTHER PERTINENT INFORMATION

When used in this report, the terms “Social Reality,” refers to Social Reality, Inc., a Delaware corporation, and our subsidiary BigToken, Inc., a Delaware corporation which we refer to as "BigToken," (collectively, “we,” “us,” “our” or “the Company”). In addition, the "first quarter of 2019" refers to the three months ended March 31, 2019, the "first quarter of 2018" refers to the three months ended March 31, 2018, “2019” refers to the year ending December 31, 2019, and "2018” refers to the year ended December 31, 2018.

The information which appears on our web sites www.srax.com, and www.bigtoken.com are not part of this report and are specifically not incorporated by reference.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOCIAL REALITY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2019 (unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 17,672	$ 2,784,865
Accounts receivable, net	550,857	1,828,940
Prepaid expenses	492,231	466,823
Other current assets	300,898	387,085
Total current assets	1,361,658	5,467,713
Non-current Assets:		
Property and equipment, net	196,996	192,065
Goodwill	15,644,957	15,644,957
Intangible assets, net	1,805,283	1,762,605
Right-of-Use Asset	505,278	—
Other assets	107,454	51,153
Total non-current assets	18,259,968	17,650,780
Total assets	$ 19,621,626	$ 23,118,493
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,421,911	$ 3,574,926
Debenture warrant liability	5,901,089	4,323,499
Leapfrog warrant liability	830,507	622,436
Derivative liability	672,155	496,260
Total current liabilities	10,825,662	9,017,121
Non-current liabilities:		
Lease Obligation - Long Term Portion	359,112	—
Total non-current liabilities	359,112	—
Total liabilities	11,184,774	9,017,121
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, authorized 50,000,000 shares, $0.001 par value, no shares issued or outstanding at March 31, 2019 and December 31, 2018, respectively		
Class A common stock, authorized 250,000,000 shares, $0.001 par value, 10,109,530 and 10,109,530 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	10,109	10,109
Class B common stock, authorized 9,000,000 shares, $0.001 par value, no shares issued or outstanding at March 31, 2019 and December 31, 2018, respectively	—	—
Common stock to be issued	—	—
Additional paid in capital	32,990,496	32,869,611
Accumulated deficit	(24,563,753)	(18,778,348)
Total stockholders' equity	8,436,852	14,101,372
Total liabilities and stockholders' equity	$ 19,621,626	$ 23,118,493

See accompanying footnotes to these unaudited condensed consolidated financial statements.

SOCIAL REALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(Unaudited)

	March 31, 2019	March 31, 2018 As Restated
Revenue	$ 591,755	$ 2,110,850
Cost of revenue	342,347	818,105
Gross profit	249,408	1,292,745
Operating expense:		
General, selling and administrative expense	4,490,961	4,108,093
Operating expense	4,490,961	4,108,093
Loss from operations	(4,241,553)	(2,815,348)
Other income (expense):		
Interest expense	(67,988)	(434,785)
Amortization of debt issuance costs	—	(435,666)
Total Interest Expense	(67,988)	(870,451)
Gain on sale of Assets	472,479	(22,165)
Exchange Gain or Loss	13,509	(4,664)
Loss on settlement		
Change in Fair Value of Warrant Liability	(1,961,851)	3,723,696
Other non operating income / (expense)	(1,475,863)	3,696,867
Total other income / (expense)	(1,543,851)	2,826,416
Income / (Loss) before provision for income taxes	(5,785,404)	11,068
Provision for income taxes	—	—
Net income / (loss)	$ (5,785,404)	$ 11,068
Net income / (loss) per share, basic and diluted	$ (0.57)	$ 0.00
Weighted average shares outstanding		
Basic	10,109,530	10,037,905
Diluted	10,109,530	10,037,905

See accompanying footnotes to these unaudited condensed consolidated financial statements.

SOCIAL REALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHARHOLDERS' EQUITY FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2019 AND 2018
(Unaudited)

	Preferred Stock		Common Stock		Common stock to be issued		Additional Paid-in	Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2018	—	$ —	10,109,530	$ 10,109	—	$ —	$ 32,869,611	$ (18,778,348)	$ 14,101,372
Share based compensation, related to employees	—	—		—	—	—	120,885	—	120,885
Net Income	—	—	—	—	—	—	—	(5,785,404)	(5,785,404)
Balance, March 31, 2019	—	$ —	10,109,530	$ 10,109	—	$ —	$ 32,990,496	$ (24,563,752)	$ 8,436,852

	Preferred Stock		Common Stock		Common stock to be issued		Additional Paid-in	Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2017	—	$ —	9,910,565	$ 9,911	150,000	$ 879,500	$ 32,546,820	$(27,521,941)	$ 5,914,290
Stock based compensation	—	—	6,667	129	—	—	286,001	—	286,127
Shares issued for services	—	—	150,000	150	(150,000)	(859,500)	859,350	—	—
Common stock issued to directors	—	—	22,556	23	—	(10,000)	39,977	—	30,000
Net Income	—	—	—	—	—	—	—	11,068	11,068
Balance, March 31, 2018 (restated)	—	$ —	10,089,788	$ 10,213	—	$ 10,000	$ 33,732,148	$(27,510,873)	$ 6,241,485

See accompanying footnotes to these unaudited condensed consolidated financial statements.

SOCIAL REALITY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTH PERIOD ENDED MARCH 31, 2019 AND 2018
(Unaudited)

	March 31, 2019	March 31, 2018 As Restated
Cash flows from operating activities		
Net Income (loss)	$ (5,785,404)	$ 11,068
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Stock based compensation	120,884	166,130
Amortization of debt issuance costs	—	93,639
Accretion of debenture discount and warrants	—	342,026
Gain/Loss on valuation of warrant derivatives	1,961,852	(3,723,696)
Gain on sale of SRAXmd	(472,479)	—
Provision for bad debts	356	(425)
Depreciation expense	15,968	9,441
Amortization of intangibles	237,075	166,185
Changes in operating assets and liabilities:		
Accounts receivable	1,277,728	2,614,671
Prepaid expenses	(25,408)	(72,416)
Other assets	29,886	(3,445)
Accounts payable and accrued expenses	(299,479)	(178,022)
Net cash used in operating activities	(2,939,021)	(574,844)
Cash flows from investing activities		
Proceeds from SRAXmd	472,479	—
Purchase of equipment	(20,899)	(20,793)
Development of software	(279,752)	(231,774)
Net cash (used in) provided by investing activities	171,828	(252,567)
Cash flows from financing activities		
Net cash provided by financing activities	—	—
Net increase / (decrease) in cash and cash equivalents	(2,767,193)	(827,411)
Cash and cash equivalents, beginning of period	2,784,865	1,017,299
Cash and cash equivalents, end of period	$ 17,672	$ 189,888
Supplemental schedule of cash flow information		
Cash paid for interest	$ 55,931	$ 340,684
Cash paid for taxes	$ —	$ —
Supplemental schedule of noncash financing activities		
Recorded Right-of-Use Asset and Operating Lease Obligation	$ 505,278	$ —
Vesting of common stock award	$ —	$ 150,000
Issuance of common stock to be issued	$ —	$ 869,500

See accompanying footnotes to these unaudited condensed consolidated financial statements.

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

We are a digital marketing and data technology company with tools to reach and reveal valuable audiences with marketing and advertising communication. Our machine-learning technology analyzes marketing data to identify brands and content owners' core consumers and their characteristics across marketing channels. In addition to our business services and technologies, we also operate a direct to consumer platform, BIGToken, which enables consumers to own, manage and sell access to their digital identity and data. This provides us with a direct consumer relationship and gives us valuable proprietary data. 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;
- Sales of proprietary consumer data.

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;
- *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
- *SRAXauto* tools enable targeting and engagement with potential auto buyers at dealerships, auto shows, and at home across desktop and mobile environments.
- *SRAXcore is our generalized services and technologies supporting brands and agencies in data management, audience optimization, and multi-channel and omnichannel media and marketing services*;
- *SRAXshopper* tools enable brands and agencies to connect with shoppers driving in store an online sales; and
- *SRAXir* tools to assist public companies in analyzing and marketing to their shareholder population; and
- *BIGToken* is a platform that allows consumers to manage the sales of their digital data.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and notes thereto are unaudited. The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in the Company's annual financial statements have been condensed or omitted. The December 31, 2018 condensed balance sheet data was derived from financial statements, but does not include all disclosures required by GAAP. These interim financial statements, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim three month periods ended March 31, 2019 and 2018. The results for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019 or for any future period.

These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto for the year ended December 31, 2018, included in the Company's annual report on Form 10-K filed with the SEC on April 16, 2019.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Uses and Sources of Liquidity

Our primary need for liquidity is to fund working capital requirements of our business, establish and develop new business units, development of internally used software and for general corporate purposes, including debt repayment. Our general, selling and administrative expenses increased from $4,108,093 for the three months ended March 31, 2018 to $4,490,961 for the three months ended March 31, 2019. We had a net loss of $5,785,404 for the three months ended March 31, 2019 compared to net income of $11,068 for the three months ended March 31, 2018. At March 31, 2019, we had an accumulated deficit of $24,563,753. As of March 31, 2019, we had $17,672 in cash and cash equivalents and a working capital deficit of $9,464,004 as compared to $2,784,865 in cash and cash equivalents and a working capital deficit of $3,549,408 at December 31, 2018. We continue to face a challenging competitive environment and while we continue to focus on our overall profitability, including managing expenses, we reported losses and have historically funded our operations and investing activities with cash provided by financing activities. In late 2017, we announced several new initiatives intended to provide additional growth opportunities which launched in the third quarter of 2018.

Although we believe that the foregoing actions will assist with our liquidity needs during the 12 months following the issuance of the financial statements, there is no assurance that the outcome of our actions will result in liquidity. If we continue to experience operating losses, we may need to raise additional capital through the sale of our equity and/or debt securities. Although historically we have funded our operations through the sale of our debt and equity securities, there is no assurance that we will be able to raise additional capital or that if such capital is raised, it will be on favorable terms. A failure to generate additional liquidity could negatively impact our business, including our access to critical business services. Additionally, if we require additional capital and are not able to secure it, we may need to greatly curtail our current and planned business initiatives.

Principles of Consolidation

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

Use of Estimates

The unaudited condensed consolidated financial statements have been prepared in conformity with GAAP and requires management of the Company to make estimates and assumptions in the preparation of these unaudited condensed 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 expense during the reporting periods. Actual results could differ from these estimates and assumptions.

The most significant areas that require management judgment and which are susceptible to possible change in the near term include the Company's revenue recognition, allowance for doubtful accounts and sales credits, stock-based compensation, income taxes, goodwill, 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 adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC Topic 606") on January 1, 2018 using the modified retrospective method. Our operating results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts continue to be reported in accordance with our historic accounting under Topic 605. The timing and measurement of our revenues under ASC Topic 606 is similar to that recognized under previous guidance, accordingly, the adoption of ASC Topic 606 did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof at adoption or in the current period. There were no changes in our opening retained earnings balance as a result of the adoption of ASC Topic 606.

ASC Topic 606 is a comprehensive revenue recognition model that requires revenue to be recognized when control of the promised goods or services are transferred to our customers at an amount that reflects the consideration that we expect to receive. Application of ASC Topic 606 requires us to use more judgment and make more estimates than under former guidance. Application of ASC Topic 606 requires a five-step model applicable to all product offereing revenue streams as follows:

Identification of the contract, or contracts, with a customer

A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration.

We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit or financial information pertaining to the customer.

Identification of the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

When a contract includes multiple promised goods or services, we apply judgment to determine whether the promised goods or services are capable of being distinct and are distinct within the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.

Determination of the transaction price

The transaction price is determined based on the consideration to which we will be entitled to receive in exchange for transferring goods or services to our customer. We estimate any variable consideration included in the transaction price using the expected value method that requires the use of significant estimates for discounts, cancellation periods, refunds and returns. Variable consideration is described in detail below.

Allocation of the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative Stand-Alone Selling Price ("SSP,") basis. We determine SSP based on the price at which the performance obligation would be sold separately. If the SSP is not observable, we estimate the SSP based on available information, including market conditions and any applicable internally approved pricing guidelines.

Recognition of revenue when, or as, we satisfy a performance obligation

We recognize revenue at the point in time that the related performance obligation is satisfied by transferring the promised goods or services to our customer.

Principal versus Agent Considerations

When another party is involved in providing goods or services to our customer, we apply the principal versus agent guidance in ASC Topic 606 to determine if we are the principal or an agent to the transaction. When we control the specified goods or services before they are transferred to our customer, we report revenue gross, as principal. If we do not control the goods or services before they are transferred to our customer, revenue is reported net of the fees paid to the other party, as agent. Our evaluation to determine if we control the goods or services within ASC Topic 606 includes the following indicators:

We are primarily responsible for fulfilling the promise to provide the specified good or service.

When we are primarily responsible for providing the goods and services, such as when the other party is acting on our behalf, we have indication that we are the principal to the transaction. We consider if we may terminate our relationship with the other party at any time without penalty or without permission from our customer.

We have risk before the specified good or service have been transferred to a customer or after transfer of control to the customer.

We may commit to obtaining the services of another party with or without an existing contract with our customer. In these situations, we have risk of loss as principal for any amount due to the other party regardless of the amount(s) we earn as revenue from our customer.

The entity has discretion in establishing the price for the specified good or service.

We have discretion in establishing the price our customer pays for the specified goods or services.

Contract Liabilities

Contract liabilities consist of customer advance payments and billings in excess of revenue recognized. We may receive payments from our customers in advance of completing our performance obligations. We record contract liabilities equal to the amount of payments received in excess of revenue recognized, including payments that are refundable if the customer cancels the contract according to the contract terms. Contract liabilities have been historically low historically recorded as current liabilities on our consolidated financial statements when the time to fulfill the performance obligations under terms of our contracts is less than one year. We have no Long-term contract liabilities which would represent the amount of payments received in excess of revenue earned, including those that are refundable, when the time to fulfill the performance obligation is greater than one year.

Practical Expedients and Exemptions

We have elected certain practical expedients and policy elections as permitted under ASC Topic 606 as follows:

- We applied the transitional guidance to contracts that were not complete at the date of our initial application of ASC Topic 606 on January 1, 2018.
- We adopted the practical expedient related to not adjusting the promised amount of consideration for the effects of a significant financing component if the period between transfer of product and customer payment is expected to be less than one year at the time of contract inception;
- We made the accounting policy election to not assess promised goods or services as performance obligations if they are immaterial in the context of the contract with the customer;

- We made the accounting policy election to exclude any sales and similar taxes from the transaction price; and

- We adopted the practical expedient not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Cost of Revenue

Cost of revenue consists of payments to media providers and website publishers that are directly related to either a revenue-generating event or 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-through, 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 unaudited condensed 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 does not require collateral. Allowance for doubtful accounts was $48,448, $48,091, and $59,278 at March 31, 2019, December 31, 2018, and March 31, 2018 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 Company has not experienced any loss on these accounts. The balances are maintained in demand accounts to minimize risk.

At March 31, 2019, one customer accounted for approximately 48.45% of our accounts receivable balance. At December 31, 2018, two customers accounted for approximately 75.1% of our accounts receivable balance.

For the three months ended March 31, 2019, two customers accounted for 28.9% of total revenue. For the three months ended March 31, 2018, two customers accounted for more than 10% of the total revenue for a total of 44.9%.

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 determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include: estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist us in determining fair value, as appropriate.

Although the Company believes that the recorded fair value of our financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

The Company's financial instruments, including cash and cash equivalents, net accounts receivable, accounts payable and accrued expenses, are carried at historical cost. At March 31, 2019 and December 31, 2018, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments. 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. Derivative Instruments are carried at fair value, generally estimated using the Black-Scholes Merton model. This determination requires significant judgments to be made.

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 three to six years. The Company capitalizes 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.

Costs Incurred to Develop Software for Internal Use

Costs incurred to develop computer software for internal use are capitalized once: (1) the preliminary project stage is completed, (2) management authorizes and commits to funding a specific software project, and (3) it is probable that the project will be completed and the software will be used to perform the function intended. Costs incurred prior to meeting the qualifications are expensed as incurred. Capitalization of costs ceases when the project is substantially complete and ready for its intended use. Post-implementation costs related to the internal use computer software, are expensed as incurred. Internal use software development costs are amortized using the straight-line method over its estimated useful life which ranges up to three years. Software development costs may become impaired in situations where development efforts are abandoned due to the viability of the planned project becoming doubtful or due to technological obsolescence of the planned software product. For the three months ended March 31 2019 and year ended December 31, 2018 there has been no impairment associated with internal use software. For the three months ended March 31, 2019 and the year ended December 31, 2018, the Company capitalized software development costs of $279,752 and $960,157 respectively.

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 annual impairment testing period

We account for goodwill and other indefinite-lived intangible assets in accordance with FASB ASC Topic 350 "Intangibles—Goodwill and Other." Approximately 79% of our total assets as of March 31, 2019, consist of indefinite-lived intangible assets, such goodwill, the value of which depends significantly upon the operating results of our businesses. We believe that our estimate of the value of our goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on experiences and judgment about future operating performance of our markets and product offerings.

We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We complete our annual impairment tests in the fourth quarter of each year. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820 "Fair Value Measurements and Disclosures" as Level 3 inputs.

We have the option to assess whether it is more likely than not that an indefinite-lived intangible asset is impaired. If it is more likely than not that impairment exists, we are required to perform a quantitative analysis to estimate the fair value of the assets. The qualitative assessment requires significant judgment in considering events and circumstances that may affect the estimated fair value of our indefinite-lived intangible assets and to weigh these events and circumstances by what we believe to be the strongest to weakest indicator of potential impairment. Our annual test is conducted on December 31st.

The FASB guidance provides examples of events and circumstances that could affect the estimated fair value of indefinite-lived intangible assets; however, the examples are not all-inclusive and are not by themselves indicators of impairment. We considered these events and circumstances, as well as other external and internal considerations. Our analysis, in order of what we consider to be the strongest to weakest indicators of impairment include: (1) the difference between any recent fair value calculations and the carrying value; (2) financial performance, such as operating revenue, including performance as compared to projected results used in prior estimates of fair value; (3) macroeconomic economic conditions, including limitations on accessing capital that could affect the discount rates used in prior estimates of fair value; (4) industry and market considerations such as a declines in market-dependent multiples or metrics, a change in demand, competition, or other economic factors; (5) operating cost factors, such as increases in labor, that could have a negative effect on future expected earnings and cash flows; (6) legal, regulatory, contractual, political, business, or other factors; (7) other relevant entity-specific events such as changes in management or customers; and (8) any changes to the carrying amount of the indefinite-lived intangible asset.

We engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value. Noble Financial Capital Markets prepared the valuations for the testing periods ending December 31, 2018 and 2017.

We performed a sensitivity analysis of certain key assumptions including reducing the long-term revenue growth rate to determine that such changes would have no incremental impact to the carrying value of goodwill associated with our Company.

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 three months ended March 31, 2019 or 2018, respectively.

Accounting for discontinued operations

We regularly review underperforming assets (product offereings) to determine if a sale or disposal might be a better way to monetize the assets. When a product line or other asset group is considered for sale or disposal, we review the transaction to determine if or when the entity qualifies as a discontinued operation in accordance with the criteria of FASB ASC Topic 205-20 “Discontinued Operations.” The FASB has issued authoritative guidance that raises the threshold for disposals to qualify as discontinued operations. Under the this guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity's operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date.

We operate as a single reporting unit that has multiple product offerings. All our product offerings are in the same geographic market, sharing the same building, equipment, and managed by a single general manager. The product level is the lowest level for which discrete financial information related solely to revenue and related accounts recievalbe is available and the level reviewed by management to analyze operating results. Our senior management is compensated based on the results of all the product offerings as a whole, not the results of any individual product line We have determined that the sale of the SRAXmd prodcut line did not qualify for as a discontinued operation pursuant to guidance in ASC 205-20.

During 2018, based on revenue results management and board decided to accept the offer for the sale of the SRAXmd product line. The Company decided to monetize the SRAXmd product line via a sale rather than continue to offer the SRAXmd product to its customers. We have retained an approximatley 30% interest in the purchaser of the SRAXmd product line, however, based on the operating agreement covering our ownerhisp we have no ongoing or further involvement in the operations of the purschaser of SRAXmd. The sale of the SRAXmd product line is not considered to be discontinued operations pursuant to the guidance in ASC 205-20.

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.

The Company has adopted ASU 2017-11, Earnings per share (Topic 260), provided that when determining whether certain financial instruments should be classified as liability or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. If a down round feature on the conversion option embedded in the note is triggered, the Company will evaluate whether a beneficial conversion feature exists, the Company will record the amount as a debt discount and will amortize it over the remaining term of the debt.

If the down round feature in the warrants that are classified as equity is triggered, the Company will recognize the effect of the down round as a deemed dividend, which will reduce the income available to common stockholders.

Warrant Liability

The Company accounts for certain common stock warrants outstanding as a liability at fair value and adjusts the instruments to fair value at each reporting period. This liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's consolidated statements of operations. The fair value of the warrants issued by the Company has been estimated using a Black-Scholes option pricing model, at each measurement date.

Debt Discounts

The Company accounts for debt discounts originating in connection with conversion features that remain embedded in the related notes in accordance with ASC 470-20, *Debt with Conversion and Other Options*. These costs are classified on the consolidated balance sheet as a direct deduction from the debt liability. The Company amortizes these costs over the term of its debt agreements as interest expense-debt discount in the consolidated statement of operations.

Earnings Per Share

We use Accounting Standards Codification ("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 5,417,864 common share equivalents at March 31, 2019 and 5,053,258 common share equivalents at March 31, 2018. For the three months ended March 31, 2019 these potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would and be antidilutive. For the three months ended March 31, 2018 these potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would be antidilutive.

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 consolidated 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 ASU 2018-07 " *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 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 employ this method of accounting for stock compensation paid to employees and non-employees.

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.

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.

NOTE 3 – IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Adoption of New Accounting Standards

For a discussion of recent accounting pronouncements, please refer to “Recently Issued Accounting Standards” as contained in Note 1 in the December 31, 2018 audited consolidated financial statements included in the Company’s annual report on Form 10-K filed with the SEC on April 16, 2019.

Leases

In February 2016, the FASB issued ASU No. 2016-02 (“ASC 842”), Leases, to require lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. Subsequently, the FASB issued ASU No.2018-10, Codification Improvements to Topic 842, Leases, ASU No. 2018-11, Targeted Improvements, ASU No. 2018-20, Narrow-Scope Improvements for Lessors, and ASU 2019-01, Codification Improvements, to clarify and amend the guidance in ASU No. 2016-02. ASC 842 eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. This standard is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted.

We are using a modified retrospective adoption approach, is required to recognize and measure leases existing at the beginning of the adoption period, with certain practical expedients available.

We adopted the standard effective January 1, 2019. The standard allows a number of optional practical expedients to use for transition. The Company choose the certain practical expedients allowed under the transition guidance which permitted us to not to reassess any existing or expired contracts to determine if they contain embedded leases, to not to reassess our lease classification on existing leases, to account for lease and non-lease components as a single lease component for equipment leases, and whether initial direct costs previously capitalized would qualify for capitalization under FASB ASC 842. The new standard also provides practical expedients and recognition exemptions for an entity's ongoing accounting policy elections. The Company has elected the short-term lease recognition for all leases that qualify, which means that we do not recognize a ROU asset and lease liability for any lease with a term of twelve months or less. The most significant impact of adopting the standard was the recognition of ROU assets and lease liabilities for operating leases on the Company's consolidated balance sheet but it did not have an impact on the Company's consolidated statements of operations or consolidated statements of cash flows. We recorded a ROU and the related operating lease liability for our long-term facilities lease.

Effective January 1, 2018, we adopted ASU No. 2016-15, *Statement of Cash Flows (Topic 230)* , which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how cash receipts and cash payments are presented in the statement of cash flows. The adoption of ASU No. 2016-15 did not have a significant impact on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02: *Income Statement – Reporting Comprehensive Income (Topic 220)* . Under current accounting guidance, the income tax effects for changes in income tax rates and certain other transactions are recognized in income from continuing operations resulting in income tax effects recognized in accumulated other comprehensive income that do not reflect the current tax rate of the entity (“stranded tax effects”). The new guidance allows us the option to reclassify these stranded tax effects to accumulated deficit that relate to the change in the federal tax rate resulting from the passage of the Tax Cuts and Jobs Act. This update is effective for fiscal years beginning after December 15, 2018, including interim periods therein, and early adoption is permitted. We do not expect the adoption of this standard will have a significant impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement.* which amends the disclosure requirements in ASC 820 by adding, changing, or removing certain disclosures. The ASU applies to all entities that are required under this guidance to provide disclosures about recurring or nonrecurring fair value measurements. These amendments are effective for all entities for fiscal years beginning after December 15, 2019 including interim periods within those fiscal years. We do not expect ASU 2018-13 will have a material impact on our consolidated financial statements.

NOTE 4 – SALE OF SRAXmd

Sale of SRAXmd:

On August 6, 2018, we completed the sale of substantially all of the assets related to our SRAXmd product line for aggregate consideration of $43,000,000. The purchase price consists of (i) $33,000,000 in cash and (ii) an interest in an affiliate of the purchaser of SRAXmd assets that was valued on the closing date at $10,000,000. A total of $762,500 of the purchase price was placed into escrow accounts subject to future release.

Given that the Company will retain an ongoing equity interest in an affiliate of the purchaser of SRAXmd, the Company evaluated the potential existence of variable interest entity accounting treatment under ASC 810. Given the Company had no input into the design of the purchasing entity, is not a primary beneficiary of the purchaser entity and has no ongoing role in management or governance other than that of a passive, minority investor, the Company determined that the presence of a variable interest entity was not present.

Assets transferred to the purchaser in the transaction included $3,536,503 of accounts receivable and $216,479 of prepaid expense items. The purchaser also assumed $191,164 of accounts payable obligations and $333,014 of additional accrued expense items. The Company received a credit to the purchase price of $196,055 for over-delivery of working capital beyond a contractual $3 million working capital target. The Company has recorded a zero value for the interest retained in the purchaser affiliate.

The Company paid $1,709,500 of advisory fees and $351,089 of legal fees at closing. An additional $164,028 was also paid by the Company at closing for insurance premiums and escrow related fees.

During the fourth quarter of 2018, the Company recognized an additional $1,870,361 in costs associated with the transaction.

During the first quarter of 2019, the Company recorded an additional $143,365 in working capital adjustments associated with the transaction and received proceeds of $472,479 on the closure of a $500,000 escrow account.

The Company recorded a gain on sale of assets totaling $22,580,507. Less escrow holdbacks and other reimbursements, the Company received net proceeds from the transaction totaling $23,364,980.

Below are the major components of the gain we recorded on the sale of the SRAX md assets:

GAIN ON SALE OF SRAXmd:

Cash Proceeds	$ 33,350,459
Fair Value of Interest Retained	—
Carrying amount of Assets Sold	
Fixed Assets	(117,000)
Working Capital	(3,140,480)
Transactions Fees & Sales Commissions	(7,512,472)
Gain on Sale	$ 22,580,507

Components of operating results for the SRAXmd product group have not been classified as discontinued operations. Pursuant to guidance in ASC 205-20, Discontinued Operations, we noted that the SRAXmd product line was not a reportable segment or a separate operating segment and nor was it deemed to be a strategic shift. Under this guidance, an entity presents a disposal as a discontinued operation if it "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." ASC Topic 205-20-45 does not clearly define on a quantitative basis as to how an entity would establish whether a component, business activity is individually significant. Additionally, the sale of the SRAXmd product line did not qualify under ASC Topic 360-10-35 to 45 for determination of the gain or loss. The sale of the SRAXmd product group does not constitute a shift in our corporate strategy or purpose as we continue to operate a diversified product group of digital advertising tools, as we have done since inception in 2010. The core technology and other key elements of the SRAX advertising platform will remain owned by us, with certain license agreements for use of our software granted to the purchaser as part of the transaction. SRAXmd was a product developed from our core technology. In addition to the assets, 12 of our existing employees also transferred. The Company has not assigned any goodwill upon disposal of SRAXmd.

SRAXmd, like each of the remaining SRAX product groups/offerings, has not historically operated as a discrete business entity or division within our company. As such, it along with the other product groups rely upon shared employees and a shared technology platform to operate. Furthermore, certain advertisers may also purchase advertising across multiple product lines, making individual product financial statements more difficult to segregate. Due to its in-house organic development, SRAXmd also has no separately capitalized assets that may be presented as held for sale on our balance sheet.

Based on management's best estimates, for the three month period ending March 31, 2018 and twelve month period ended December 31, 2018, the unaudited results for revenue and cost of sales attributable to the SRAXmd product group are estimated below:

	Three Months ended March 31, 2018	Full Year December 31, 2018
Revenue	$ 1,598,217	$ 6,306,613
Cost of Sales	$ 360,792	$ 1,101,080
Gross Profit	$ 1,237,425	$ 5,205,533
Gross Margin	77.43%	82.54%
General, Sales & Administrative expense	$ 887,709	$ 2,896,193
Operating Income	$ 349,716	$ 2,309,340

There is no specific depreciation and amortization, or interest expense specifically attributable to the SRAXmd product line.

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at March 31, 2019 and December 31, 2018:

	2019	2018
Office equipment	$ 353,832	332,933
Accumulated depreciation	(156,836)	(140,868)
Property and equipment, net	$ 196,996	192,065

Depreciation expense for the three months ended March 31, 2019, December 31, 2018 , and March 31, 2018 was $15,968, $13,268, and $9,941 respectively.

NOTE 6 – INTANGIBLE ASSETS, NET

Intangible assets consist of the following:

	March 31, 2019	December 31, 2018
Non-compete agreement	$ 1,250,000	$ 1,250,000
Intellectual property	756,000	756,000
Acquired Software	617,069	617,069
Internally developed software	1,843,153	1,563,401
Total cost	4,466,222	4,186,470
Accumulated amortization	2,660,939	2,423,865
Intangible assets, net	$ 1,805,283	$ 1,762,605

During the three months ended March 31, 2019 and 2018 the Company capitalized $279,752 and $231,774 of costs associated with the development of internal-use software, including directly related payroll costs, respectively.

On August 17, 2017, the Company acquired software from Leapfrog Media Trading in exchange for 200,000 shares of Class A common stock and 350,000 warrants with a term of five years and an exercise price of $3.00. This software was fully integrated into our platform on October 1, 2018. No other assets, customers, employees, intangibles or business operations were acquired in this transaction.

Amortization expense was $37,800 for intellectual property, $51,422 for the acquired Leapfrog software, and $147,852 for the internally developed software for the three months ended March 31, 2019. Amortization expense was $37,800 for intellectual property, $52,083 for the non-compete agreement, and $76,301 for the internally developed software for the three months ended March 31, 2018.

The estimated future amortization expense for the remainder of 2019 and the years ended December 31 thereafter, are as follows:

The estimated future amortization expense for the years ended December 31, are as follows:	
2019	$ 707,458
2020	830,899
2021	260,167
2022	6,759
	$ 1,805,283

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are comprised of the following:

	2019	2018
Accounts payable, trade	$ 2,293,943	$ 2,517,749
Accrued expenses	562,516	256,009
Accrued compensation	491,656	722,010
Accrued commissions	73,796	79,158
Accounts payable and accrued expenses	$ 3,421,911	$ 3,574,926

NOTE 8 – NOTES PAYABLE

Financing and Security Agreement with FastPay

In September 2016, we executed a Financing and Security Agreement, as amended (collectively, the "FastPay Agreement"). with FastPay Partners, LLC to create an accounts receivable-based credit facility. The FastPay Agreement was further amended in April 2018.

Under the April 2018 amended terms of the FastPay Agreement, FastPay may, at its sole discretion, purchase our eligible accounts receivable. Upon any acquisition of accounts receivable, FastPay will advance us up to 80% of the gross value of the purchased accounts, up to a maximum of $4,000,000 in advances. 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. We are 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 an increase to 30% for one specific large customer.

We are obligated to repurchase accounts remaining uncollected after a specified deadline, and FastPay will generally have full recourse against us in the event of nonpayment of any purchased accounts. Our 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. We are 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 our obligations. The FastPay Agreement contains provisions relating to events of default that are customary for agreements of this type.

The current FastPay Agreement has a term of 18 months and automatically renews thereafter for successive one-year terms, subject to earlier termination by written notice by the Company, provided all obligations are paid, including the payment of an early termination fee.

At March 31, 2019 and 2018, $222,549 and $1,287,176 of accounts receivable purchased by FastPay remain outstanding and are subject to repurchase under the terms of the FastPay Agreement.

NOTE 9 – WARRANT LIABILITIES

The discussion below relates to the following (collectively, the “Derivative Warrant Instruments”):

1. In January 2017, the Company issued Series A and Series B Warrants in our registered direct and concurrent private placement. In April 2017, the Company repurchased the Series B Warrants for $2,500,000 and recognized a loss on the repurchase amounting to $2,053,975. Accordingly, only the Series A Warrants are currently outstanding.

2. In April and October 2017, the Company issued the Series A1 Warrants and Series A2 Warrants in connection with the private placement of secured convertible debentures; and
3. In November 2018, the Company issued the Series B1 Warrants upon redemption of the outstanding convertible debentures issued in April and October 2017, pursuant to the terms of such debentures.

The Derivative Warrant Instruments have been accounted for utilizing ASC 815 *"Derivatives and Hedging".* The Company has incurred a liability for the estimated fair value of Derivative Warrant Instruments. The estimated fair value of the Derivative Warrant Instruments has been calculated using the Black-Scholes fair value option-pricing model with key input variables provided by management, as of the date of issuance, with the valuation offset against additional paid in capital, and at each reporting date, with changes in fair value recorded as gains or losses on revaluation in other income (expense).

The Company identified embedded features in the Derivative Warrant Instruments which caused the warrants to be classified as a liability. These embedded features included the right for the holders to request for the Company to cash settle the Warrant Instruments from the Holder by paying to the Holder an amount of cash equal to the Black-Scholes value of the remaining unexercised portion of the Derivative Warrant Instruments on the date of the consummation of a fundamental transaction. The accounting treatment of derivative financial instruments requires that the Company treat the whole instrument as liability and record the fair value of the instrument as a derivative as of the inception date of the instrument and to adjust the fair value of the instrument as of each subsequent balance sheet dates.

As of January 4, 2017, the issuance date of the Series A and B Warrants, the fair value of the Series A and B Warrants of $3,038,344 was determined using the Black-Scholes Model based on a risk-free interest rate of 2% for both the Series A Warrants and the Series B Warrants, an expected term of 5.5 years for the Series A Warrants and 5 years for the Series B Warrants, an expected volatility of 110% for the Series A Warrants and the Series B Warrants and a 0% dividend yield for the Series A Warrants and the Series B Warrants, respectively. In April 2017, the Company repurchased the Series B Warrants for $2,500,000 and recognized a loss on the repurchase amounting to $2,053,975.

The Series A Warrant's fair value as of March 31 2019 and December 31, 2018 was estimated to be $672,155 and $496,000 respectively, based on a risk-free interest rates of 2.46 and 2.20, respectively, an expected term of 3 and 4 years, respectively, an expected volatility of 102% and 167%, respectively and a 0% dividend yield.

As of April 21, and April 28, 2017, the issuance date of the Series A1 Warrants, the Company determined a fair value of $1,228,000 of the Series A1 Warrants. The fair value of the Series A1 Warrants was determined using the Black-Scholes Model based on a risk-free interest rate of 1.875%, an expected term of 5.5 years, an expected volatility of 109% and a 0% dividend yield for each respective date.

The Series A1 Warrant's fair value at March 31, 2019 and December 31, 2018 was estimated to be $1,089,621 and $868,000 respectively based on a risk-free interest rate ranging from 2.21 to 2.73, an expected term ranging from 3.375 to 4.375 years, an expected volatility ranging from 102% to 164% and a 0% dividend yield. During the three month period ending March 31, 2019 and 2018, we recorded an increase and decrease, respectively, in the fair value of the warrant derivative liability of $223,360 and ($888,512), respectively. This was recorded as a loss on change in fair value of derivative liability.

As October 27, 2017, of the issuance date of the Series A2 Warrants, the Company determined a fair value of $2,856,000 of the Series A2 Warrants. The fair value of the Series A2 Warrants was determined using the Black-Scholes Model based on a risk-free interest rate of 2.03%, an expected term of 5.5 years, an expected volatility of 122% and a 0% dividend yield.

The fair value at March 31, 2019 and December 31, 2018 of the Series A2 Warrants was estimated to be $1,950,842 and $1,446,000, respectively based on a risk-free interest rate ranging from 2.20 to 2.46, an expected term ranging from 3.875 to 4.875 years, an expected volatility ranging from 102% to 158% and a 0% dividend yield. During the three month period ending March 31, 2019 and March 31, 2018, we recorded an increase and decrease, respectively, in the fair value of the warrant derivative liability of $505,632 and ($1,517,646), respectively. This was recorded as a loss on change in fair value of derivative liability.

As of November 29, 2018, the issuance date of the Series B1 Warrants, the Company determined a fair value of $3,240,000 of the Series B1 Warrants. The fair value of the Series B1 was determined using the Black-Scholes Model based on a risk-free interest rate of 2.9%, an expected term of 5.0 years, an expected volatility of 162% and a 0% dividend yield. During the three month period ending March 31, 2019, we recorded an increase, in the fair value of the warrant derivative liability of $848,872. This was recorded as a loss on change in fair value of derivative liability.

The fair value at March 31, 2019 of the Series B1 Warrants was estimated to be $2,860,621 based on a risk-free interest rate of 2.5, an expected term of 3.92, an expected volatility of 155% and a 0% dividend yield. The fair value was estimated to be $2,010,230 at December 31, 2018 based on a risk-free interest rate of 2.5, an expected term of 4.6 years, an expected volatility of 105% and a 0% dividend yield.

As August 17, 2017, of the issuance date of the Leapfrog Warrants, the Company determined a fair value of $337,069. The fair value of the Leapfrog Warrants was determined using the Black-Scholes Model based on a risk-free interest rate of 1.65%, an expected term of 5.0 years, an expected volatility of 108% and a 0% dividend yield.

The fair value at March 31, 2019 and December 31, 2018 of the Leapfrog Warrants was estimated to be $830,367 and $622,296 based on a risk-free interest rate of 2.2%, an expected term of 3.4 years, an expected volatility of 105% and a 0% dividend yield.

The Warrant liabilities are comprised of the following at March 31:

	Debenture Warrant Liability	Leapfrog Warrant Liability	Derivative Liability
Balance as of beginning of period (December 31, 2018)	4,323,218	622,436	496,241
Adjustments to Warrants Outstanding	—	—	—
Adjustment to fair value	1,577,866	208,071	175,914
Balance as of end of period (March 31, 2019)	5,901,084	830,507	672,155

	Debenture Warrant Liability	Leapfrog Warrant Liability	Derivative Liability
Balance as of beginning of period (December 31, 2017)	7,256,864	1,873,106	2,026,031
Adjustments to Warrants Outstanding	—	—	—
Adjustment to fair value	(2,409,444)	(629,170)	(685,080)
Balance as of end of period (March 31, 2018)	4,847,420	1,243,936	1,340,951

NOTE 10 – SECURED CONVERTIBLE DEBENTURES, NET

In April 2017, the Company entered into definitive securities purchase agreements with certain accredited investors 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 warrants (“Series A Warrants”) representing the right to acquire up to 833,337 shares of our class A common stock that expire in April 2022, 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.

In connection with our April 2017 Debenture Offering, we also issued the following placement agent warrants:

- Chardan Capital Markets, and its affiliates received warrants to purchase an aggregate of 100,000 shares of Class A common stock at an exercise price of $3.75 per share, with an expiration date of October 21, 2022;
- Noble Financial Capital Markets, and its affiliates received warrants to purchase an aggregate of 66,800 shares of Class A common stock at an exercise price of $3.00 per share, with an expiration date of October 21, 2022; and
- Aspenwood Capital (Colorado Financial Service Corporation) and its affiliates received warrants to purchase an aggregate of 7,700 shares of Class A common stock at an exercise price of $3.75 per share, with an expiration date of October 21,2022.

The net proceeds to us from the offering, after deducting placement agent fees and estimated offering expenses, were approximately $4,636,629. 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, the Company sold an additional $5,180,157.78 of Debentures and issued an additional 863,365 Series A Warrants that expire in October 2022.

In connection with our October 2017 Debenture Offering, we also issued the following placement agent warrants:

- Chardan Capital Markets, and its affiliates received warrants to purchase an aggregate of 160,000 shares of Class A common stock with (i) 105,839 warrants having an exercise price of $3.75 and (ii) 54,161 warrants having an exercise price of $4.49 per share, with an expiration date of April 27, 2022; and
- Aspenwood Capital (Colorado Financial Service Corporation) and its affiliates received warrants to purchase an aggregate of 23,337 shares of Class A common stock at an exercise price of $3.75 per share, with an expiration date of April 27, 2022.

The Company accounted for the Series A1 Debentures in accordance with ASC 470-20 Debt with Conversion and other options. The net proceeds of $4,639,629 from the issuance of the Series A1 Debentures was allocated between the Series A1 Debentures and the fair value of the Series A1 Warrants. The values allocated to the Series A1 Debentures and Series A1 Warrant was $3,408,629 and $1,288,000 respectively. After the allocation between the Series A1 Debentures and Series A1 Warrants, the effective conversion feature was greater than the fair market value of the Company's common stock on the date of issuance, so the adjusted proceeds were not allocated to the conversion feature.

The Company accounted for the Series A2 Debentures in accordance with ASC 470-20 Debt with Conversion and other options. The net proceeds of $4,261,684 from the issuance of the Series A2 Debentures was allocated between the Series A2 Debentures and the fair value of the Series A2 Warrants. The values allocated to the Series A2 Debentures and Series A2 Warrant was $1,405,540 and $2,856,108 respectively. After the allocation between the Series A2 Debentures and the Series A2 Warrants, the adjusted value assigned to Series A2 Debenture created the effected conversion feature to be a rate lower than the current market price for the Company's common stock on the date of the issuance. The value assigned to the conversion feature was $1,405,540.

In November of 2018, the Company redeemed the remaining Debentures for $7,199,674. The redemption amount consisted of: (i) the Debentures' face value $6,545,157 and (ii) a 10% prepayment penalty of $654,517. Additionally, we issued the holders of the outstanding Debentures Series B1 warrants equal to 50% of the of the 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, or an aggregate of 1,090,862 Series B1 Warrants. The Company received no additional consideration for the issuance of the Series B1 Warrants.

The Series B1 warrants have a term of five (5) years from the date in which each of the redeemed Debenture were issued. Accordingly, of the Series B Warrants: (i) 277,500 have an expiration date of April 21, 2022, and (ii) 813,362 have an expiration date of October 27, 2022.

The Series B1 Warrants are initially exercisable at $3.00 per share and, are subject to cashless exercise after six (6) months from the issuance date if the shares underlying the warrants are not subject to an effective registration statement. The Series B1 Warrants also contain anti- dilution protection for subsequent equity sales for a price lower than the then applicable exercise price, with a floor of $1.40.

NOTE 11 – 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.

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, 2018 or 2017 or as of March 31, 2019 or 2018.

On January 4, 2017, we sold an aggregate of: (i) 761,905 shares of Class A common stock; and (ii) five-year 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 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. 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 in April 2017, the exercise price of the Series A Warrants issued to investors in our January 2017 private offering were reset to $2.245 per share.

On April 2017 and we repurchased the Series B Warrants for $2,500,000.

Pursuant to an engagement letter dated December 29, 2016 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 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. The warrants have an exercise price of $6.50 per share and are exercisable for 5.5 years commencing nine months from the issuance date. The shares underlying the warrants were included in a resale registration statement that was declared effective by the SEC in September 2017.

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 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 respective 2017 service on our board of directors. The shares were issued from our 2016 equity compensation plan.

In January 2018, we issued a consultant an additional 150,000 shares for media consulting services. In August 2018, we issued the consultant an additional 150,000 shares pursuant to this same agreement.

In March 2018, we issued 6,667 shares of Class A common stock to one employee for vested stock awards.

In March 2018, 122,950 shares of Class A common stock were awarded to one employee for sales performance achievement pursuant to our 2016 equity compensation plan.

In July 2018, 16,667 Series A common stock purchase warrants were exercised at a price of $3.00 per share, resulting in gross proceeds to the Company of $50,000.

In August 2018, we issued William Packer 3,774 shares of 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 June 2018, we issued 44,815 Series A common stock purchase warrants at an exercise price of $2.245 per share, on a cashless basis.

In September 2018, one investor in the Company's October 2017 debenture financing exercised 16,667 Series A common stock purchase warrants were exercised at a price of $3.00 per share, resulting in gross proceeds to the Company of $50,000.

In September 2018, we issued 100,000 shares of our Class A common stock for legal services rendered.

In September 2018, we issued 50,000 shares of our Class A common stock to Joseph P. Hannan, our former chief financial officer, pursuant to his October 2017 employment agreement. The shares were issued pursuant to our 2016 equity compensation plan, and subject to vesting at issue.

In September 2018, we issued 3,334 shares of Class A common stock to one employee for vested stock awards.

During September 30, 2018, certain debenture holders converted an aggregate of $300,000 in principal into 100,000 shares of the Company's Class A common stock.

On August 6, 2018, we repurchased 514,000 shares of our Class A common stock from Erin DeRuggiero as contracted under the terms of her separation agreement with the Company.

In October 2018, 50,000 shares of our Class A common stock were retired in lieu of cash tax withholding from a vesting on shares previously issued to Joseph P. Hannan, our former chief financial officer.

In October 2018, 23,800 shares of our Class A common stock were retired in lieu of cash tax withholding from a vesting on shares previously issued to Joseph P. Hannan, our former chief financial officer.

During the three months ended March 31, 2019, no Class A common stock was issued.

As of March 31, 2019, and December 31, 2018, there are 10,109,530 issued and outstanding Class A common shares.

Stock Awards

During the year ended December 31, 2018 and as of March 31, 2019, respectively, there were no new grants of restricted stock awards made nor were any previously issued grants forfeited.

Stock Options and Warrants

During the three months ended March 31, 2019 and 2018, we recorded compensation expense of $120,883 and $166,130, respectively, related to stock based compensation. During the three months ended March 31, 2019 and 2018, no options were forfeited, respectively.

During the three months ended March 31, 2019 and 2018, respectively, 0 and 176,402 common stock purchase warrants, having exercise prices of between $5.00 and $10.00, per share, expired.

On January 24, 2018, 176,400 common stock purchase warrants, having exercise prices of $7.50, per share, expired.

On September 11, 2018, 250,000 common stock purchase warrants, having an exercise price of $4.20 per share with an option value as of the grant date of $488,106 calculated using the Black-Scholes option pricing model were granted to Joseph P. Hannan, our former chief financial officer. The options vested one third annually and expire three years after the vesting date. Upon Mr. Hannan's termination in December of 2018, 229,166 option terminated.

On December 16, 2018, 100,000 common stock options, having an exercise price of $2.56 per share with an option value as of the grant date of $226,580 calculated using the Black-Scholes option pricing model were granted to Michael Malone, our chief financial officer. This expense associated with this option award will be recognized in operating expenses ratably over the vesting period.

On March 27, 2019, 685,000 common stock options having an exercise price of $3.42 per share with an option value as of the grant date of $1,513,137 calculated using the Black-Scholes option pricing model were granted to several employees and members of our management team. This expense associated with this option award will be recognized in operating expenses ratably over the vesting period.

NOTE 12 – RELATED PARTY TRANSACTIONS

On March 20, 2018, as we began to formally review potential strategic options for SRAXMD, we entered into certain agreements with Erin DeRuggiero, our chief innovations officer. Pursuant to the terms of the agreements, Ms. DeRuggiero's employment agreement was terminated, and she became a consultant of the Company. The term of the consultancy expires in the second quarter of 2018, or upon the sale of the assets comprising SRAXmd, but may be extended by the parties. The terms of the consultancy are substantially similar to her prior employment agreement except that in the event of a sale of the SRAXmd business unit or substantially all of the assets thereof within 120 days from March 20, 2018, (i) we (or our assignee) have the right and the obligation to purchase all of Ms. DeRuggiero's outstanding Class A common shares (514,667) at a price of $5.80 per share, or an aggregate of $2,985,069 and (ii) we will pay Ms. DeRuggiero, an amount equal to five percent (5%) of the cash consideration received from the sale of the SRAXmd business. The Company and Ms. DeRuggiero agreed to a customary release from any claims that may have arisen during her employment.

On September 11, 2018, we issued a common stock purchase warrant to Joseph P. Hannan, our former Chief Financial Officer. The option entitled Mr. Hannan to purchase 250,000 shares of Class A Common Stock at a price per share of $4.20, had a term of three years and vested quarterly over a three (3) year period. Upon Mr. Hannan's termination in December 2018, 234,375 of these options expired.

Our Chief Executive Officer joined the board of directors of one of our advertising customers which purchases advertising at market rates during the first quarter of 2018.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company records the lease asset and lease liability at the present value of lease payments over the lease term. The leases typically do not provide an implicit rate; therefore, the Company uses its estimated incremental borrowing rate at the time of lease commencement to discount the present value of lease payments. The Company's discount rate for operating leases at March 31, 2019 was 18%. Our Lease does not include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments when appropriate. Lease expense is recognized on a straight-line basis over the lease term. Our weighted-average remaining lease term is 5 years. Future minimum lease payments required under the operating lease for the Mexico facility amounts to $745,363 as of March 31, 2019.

Future minimum lease payments under this rental agreement are approximately as follows:

12/31/2019	$	122,414
12/31/2020		163,218
12/31/2021		163,218
12/31/2022		163,218
12/31/2023		133,295
Total		745,363
Less: Amount representing interest		(240,085)
Present Value of future lease payments		505,278
Less: Current obligation under lease		(146,166)
Long-term lease obligations	$	359,112

The operating cash flows from operating leases were $ 76,564 for the three months ended March 31, 2019.

Lease costs for office space amounted to $76,564

Rent expense was $68,070 for the three months ended March 31, 2018.

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.

BIGtoken Point liability

During the three months ended March 31, 2019 the Company instituted a policy that allows BIGtoken user to redeem outstanding BIGtoken points for cash if their account and point balances meet certain criteria. As of March 31, 2019, the Company has estimated the future liability for point redemptions to be $125,000. The Company considered the total number of points outstanding, the conversion rate in which points are redeemable for cash. Due to the recency of the BIGtoken platform and the ability for users to redeem points for cash, the Company does not have sufficient history to estimate account attrition and the associate breakage rates for outstanding points. Therefore, the Company utilized a breakage factor of zero percent as of March 31, 2019 in determining the estimated liability.

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.

Income Taxes

We and our subsidiaries file U.S. Federal income tax returns and income tax returns in various state, local and foreign jurisdictions.

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate, is subject to significant variation due to several factors, including the variability in accurately predicting our pre-tax and taxable income and the mix of jurisdictions to which they relate, changes in how we do business, changes in our stock price, tax law developments (including changes in statues, regulations, case law, and administrative practices), and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount if pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

For 2019, the anticipated effective income tax rate is expected to continue to differ from the Federal statutory rate of 21% primarily because of the full valuation allowance related to net operating loss carryforwards and certain discrete items.

We consider both positive and negative evidence when evaluating the recoverability of our deferred tax assets ("DTAs"). The assessment is required to determine whether based on all available evidence, it is more likely than not (i.e. greater than a 50% probability) that all or some portion of the DTAs will be realized in the future. As of March 31, 2019, management has concluded a full valuation allowance of the DTAs is necessary because of sufficient uncertainty in our ability to realize the benefit associated with such DTAs in the future.

NOTE 14 – SUBSEQUENT EVENTS

On April 10, 2019 we completed a registered direct offering of 1,687,825 shares our Class A common stock. The offering resulted in gross proceeds to the company of approximately $6.75 million.

On April 8, 2019, we accepted proposals from certain holders of outstanding Class A common stock purchase warrants. Pursuant to the proposal, the holders agreed to exercise their outstanding warrants to purchase an aggregate of 310,487 shares of our common stock, for cash, by April 10, 2019, in exchange for the Company reducing the exercise price of the Warrants from $7.50 to $3.56. As a result of the exercises we received gross proceeds of $1,105,333.

On April 1, 2019, we sold a non-performing receivable in the amount of $567,977, (such amount includes a mutually agreed upon gross-up with our customer of $150,000) for $417,977. In connection with the sale, we agreed to repurchase the receivable if the purchaser was not able to collect on the amounts owed by June 30, 2019. As security for our repurchase obligation, we issued and pledged 220,000 shares of our Class A common stock.

NOTE 15 – Restatement

Financial Information (As Restated)

- The Company has presented restated 2018 financials as of March 31, 2018 and for the three month period ended March 31, 2018, below.

- In addition to the restatement of the financial statements, certain information within the following notes to the financial statements and financial statement schedule has been restated to reflect the corrections of misstatements discussed previously.

The individual restatement matter that underlies the restatement adjustments is described below.

Classification of Warrants

The Company has concluded that the certain Warrants issued in 2017 were required to be classified as liabilities pursuant to the provisions of ASC 815-10 since all of the characteristics of a derivative instrument were met and the Warrants do not qualify for the equity classification scope exception in ASC 815-40-25-10 from derivative accounting, primarily because the Company may be required to cash settle the warrants in circumstances where holders of the Company’s common stock would not be entitled to cash, which is inconsistent with ASC 815-40-55-2 through 55-6. The warrant agreements include a fundamental transaction clause whereby, in the unlikely event that another person becomes the beneficial owner of 50% of the outstanding shares of the Company’s common stock, and if other conditions are met, the Company may be required to purchase the warrants from the holders by paying cash in an amount equal to the Black Scholes value of the remaining unexercised portion of the warrants on the date of such fundamental transaction.

Impact of the Restatement

Below we've presented the first quarter 2018 Financial Statements as previously reported with a reconciliation to the restated financials:

Summary of Restatement Condensed Consolidated Balance Sheet

	March 31, 2018 Originally reported	Adjustments	March 31, 2018 As Restated
Assets			
Current assets:			
Cash and cash equivalents	$ 189,888	$	$ 189,888
Accounts receivable, net	1,734,058		1,734,058
Prepaid expenses	540,753		540,753
Other current assets	300,898		300,898
Total current assets	2,765,597		2,765,597
Property and equipment, net	165,898		165,898
Goodwill	15,644,957		15,644,957
Intangible assets, net	1,708,349		1,708,349
Other assets	32,043		32,043
Total non-current assets	17,551,247	—	17,551,247
Total assets	$ 20,316,844	$ —	$ 20,316,844
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable and accrued expenses	$ 4,682,794	$	$ 4,682,794
Debenture warrant liability	—	1,340,951	1,340,951
Leapfrog warrant liability		1,243,936	1,243,936
Derivative liability		4,847,420	4,847,420
Put liability			—
Total current liabilities	4,682,794	7,432,307	12,115,101
Non-current liabilities:			
Secured convertible debentures, net	2,043,804	(83,545)	1,960,259
Total non-current liabilities	2,043,804	(83,545)	1,960,259
Total liabilities	6,726,598	7,348,762	14,075,360
Commitments and contingencies (Note 11)			
Stockholders' equity:			
Preferred stock, authorized 50,000,000 shares, $0.001 par value, no shares issued or outstanding at March 31, 2018			
Class A common stock, authorized 250,000,000 shares, $0.001 par value, 10,212,738 shares issued and outstanding at March 31, 2018	10,213		10,213
Class B common stock, authorized 9,000,000 shares, $0.001 par value, no shares issued or outstanding at March 31, 2018	—		—
Common stock to be issued	10,000		10,000
Additional paid in capital	38,328,359	(4,596,211)	33,732,148
Accumulated deficit	(24,758,326)	(2,752,550)	(27,510,876)
Total stockholders' equity	13,590,246	(7,348,762)	6,241,485
Total liabilities and stockholders' equity	$ 20,316,844	$ —	$ 20,316,844

Summary of Restatement Condensed Consolidated Statement of Operations Adjustments

	March 31, 2018 Originally Reported	Adjustments	March 31, 2018 As Restated
Revenue	$ 2,110,850	$	$ 2,110,850
Cost of revenue	818,105		818,105
Gross profit	1,292,745	—	1,292,745
Operating expense:			
General, selling and administrative expense	4,130,258	(22,165)	4,108,093
Impairment of goodwill			
Write off of non-compete agreement	—	—	—
Restructuring Costs	—	—	—
Operating expense	4,130,258	(22,165)	4,108,093
Loss from operations	(2,837,513)	22,165	(2,815,348)
Other income (expense):			
Interest expense	(434,785)	—	(434,785)
Amortization of debt issuance costs	(332,658)	(103,008)	(435,666)
Total Interest Expense	(767,443)	(103,008)	(870,451)
Gain on sale of Assets		(22,165)	(22,165)
Exchange Gain or Loss	(4,664)		(4,664)
Loss on settlement			—
Change in Fair Value of Warrant Liability		3,723,696	3,723,696
Other non operating income / (expense)	(4,664)	3,701,531	3,696,867
Total other income / (expense)	(772,107)	3,598,523	2,826,416
Income / (Loss) before provision for income taxes	(3,609,620)	3,620,688	11,068
Provision for income taxes	—	—	—
Net income / (loss)	$ (3,609,620)	$ 3,620,688	$ 11,068
Net income / (loss) per share, basic and diluted	$ (0.36)	0.35	$ 0.00
Weighted average shares outstanding			
Basic	10,037,905	—	10,037,905
Diluted	10,037,905	—	10,037,905

Summary of Restatement Condensed Consolidated Statement of Cash Flows Adjustments

	March 31, 2018 Originally Reported	Adjustments	March 31, 2018 As Restated
Cash flows from operating activities			
Net Income (loss)	$ (3,609,620)	3,620,688	$ 11,068
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	—		
Stock based compensation	166,130	—	166,130
Amortization of debt issuance costs	93,639	—	93,639
Accretion of debenture discount and warrants	239,018	103,008	342,026
Gain/Loss on valuation of warrant derivatives	—	(3,723,696)	(3,723,696)
Gain on sale of SRAXmd	—	—	—
Provision for bad debts	(425)	—	(425)
Depreciation expense	9,441	—	9,441
Amortization of intangibles	166,185	—	166,185
Changes in operating assets and liabilities:	—	—	
Accounts receivable	2,614,671	—	2,614,671
Prepaid expenses	(72,416)	—	(72,416)
Other assets	(3,445)	—	(3,445)
Accounts payable and accrued expenses	(178,022)	—	(178,022)
Net cash used in operating activities	(574,844)	—	(574,844)
Cash flows from investing activities			
Proceeds from SRAXmd	—	—	—
Purchase of equipment	(20,793)	—	(20,793)
Development of software	(231,774)	—	(231,774)
Net cash (used in) provided by investing activities	(252,567)	—	(252,567)
Cash flows from financing activities			
Net cash provided by financing activities	—		—
Net increase / (decrease) in cash and cash equivalents	(827,411)	—	(827,411)
Cash and cash equivalents, beginning of period	1,017,299	—	1,017,299
Cash and cash equivalents, end of period	$ 189,888		$ 189,888
Supplemental schedule of cash flow information			
Cash paid for interest	$ 340,684		$ 340,684
Cash paid for taxes	$ —		$ —
Supplemental schedule of noncash financing activities			
Vesting of common stock award	150,000		150,000
Issuance of common stock to be issued	869,500		869,500

Notes on Adjustments:

The adjustments to the consolidated balance sheet reflect the effect of adjusting certain warrants from equity reporting to liability reporting. The adjustments to the consolidated statement of operations reflect the changes in fair the value of these warrants from 12/31/17 through March 31, 2018.

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

The following discussion of our financial condition and results of operations for the three-month periods ended March 31, 2019 and 2018 should be read in conjunction with the unaudited condensed consolidated financial statements and the notes to those statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements because of several factors, including those set forth under the Part I, Item 1A, Risk Factors, Cautionary Notice Regarding Forward-Looking Statements and Business sections in our Annual Report on Form 10-K for the year ended December 31, 2018, this report, and our other filings with the Securities and Exchange Commission. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this report.

Overview

We are a digital marketing and data technology company. 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; and
- sales of proprietary consumer data.

BIGToken Platform

On February 1, 2019, the BIGToken Platform became generally available to the public. Users of the BIGToken Platform receive points for undertaking certain actions on the platform. These points are then redeemable for cash directly from us. We also anticipate that users will be able to redeem the points for goods and/or services offered by our sponsors. The value each point being redeemed is at the discretion of management with regard to cash payments and we anticipate at the discretion of our sponsors with regard to goods and/or services. As of March 31, 2019, we have not generated any revenue through the sale of data gathered from users of the BIGToken Platform. Since commencing the BIGToken project, we have spent approximately $3 million in the development and management of the BIGToken Platform. Additionally, as stated above, we are currently obligated to redeem users’ points which are earned on our BIGToken Platform. We are currently redeeming each point for $0.01, subject to the user meeting certain conditions, including, being a US resident. As of March 31, 2019, we recorded a contingent liability for future point redemptions equal to 125,000 and we have redeemed an aggregate of 1 million points for $10,000. In March of 2019, we experienced a surge in the number of users of our BIGToken Platform. As of April 30, 2019, we had approximately 15 million users, based upon the points accumulated by qualified users, we may be required to redeem in excess of $500,000 worth of points.

In February of 2019, we filed a registration statement with the SEC in order to register shares of our BIGToken tracking stock (“BIGToken Stock”). Subsequently, we received comments from the SEC and are currently in the process of reviewing such comments. As of the date hereof, we have not issued any shares of BIGToken Stock.

Notwithstanding the foregoing, we believe that in order to fully launch the BIGToken Platform and recognize all the benefits therefrom, not only will we be required to further increase the functionally of the platform (the development of blockchain technology that has yet to be developed and implemented regarding the tracking of brand transactions) but we will also need to comply with both state and federal securities laws and regulations with regard to certain aspects of the platform and specifically, BIGToken. There can be no assurances that we will successfully develop the blockchain portion of the BIGToken Platform or that we will be able to comply with any applicable laws or regulations on a timely basis, if at all. Our failure successfully complete the development of the BIGToken Platform or to adequately comply with applicable laws and regulations, or comply with them on a timely basis, will greatly impact the value and utility of the BIGToken Platform and could materially impact the operations of our company.

Classification of Warrants

The Company has concluded that the certain Warrants issued in 2017 and 2018 were required to be classified as liabilities pursuant to the provisions of ASC 815-10 since all of the characteristics of a derivative instrument were met and the Warrants do not qualify for the equity classification scope exception in ASC 815-40-25-10 from derivative accounting, primarily because the Company may be required to cash settle the warrants in circumstances where holders of the Company's common stock would not be entitled to cash, which is inconsistent with ASC 815-40-55-2 through 55-6. The warrant agreements include a fundamental transaction clause whereby, in the unlikely event that another person becomes the beneficial owner of 50% of the outstanding shares of the Company's common stock, and if other conditions are met, the Company may be required to purchase the warrants from the holders by paying cash in an amount equal to the Black-Scholes value of the remaining unexercised portion of the warrants on the date of such fundamental transaction.

See discussion below Other income (loss) for the effects of this on the results operations.

Results of operations

Three months ended March 31, 2019 compared to three months ended March 31, 2018

Selected Consolidated Financial Data

	Three months ended March 31, 2019 (unaudited)	Three months ended March 31, 2018 (unaudited) Restated	$ Change	% Change
Revenue	$ 591,755	2,110,850	$ (1,519,095)	-72%
Cost of revenue	342,347	818,105	(475,758)	-58%
Gross profit	249,408	1,292,745	(1,043,337)	-81%
Gross margin percentage	42.15%	61.24%		
Operating expense	4,490,961	4,108,093	382,868	9%
Income (loss) from operations	(4,241,553)	(2,815,348)	(1,426,205)	n/m
Interest income (expense)	(67,988)	(870,451)	802,463	-92%
Other income (loss)	(1,475,863)	3,696,867	(5,172,730)	n/m
Net income (loss)	(5,785,404)	11,068	(5,796,472)	n/m
Net income (loss) per share, basic and diluted	(0.57)	—	(0.57)	n/m
Weighted average shares outstanding	10,109,530	10,037,905	71,625	1%

Revenue

The decrease in our revenue during the three months ended March 31, 2019 compared to the same period of 2018 is the result of a decrease in revenue from our *SRAX* sell-side and buy-side clients and the loss of revenue from SRAXmd, partially offset by an increase in revenue from our SRAX verticals.

Cost of revenue

Cost of revenue consists of certain labor costs, payments to website publishers and others that are directly related to a revenue-generating event and project and application design costs. During the three months ended March 31, 2019, our gross margin decreased substantially as a result of a loss of our higher margin revenue from SRAXmd. Cost of revenue as a percent of total revenue increased to 57.8% for the three-month period ended March 31, 2019 as compared to 38.8% for the comparable period ending year ended March 31, 2018.

Operating expense

Our operating expense is comprised of salaries, commissions, marketing, and general overhead expense. Overall, operating expense increased approximately 9% for the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018. This increase was primarily due to increased expense related to our BIGToken subsidiary and growth in our sales organization, partially offset by lower expenses resulting from the sale of the SRAX md business unit. During the third quarter of 2017 we launched the BIGToken. During the year ended December 31, 2018 operating expenses relating to the BIGToken project was approximately $2.2 million.

Interest expense

Interest expense for the period ending March 31, 2019 represents accounts receivable factoring fees. Interest expense, net of interest income for the three-month period ending March 31, 2019 decreased from the same period in the prior year by $802,463 due to the redemption of the Company's 12.5% secured debentures on November 29, 2018.

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 and the accretion of warrants. We use Adjusted EBITDA to measure our operations by excluding interest and certain additional non-cash expenses and gain or loss on sale of assets and changes in the valuation of derivatives. 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 income (loss) to Adjusted net loss and Adjusted EBITDA for the periods presented:

	For the three months ended March 31,	
	2019	2018 As Restated
Net Income / (Loss)	$ (5,785,404)	$ 11,068
Plus:		
Equity based compensation	120,884	166,130
Accretion of beneficial conversion feature	—	—
Accretion of debenture discount and warrants	—	9,885
Adjusted net income (loss)	(5,664,520)	187,083
Interest (income) expense	67,988	870,451
Depreciation and amortization	253,043	175,626
Change in Fair Value of Warrant Liability	1,961,851	(3,723,696)
Gain on Sale	(472,479)	22,165
Other income (loss)	13,509	4,664
Adjusted EBITDA	$ (3,840,608)	$ (2,463,707)

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 March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018 As Restated
Current assets(1)	$ 1,361,658	$ 5,467,713
Current liabilities	(10,825,662)	(9,017,121)
Working capital	$ (9,464,004)	$ (3,549,408)

Our current assets include cash and cash equivalents of $17,672 and $2.8 million as of March 31, 2019 and December 31, 2018, respectively. Current assets decreased by $4,106,055 driven by a decrease in cash and accounts receivable driven by cash used to fund our operations during the quarter.

Our current liabilities include warrant and derivative liabilities of $7.4 million and $5.4 million as of March 31, 2019 and December 31, 2018, respectively. Current liabilities increased by $1,808,541 primarily from increase in derivative liabilities driven by increase in the valuation of these derivatives, which was partially off-set by a decrease in accounts payable of $153,010.

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 March 31, 2019, we had an accumulated deficit of $24,563,753. As of March 31, 2019, we had $17,672 in cash and cash equivalents and net working capital of negative $9,464,004 as compared to $2,784,865 in cash and cash equivalents and net working capital of negative $3,549,408 at December 31, 2018.

On February 1, 2019 the BIGToken Platform became generally available to the public. To date, we have not generated any revenue from the platform. We anticipate that once the BIGToken Platform begins generating revenue, we will be able to finance it independently from Social Reality through the sale of the subsidiary's equity, debt, or equity-linked securities. Until such time, we anticipate we will continue funding the BIGToken Platform internally. Based on our current development plans, and assuming there is no revenue for the first twelve months, we estimate that the BIGToken Platform will require approximately $2 million and $4 million for the initial and subsequent 12-month periods from the time it became generally available to the public, respectively, provided however that such capital requirements may increase or decrease based on the speed of development, user adoption rates, revenues and the rate at which users redeem points. In the event that BIGToken is not able to secure independent funding once it commences generating revenue, 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 part of the BIGToken Platform becoming generally available to the public, we offered to redeem points earned on the platform from our users. Accordingly, we are currently obligated to redeem users' points which are earned on our BIGToken Platform. We are currently redeeming each point for $0.01, subject to the user meeting certain conditions, including, being a US resident. As of March 31, 2019, we recorded a contingent liability for future point redemptions equal to $125,000 and we have redeemed an aggregate of 1 million points for $10,000. In March of 2019, we experienced a surge in the number of users of our BIGToken Platform. As of April 30, 2019, we had approximately 15 million users, based upon the points accumulated by qualified users, we may be required to redeem in excess of $500,000 worth of points.

Cash flows from operating activities

Net cash used in operating activities was $2,939,021 during the three months ended March 31, 2019 compared to $574,844 for the comparable period in 2018. During the three months ended March 31, 2019, the Company's accounts receivable decreased by $1,277,728 compared to an increase of $2,614,671 for the comparable period in 2018. Accounts payable and accrued liabilities during the three months ended March 31, 2019 decreased by $299,177 compared to a decrease of $178,022 for the comparable period in 2018.

Cash flows from investing activities

During the three months ended March 31, 2019 net cash provided by investing activities was $171,828 used in investing activities was $300,651 compared to $252,567 for the three months ended March 31, 2018.

Cash flows from financing activities

During the three month periods ending March 31, 2019 and 2018 the Company did not engage in any 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 by factoring our receivables and, to a lesser extent, equipment leasing arrangements.

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.

Based on our cash and cash equivalents as of March 31, 2019, together with cash provided by our operations and investing activities and taking into account cash expected to be used in our operations, but specifically excluding any cash that we may need to expend to redeem points earned on our BIGToken Platform, we had sufficient cash to meet our anticipated cash needs for at least the next month. Subsequently, in April 2019, we received: (i) $417,000 from the sale of receivables, (ii) $6.2 million from the direct registered offering of our Class A common stock and (iii) $1.1 million from the exercise of outstanding warrants resulting in aggregate net proceeds of approximately $7.8 million. Based upon the capital received in April, and the anticipated cash generated from our operations, but specifically excluding any cash that we may need to expend to redeem points earned on our BIGToken Platform, we anticipate we will be able to meet our cash needs for at least the following 12 months or until the second quarter of 2020. 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, or on terms acceptable to us or at all.

We intend to pursue opportunities to obtain additional financing in the future through the sale of our securities. On November 28, 2016, our shelf registration statement (Registration No. 333-214644), was declared effective by the SEC. Under such shelf registration statement, we can offer and sell up to $25 million of equity securities. Through May 1, 2019 we have sold approximately $10.75 million of securities under our shelf registration statement. Based on our current market capitalization, we are limited to the use of our shelf registration statement by Item I.B.6 of Form S-3. Accordingly, we can only issue up to one-third of our market capitalization every twelve months. As a result of our April 2019 offering as well as the remaining amount under our shelf registration statement, we can issue up to approximately another 2.5 million shares.

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 affect 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable, as we are a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures . We maintain “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. In designing and evaluating our disclosure controls and procedures, our management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer 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 SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure as a result of continuing material weaknesses in our internal control over financial reporting identified in our Annual Report on Form 10-K for the year ended December 31, 2018.

On April 7, 2019, our management concluded and our audit committee concurred that previously issued quarterly and year-to-date unaudited consolidated financial statements for March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018 and September 30, 2018 and that its audited consolidated financial statements for the year ending December 31, 2017 should no longer be relied upon. We believe that managements determination of non-reliance could partially be attributed to our failure to maintain effective controls and procedures.

We continue to work toward full remediation of these material weaknesses. We expect that the remediation of these material weaknesses in our internal control over financial reporting will remediate the weakness in our disclosure controls and procedures.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 1A. RISK FACTORS.

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 operating losses and there are no assurances we will report profitable operations in the foreseeable future.

Although we reported Net Income for the year-ended December 31, 2018 we reported losses from operations of $11,719,151. At December 31, 2018 and March 31, 2019, we had an accumulated deficit of $18,778,348 and $24,563,753 respectively. 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. 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 not able to grow, increase revenue and begin generating consistent profits, 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 management and audit committee have determined the need to restate certain of our consolidated financial statements for the year ending December 31, 2017 and quarters ending March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018 and September 30, 2018 as a result of the improper accounting treatment of certain warrants.

On April 7, 2019, management and the audit committee of our board of directors determined that our previously issued quarterly and year-to-date unaudited consolidated financial statements for March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018 and September 30, 2018 and our audited consolidated financial statements for the year ending December 31, 2017 should no longer be relied upon. In addition, we determined that related press releases, earnings releases, and investor communications describing our financial statements for these periods should no longer be relied upon. The errors identified are all non-cash and primarily related to our classification of certain outstanding warrants with provisions that allow the warrant holder to force cash redemption under certain circumstances. Accordingly, we plan to restate the annual, quarterly and year-to-date audited and unaudited consolidated financial statements for the foregoing periods.

Accordingly, although we previously disclosed that we had ineffective controls, investors in our securities may lose confidence in our financial statements and management, which could result in a decrease in our stock price and negative sentiment in the investment community.

The restatement of certain of our financial statements may subject us to additional risks and uncertainties, including the increased possibility of legal proceedings and shareholder litigation.

As a result of the plan to restate our previously issued quarterly and year-to-date unaudited consolidated financial statements for March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018 and September 30, 2018 and our audited consolidated financial statements for the year ending December 31, 2017, we may become subject to additional risks and uncertainties, including, among others, the increased possibility of legal proceedings, shareholder lawsuits or a review by the SEC and other regulatory bodies, which could cause investors to lose confidence in our reported financial information and could subject us to civil or criminal penalties, shareholder class actions or derivative actions. We could face monetary judgments, penalties or other sanctions that could have a material adverse effect on our business, financial condition and results of operations and could cause our stock price to decline.

Our failure to maintain an effective system of internal control over financial reporting, has resulted in the need for us to restate previously issued financial statements. As a result, current and potential stockholders may lose confidence in our financial reporting, which could harm our business and value of our stock.

As described in our Annual Report on Form 10-K for the year ended December 31, 2018, our management has determined that, as of December 31, 2018, 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, 2018, management has determined that we have yet to fully remediate the previously identified material weaknesses.

We believe our failure to maintain effective systems of internal controls over financial reporting have resulted in our need to restate the following previously issued quarterly and year-to-date unaudited consolidated financial statements for March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018 and September 30, 2018 and our audited consolidated financial statements for the year ending December 31, 2017

We have concluded that certain of our previously issued financial statements should not be relied upon and have restated certain of our previously issued financial statements, which may lead to, among other things, shareholder litigation, loss of investor confidence, negative impact on our stock price and certain other risks.

As discussed in the Explanatory Note, 16, “Restatement of Previously Reported Consolidated Annual Financial Statements” and in Note 14, “Quarterly Financial Information (unaudited)” under Item 8 of our 2018 Form 10-K filed on April 16, 2019, we have concluded that our previously issued financial statements as of December 31, 2017 and for each of the quarterly and year-to-date periods in 2017, and the quarterly periods through September 30, 2018 should no longer be relied upon. The determination that the applicable financial statements should no longer be relied upon and that certain financial statements would be restated was made following the identification of misstatements. As a result of these misstatements, we have become subject to a number of additional risks and uncertainties, including unanticipated costs for accounting and legal fees in connection with or related to the restatement, shareholder litigation and government investigations. Any such proceeding could result in substantial defense costs regardless of the outcome of the litigation or investigation. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs.

We are remediating certain internal controls and procedures, which, if not successful, could result in additional misstatements in our financial statements negatively affecting our results of operations.

We are in the process of implementing certain remediation actions. See Item 9A. “Controls and Procedures” of our annual report on Form 10-K filed on April 16, 2019 for a description of these remediation measures and Item 4 “Controls and Procedures of this Form 10-Q. To the extent these steps are not successful, not sufficient to correct our material weakness in internal control over financial reporting or are not completed in a timely manner, future financial statements may contain material misstatements and we could be required to restate our financial results. Any of these matters could adversely affect our business, reputation, revenues, results of operations, financial condition and stock price and limit our ability to access the capital markets through equity or debt issuances.

We may be required to expend significant capital to redeem BIGToken Points which will negatively impact our ability to fund our core operations.

Users of the BIGToken Platform receive points for undertaking certain actions on the platform that may be redeemed directly for cash from us, with such value as determined by management. Accordingly, we are currently obligated to redeem users' points which are earned on our BIGToken Platform. We are currently redeeming each point for $0.01, subject to the user meeting certain conditions, including, being a US resident. As of March 31, 2019, we recorded a contingent liability for future point redemptions equal to $125,000 and we have redeemed an aggregate of 1 million points for $10,000. In March of 2019, we experienced a surge in the number of users of our BIGToken Platform. As of April 30, 2019, we had approximately 15 million users. As of April 30, 2019, we had approximately 15 million users, based upon the points accumulated by qualified users, we may be required to redeem in excess of $500,000 worth of points. Notwithstanding the foregoing, in the event that our users under the BIGToken Platform continue to increase, we will be required to have sufficient cash reserves to redeem points held by our qualified users for cash. There can be no assurance that we will have sufficient cash reserves, or in the event that we do have sufficient cash, if we will be able to continue to fund our other business obligations and operational expenses.

Security breaches and improper access to or disclosure of our data or user data, or other hacking and phishing attacks on our systems, could harm our reputation and adversely affect our business.

Our industry is prone to cyber-attacks by third parties seeking unauthorized access to our data or users' data or to disrupt our ability to provide service. Any failure to prevent or mitigate security breaches and improper access to or disclosure of our data or user data, including personal information, content, or payment information from or to users, or information from marketers, could result in the loss or misuse of such data, which could harm our business and reputation and diminish our competitive position. In addition, computer malware, viruses, social engineering (predominantly spear phishing attacks), and general hacking have become more prevalent in our industry. Our BIGToken platform has experienced an increase in the occurrence of such attempts and we cannot be assured that we will be able to prevent a successful attack on our systems in the future. We also regularly encounter attempts to create false or undesirable user accounts or take other actions on our BIGToken Platform for purposes such as spreading misinformation, attempting to have us improperly purchase user data or other objectionable ends. As a result of recent attention and growth of our BIGToken Platform, the size of our user base, and the types and volume of personal data on our systems, we believe that we are a particularly attractive target for such breaches and attacks. Our efforts to address undesirable activity may also increase the risk of retaliatory attacks. Such attacks may cause interruptions to the services we provide, degrade the user experience, cause users or marketers to lose confidence and trust in our products, impair our internal systems, or result in financial harm to us. Our efforts to protect our company data or the information we receive may also be unsuccessful due to software bugs or other technical malfunctions; employee, contractor, or vendor error or malfeasance; government surveillance; or other threats that evolve. In addition, third parties may attempt to fraudulently induce employees or users to disclose information in order to gain access to our data or our users' data. Cyber-attacks continue to evolve in sophistication and volume, and inherently may be difficult to detect for long periods of time. Although we are currently in the process of developing systems and processes that are designed to protect our data and user data, to prevent data loss, to disable undesirable accounts and activities on our BIGToken Platform, and to prevent or detect security breaches, we cannot assure you that such measures will ultimately become operational or provide absolute security, and we may incur significant costs in protecting against or remediating cyber-attacks.

Affected users or government authorities could initiate legal or regulatory actions against us in connection with any actual or perceived security breaches or improper disclosure of data, which could cause us to incur significant expense and liability or result in orders or consent decrees forcing us to modify our business practices, especially with regard to the BIGToken Platform. Such incidents or our efforts to remediate such incidents may also result in a decline in our active user base or engagement levels. Any of these events could have a material and adverse effect on our business, reputation, or financial results.

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 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 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 Michael Malone. We are a party to an employment agreement with each of Mr. Miglino, and Mr. Malone, 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.

Weak economic conditions may reduce consumer demand for products and services.

A weak economy in the United States could adversely affect demand for advertising products, and services. A substantial portion of our revenue is derived from businesses that are highly dependent on discretionary spending by individuals, which typically falls during times of economic instability. Accordingly, the ability of our advertisers to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments remain weak or decline further. We currently are unable to predict the extent of any of these potential adverse effects.

Certain of our subsidiaries and business affiliates have operations outside of the United States that are subject to numerous operational risks.

Certain of our subsidiaries and business affiliates have operations in countries other than the United States. In many foreign countries, it is not uncommon to encounter business practices that are prohibited by certain regulations, such as the Foreign Corrupt Practices Act and similar laws. Although certain of our subsidiaries and business affiliates have undertaken compliance efforts with respect to these laws, their respective employees, contractors and agents, as well as those companies to which they outsource certain of their business operations, may take actions in violation of their policies and procedures. Any such violation, even if prohibited by the policies and procedures of these subsidiaries and business affiliates or the law, could have certain adverse effects on the financial condition of these subsidiaries and business affiliates. Any failure by these subsidiaries and business affiliates to effectively manage the challenges associated with the international operation of their businesses could materially adversely affect their, and hence our, financial condition.

Risks Related to Ownership of our Securities

We do not know whether an active and liquid trading market will develop for our Class A common stock.

The trading of our Class A common stock may be viewed as relatively sporadic and with limited liquidity. The lack of an active and liquid 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 market price of our Class A common stock may be volatile.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than those of a seasoned issuer. The volatility in our share price is attributable to a number of factors. Mainly however, we are a speculative or "risky" investment due to our limited operating history, lack of significant revenues to date, our continued operating losses and missed guidance. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

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 annual report, 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, in the past, we have missed guidance a number of times. 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.

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. 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 BIGToken Preferred Tracking Stock will ever be issued.

The Company recently launched the BIG Platform as a means of securing higher quality user data. In February of 2019, we filed a registration statement with the SEC in order to register shares of our BIGToken Stock. Subsequently, we received comments from the SEC and are in the process of reviewing such comments. Should our registration statement not be declared effective, the attractiveness of the BIG Platform may be materially affected, and we may only recognize limited benefits from the project, if any.

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 BIGToken Platform. Notwithstanding the foregoing, BIGToken could seek to utilize alternative technologies to operate its platform.

The growth of the blockchain industry in general, as well as the blockchain networks on which brand data will be stored on the BIG Platform, is subject to a high degree of uncertainty. The factors affecting the further development of blockchain networks, include, without limitation:

- worldwide growth in the adoption and use of blockchain technologies;
- government and quasi-government regulation of blockchain assets and their use, or restrictions on or regulation of access to and operation of blockchain networks or similar systems;
- changes in consumer demographics and public tastes and preferences; or
- the availability and popularity of other forms or methods of buying and selling goods and services, including new means of using existing networks

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

The following information is given with regard to unregistered securities sold since January 1, 2019. 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:

- On April 1, 2019, we sold a non-performing receivable in the amount of $567,977, (such amount includes a mutually agreed upon gross-up with our customer of $150,000) for $417,977. In connection with the sale, we agreed to repurchase the receivable if the purchaser was not able to collect on the amounts owed by June 30, 2019. As security for our repurchase obligation, we issued and pledged 220,000 shares of our Class A common stock.
- On March 27, 2019, we issued 685,000 Class A common stock purchase options valued at $1,513,137 to members of the Company’s management team and various employees. The options vest one-third annually over a three year period and expire in three years from the date of issuance.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable to our company's operations.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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	10-K	4.13	001-37916	4/2/18
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
4.25	Form of Placement Agent Warrant from April 2019 Offering	8-K	4.01	001-37916	4/10/19
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-K	10.02	001-37916	4/2/18
10.03	Amendment to Asset Purchase Agreement with Leapfrog Media Trading dated 8/17/17	10-K	10.03	001-37916	4/2/18
10.04	Transition Services Agreement in Leapfrog Media Trading Transaction	10-K	10.04	001-37916	4/2/18
10.05	Sample Leakout Agreement in Leapfrog Media Trading Transaction	10-K	10.05	001-37916	4/2/18
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
10.19**	Form of Proprietary Information, Inventions and Confidentiality Agreement	S-1	10.03	333-179151	1/25/12
10.20**	Form of Indemnification Agreement with Officers and Directors	S-1	10.04	333-179151	1/25/12
10.21	Indemnification Agreement with Richard Steel dated 10/30/14	8-K	10.30	333-215791	11/4/14
10.22	Sublease for principal executive offices dated 8/12/12 with TrueCar, Inc.	S-1	10.16	333-193611	1/28/14
10.23	Services Agreement with Servicios y Asesorias Planic, S.A. de cv dated 1/25/13	10-K	10.9	000-54996	3/31/15
10.24	Sublease Agreement with Amarcore, LLC dated 1/1/15	S-1	10.17	333-206791	9/4/15
10.25	Advisory Agreement with Kathy Ireland Worldwide, LLC dated 11/14/16	10-Q	10.49	001-37916	11/14/16
10.26	Financing and Security Agreement with FastPay Partners, LLC	8-K	10.41	000-54996	9/23/16
10.27	Share Acquisition and Exchange Agreement with Five Delta, Inc.	8-K	10.34	000-54996	12/22/14
10.28	Secured Subordinated Promissory Note to Richard Steel dated 10/30/14	8-K	10.18	000-54996	11/4/14
10.29	Subordination Agreement with Richard Steel and Victory Park Management, LLC dated 10/30/14	8-K	10.22	000-54996	11/4/14
10.30	Securities Purchase Agreement for January 2017 Offering	8-K	10.1	001-37916	1/4/17
10.31	Placement Agent Agreement for January 2017 Offering with Chardan Capital Markets	8-K	10.2	001-37916	1/4/17
10.32	Financing Agreement with certain Lenders and Victory Park Management, LLC	8-K	10.23	000-54996	11/4/14
10.33	First Amendment to Financing Agreement dated 5/14/15	10-Q	10.38	000-54996	5/15/15
10.34	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
10.35	Registration Rights Agreement dated 10/30/14	8-K	10.26	000-54996	11/4/14
10.36	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
10.37	Letter Agreement dated 1/5/17	10-K	10.35	001-37916	3/31/17
10.38	Insider Trading Policy adopted as of 2/23/16	10-K	10.36	001-37916	3/31/17
10.39	Form of Securities Purchase Agreement for April 2019 Offering	8-K	10.01	001-37916	4/10/19
10.40	Form of Placement Agent Agreement from April 2019 Offering	8-K	10.02	001-37916	4/10/19

18.01	Preference Letter regarding Change in Accounting Principle		10-Q	18.1	001-37916	11/14/16
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	*				

SIGNATURES

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

	SOCIAL REALITY, INC.
May 15, 2019	By: /s/ Christopher Miglino Christopher Miglino, Chief Executive Officer, principal executive officer
May 15, 2019	By: /s/ Michael Malone Michael Malone, Chief Financial Officer, principal financial and accounting officer