

Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis together with our consolidated financial statements and the related notes. This discussion contains forward-looking statements that are based on our current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under “Risk Factors” annexed as Exhibit A hereto.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking statements include, but are not limited to, statements with respect to the nature of the usage of our software-as-a-service platform, our strategy and capabilities, changing audience and advertising demand for local news and media, needs for new technology from local news and media industry, the vertical and regional expansion of our market and business opportunities, the expansion of our product offering, and the estimated number of smart device users, local news and media businesses and digital advertisers in the future. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict or are beyond our control. Consequently, readers should not place undue reliance on such forward-looking statements.

The forward-looking statements reflect our current expectations and are based on information currently available to us and on assumptions we believe to be reasonable. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause our actual results, activities, performance or achievements to be materially different from that expressed or implied by such forward-looking statements. These forward-looking statements include, but are not limited to:

- our ability to obtain additional financing;
- our ability to implement our business strategy;
- our ability to successfully integrate any acquired businesses;
- our overall ability to effectively respond to technology changes affecting the industry and increasing competition from other technology providers;
- our ability to retain existing content management system (“CMS”) platform customers or add new ones;
- our ability to generate new customers for our mobile technology products;
- the availability of advertising inventory and the market demand and prices of such inventory;
- our ability to introduce changes to our existing products or develop and introduce new and unproven products and our customers’ or the market’s acceptance of such products;
- our ability to manage our growth effectively;
- the recent consolidation and vertical integration within the local news broadcasting industry;
- the business conditions of our customers particularly in the local news broadcasting and adjacent industries;
- the adoption of ASTC 3.0 and its implications on our customers;
- our ability to expand our customer base to global markets; and
- our ability to protect our intellectual property.

Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. The forward-looking information contained herein is made as of the date of this document and, other than as required by law, we do not assume any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise.

In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

In this document, currency amounts are stated in U.S. dollars (“\$”), unless specified otherwise. All references to CDN\$ are to Canadian dollars.

Overview

We have had two distinct phases of product evolution in our history. From February 2013 until August 2015, we developed mobile applications and a next generation server platform. Through the acquisition of Frankly Media in August 2015, we leveraged our existing mobile and platform expertise to become a SaaS provider of content management for broadcasters and media companies.

Our mission is to help TV broadcasters and media companies transform their traditional business from just delivering content over-the-air via broadcast television to distributing content in multi-platform, digital formats on new platforms such as mobile, tablets, desktop and other connected devices. Our core product is a white-labeled software platform that enables media companies to publish their official content onto multiscreen devices, increase social interaction on those multiscreen experiences, and enable digital advertising. The platform consists of a CMS platform, native mobile and OTT applications, responsive web framework, digital video solutions and digital advertising solutions.

We generate revenues by charging monthly recurring software licensing fees, variable usage fees for our platform and sharing digital advertising revenue with our customers. We enter into written contracts with our customers pursuant to which we provide access to our online, software-as-a-service, content management platform. These contracts typically cover the use of the platform and ancillary services such as delivery and storage of video content, and access to ad-serving and analytics functionality. Many of these agreements also grant us the right to sell online advertising inventory on behalf of the customer pursuant to a revenue sharing arrangement with the customer. Our agreements are generally for a three-year term and do not provide for early termination rights. We bill our customers monthly or quarterly for the fees associated with the software license, and monthly in arrears for variable usage fees incurred by a customer’s use of our platform. We generally make advertising revenue share payments to our customers on a quarterly basis.

Our platform is currently being used by approximately 50+ U.S. local news stations, mostly affiliated with large broadcasting networks such as NBC, CBS, FOX and ABC. We plan to enhance our platform in the future by expanding our offerings to other media verticals and international markets, together with investments into channel partnerships, sales and marketing, enhanced data analytics and innovative advertising products.

Our revenues decreased from \$25.6 million for the year ended December 31, 2017 to \$23.7 million for the year ended December 31, 2018, representing a period-over-period decrease of \$2.0 million or 8%. We had a net loss of \$17.2 million in 2017 and \$11.2 million in 2018.

Trends Affecting Our Business

Our primary customers today are local affiliate TV stations, which as an industry, are undergoing consolidation which we believe will continue in the coming years. This would result in a contraction of the number of customers available to use our services in this particular customer segment, although not necessarily in the total aggregate value of the addressable market size of this segment. In parallel, the local affiliate TV stations are facing increasing competition from companies that deliver video content over the internet, commonly referred to as “over-the-top,” or OTT. The increased competition includes both direct competition from other local affiliate TV stations that are keeping pace with these changing trends and early adoption of OTT alternatives for their user base, as well as new competitors which include a range of players from an individual YouTube star at one end, to large well-funded technology enabled companies such as Netflix, Hulu, Google, Apple and Amazon.

With such growth of OTT programming, consumers' video content consumption preferences may shift away from existing viewing habits. As a result, many of our customers and potential customers are compelled to find new ways to deliver services and content to their consumers via the internet. We expect this pressure to become even greater as more video content becomes available online. As our customers typically do not have adequate resources in-house to adapt to this changing landscape, we expect to benefit from this trend as customers adopt our solutions to enable digital media and OTT services using our multi-platform technology and services. In fact, customers are enhancing / upgrading their websites to use the internet to deliver rich media content, such as newscasts and weather updates, to attract advertisers and to compete with other internet sites and smart phone and tablet device applications and other social media outlets.

We also see the growth of non-traditional media players that is driven by the availability of less expensive content production and distribution methods. With technology advances in the tools and platforms that enable content producers to produce content with less people and financial resources, content is further becoming more democratized. We expect our results of operations to benefit from this trend as our software-as-a-service platform further enables content producers to leverage technology to produce, distribute and monetize their content.

Another trend affecting our customers and our business is the proliferation of internet-connected devices, especially mobile devices. Smartphones, tablets and connected TVs have made it more convenient for consumers to access services and content online, including television programming. To remain competitive, our customers and potential customers must have the capability to deliver their services and products to consumers on these new devices. Our technology enables them to extend their presence beyond traditional personal computers, and we expect that some portion of our revenue growth will come from traffic on these devices.

Our business is also affected by growth in advertising on the Internet, for which the proliferation of high-speed internet access and internet-connected devices will be the principal drivers. As such, we expect to see growth in new platforms such as mobile, tablets, Internet-connected TVs, and other emerging platforms that require an advertising solutions like ours. We expect our results of operations will benefit from the growth in the number of new platforms as our customers adopt these new platforms to drive their business growth.

In the latter part of 2018, we had several customers provide notice that they would terminate their current customer agreements with us on or about December 31, 2018. Raycom Media, Inc. ("Raycom") and Gray Television, Inc. ("Gray"), who both were individually significant customers of ours accounting for 18% and 26%, respectively, of our revenue for year ended December 31, 2018, finalized their merger on January 2, 2019. Raycom and Gray's customer agreements with us were terminated on December 31, 2018. Separately, five other of our larger, but not individually significant customers, terminated their agreements with us on or before December 31, 2018 (together with Raycom and Gray, the "Customer Terminations"). In the aggregate, these terminations represent a significant percentage of our revenue and are expected to have a material negative impact on our 2019 revenues and related net income (loss).

Key Metrics

In addition to measures of financial performance presented in our consolidated financial statements, we monitor the key metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies.

Adjusted EBITDA

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA is not a recognized financial measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, it may not be comparable to similar financial measures presented by other issuers. Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income (loss) before interest expense, net, income tax expense, depreciation and amortization, further, adjusted to exclude certain non-cash charges and other items that we do not believe are reflective of our ongoing operating results.

The following unaudited table presents the reconciliation of net loss to Adjusted EBITDA for the year ended December 31, 2018 and 2017.

	Year Ended December 31,	
	2018	2017
Net Loss	\$ (11,227,853)	\$ (17,193,639)
Interest expense, net	1,882,735	2,459,514
Income tax expense	-	-
Depreciation and amortization	3,851,356	4,381,888
Impairment expense	12,789,343	6,630,936
Stock-based compensation	395,634	1,141,117
Loss on disposal of assets	12,823	-
(Gain) loss on extinguishment of debt	(9,293,647)	38,287
Transaction costs	76,582	139,710
Nasdaq listing fees	-	913,690
Restructuring expense	1,020,106	-
Retention expense	997,172	740,523
Other expense	-	408,579
Adjusted EBITDA	\$ 504,251	\$ (339,395)

Limitations of Adjusted EBITDA

Adjusted EBITDA, a non-GAAP financial measure, has limitations as an analytical tool, and should not be considered in isolation from or as a substitute for measures presented in accordance with U.S. GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;
- Adjusted EBITDA does not reflect income tax payments that would reduce cash available to us;
- Adjusted EBITDA excludes depreciation and amortization of property and equipment and intangible assets, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should be considered alongside other financial performance measures, including revenues, net income (loss) and our financial results presented in accordance with U.S. GAAP.

Components of our Results of Operations

Revenue

We derive our revenue from three categories: recurring fee based revenue for use of our platform (including license fees and usage fees), revenue generated from digital advertising activities (national and local advertising) and professional services revenue.

License fees and usage fees

We enter into license agreements with customers for our CMS, video software, and mobile applications. These license agreements, generally non-cancellable, without paying a termination penalty, and multiyear, provide the customer with the right to use our application solely on a company-hosted platform or, in certain instances, on purchased encoders. The license agreements also entitle the customer to technical support. Revenue from these license agreements, which are accounted for as service arrangements, is recognized ratably over the license term.

We charge our customers for the optional use of our content delivery network to stream and store videos. Revenue from these fees is recognized as earned based on actual usage because it has stand-alone value and delivery is in the control of the customer. We also charge our customers for the use of our ad serving platform to serve ads under local advertising campaigns. We report revenue as earned based on the actual usage.

National and local advertising

Under national advertising agreements with advertisers, we source, create, and place advertising campaigns that run across our network of publisher sites. National advertising revenue, net of third-party costs, is shared with publishers based on their respective contractual agreements. We invoice national advertising amounts due from advertisers and remit payments to publishers for their share. Depending on the agreement with the publisher, the obligation to remit payment to the publisher is based on either billing to the advertiser or the collection of cash from the advertiser. National advertising revenue is recognized in the period during which the ad impressions are delivered. We report revenue earned through national advertising agreements either on a net or gross basis in accordance with ASC Subtopic 605-45, Revenue Recognition - Principal Agent Considerations. Under national advertising agreements wherein we do not bear inventory risk and only have credit risk on our portion of the revenue, national advertising revenues are accounted for on a net basis and the publisher is identified as the customer. In select national advertising agreements with our publishers, we take on inventory risk and additional credit risk. Under these agreements, we either a) provide the publisher with a guaranteed minimum gross selling price per advertising unit delivered, wherein the greater of the actual selling price or guaranteed minimum selling price is used in determining the publisher's share or b) provide the publisher with a fixed rate per advertising unit delivered, wherein the publisher is paid the fixed rate per advertising unit delivered irrespective of the actual selling price. Under these national advertising agreements, national advertising revenues are accounted for on a gross basis with the advertiser identified as the customer and the publisher identified as a supplier, with amounts billed to the advertiser reported as revenue and amounts due to the publisher reported as a revenue sharing expense, within cost of revenue.

Under local advertising agreements with customers, we provide local ad sales consulting and support services in exchange for monthly fees over the term of the agreement. The fees are established in the agreement with the customer in one of three ways: fixed annual amounts for an unlimited number of advertisers, flat fee paid per advertiser, or a commission rate of the local advertising revenue paid by the advertiser. Fixed amounts are recognized as revenue ratably over the contract term, and flat fee and commission-based amounts are recognized as revenue based on the revenue earned for each respective period based on actual delivery of the local advertising campaigns.

Professional services

Professional services consist primarily of installation and website design services. Installation fees are contracted on a fixed-fee basis. We recognize revenue as services are performed. Such services are readily available from other vendors and are not considered essential to the functionality of the product. Website design services are also not considered essential to the functionality of the product and have historically been insignificant; the fee allocable to website design is recognized as revenue as we perform the services.

Costs and expenses

Cost of revenue (excluding depreciation and amortization)

Cost of revenue consists of the following: compensation-related expenses of employees, primarily our client services and technical support personnel, and outsourced services that directly service our customers, infrastructure costs, licenses and computer support used directly in the delivery of service, content delivery and storage costs including ad serving costs, fees paid for content and revenue sharing expenses related to national advertising revenue.

General and administrative (excluding depreciation and amortization)

General and administrative expenses consist primarily of compensation-related expenses for executive management, finance, accounting, legal and human resources, professional fees and other administrative functions. It also includes certain technology overhead expenses that are not considered to be part of research and development expenses.

Selling and marketing

Selling and marketing expenses consist primarily of compensation-related expenses to our direct sales and marketing personnel, as well as costs related to advertising, industry conferences, and other sales and marketing programs. Advertising cost is expensed as incurred.

Research and development (excluding depreciation and amortization)

Research and development expenses consist primarily of compensation-related expenses to employees and outsourced services incurred for the research and development of, enhancements to, and maintenance and operation of our products, equipment and related infrastructure. Research and development expenses are reported net of amounts capitalized as software development costs. We account for our software development costs as internal-use software in accordance with ASC 350-40 – *Intangibles, Goodwill and other Internal-Use Software* because software usage by our customers is cloud-based. Development costs that do not meet the criteria of ASC 350-40 are expensed as incurred.

Depreciation and amortization

Depreciation and amortization includes depreciation and amortization of our computer hardware and software, office equipment, leasehold improvements, capitalized software development costs and intangible assets.

Other expenses

Other expenses are comprised of items that we do not believe are reflective of our ongoing operating results, such as costs incurred in integration efforts and legal or other settlements.

Interest expense, net

Interest expense, net consists of interest on debt and capital leases, net of interest income.

Income tax expense

Income tax expense consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions, as well as any changes to deferred tax assets or liabilities, and deferred tax valuation allowances.

Results of Operations

Year ended December 31, 2018 Compared to Year ended December 31, 2017

	Year Ended December 31,		
	2018	2017	Variance
Total Revenue	\$ 23,677,386	\$ 25,662,838	\$ (1,985,452)
Costs and operating expenses:			
Cost of revenue (excluding depreciation and amortization)	11,252,744	12,084,371	(831,627)
General and administrative (excluding depreciation and amortization)	6,608,769	8,205,104	(1,596,335)
Selling and marketing	1,715,889	2,561,838	(845,949)
Research and development (excluding depreciation and amortization)	3,975,454	4,323,297	(347,843)
Depreciation and amortization	3,851,356	4,381,888	(530,532)
Impairment expense	12,789,343	6,630,936	6,158,407
Loss on disposal of assets	12,823	-	12,823
(Gain) loss on extinguishment of debt	(9,293,647)	38,287	(9,331,934)
Transaction costs	76,582	139,710	(63,128)
Nasdaq listing fees	-	913,690	(913,690)
Restructuring expense	1,020,106	-	1,020,106
Retention expense	997,172	740,523	256,649
Other expense	-	408,579	(408,579)
Loss from operations	(9,329,205)	(14,765,385)	5,436,180
Foreign exchange (gain) loss	15,913	(31,260)	47,173
Interest expense, net	1,882,735	2,459,514	(576,779)
Loss before income tax expense	(11,227,853)	(17,193,639)	5,965,786
Income tax expense	-	-	-
Net Loss	\$ (11,227,853)	\$ (17,193,639)	\$ 5,965,786

The following is a breakdown of total revenue for the year ended December 31, 2018 compared to the year ended December 31, 2017:

	Year Ended December 31,		
	2018	2017	Variance
Revenue:			
License fees	\$ 9,865,316	\$ 10,384,835	\$ (519,519)
Advertising	10,422,263	10,687,964	(265,701)
Usage fees	2,208,838	3,024,827	(815,989)
Professional services and other	1,180,969	1,565,212	(384,243)
Total Revenue	\$ 23,677,386	\$ 25,662,838	\$ (1,985,452)

License fees

License fees for the year ended December 31, 2018 were \$9.9 million compared to \$10.4 million for the comparable period of 2017, a decrease of \$0.5 million. The decrease was due to customer losses on CMS license fees, partially offset by growth in our next generation mobile and OTT application license fees.

Advertising

Advertising revenue for the year ended December 31, 2018 was \$10.4 million compared to \$10.7 million for the comparable period of 2017, a decrease of \$0.3 million. The decrease was primarily due to a decrease in local advertising revenue between the two periods of \$0.9 million resulting from the removal of low-margin local advertising products offered by the Company. This was partially offset by an increase in national advertising revenue of \$0.6 million.

Usage fees

Usage fees for the year ended December 31, 2018 were \$2.2 million compared to \$3.0 million for the comparable period of 2017, a decrease of \$0.8 million. The decrease was primarily due to a decrease in content delivery network fees and correlates with the reduction in CMS license fees discussed above as well as a decrease in local ad serving fees primarily due to one large client moving off of our ad server beginning May 2018.

Professional services and other

Professional services and other for the year ended December 31, 2018 was \$1.2 million compared to \$1.6 million for the comparable period of 2017, a decrease of \$0.4 million. The decrease was due to less ad hoc professional services engagements in the 2018 period.

Cost of revenue (excluding depreciation and amortization)

Cost of revenue for the year ended December 31, 2018 was \$11.3 million compared to \$12.1 million for the comparable period of 2017, a decrease of \$0.8 million. The decrease was primarily due to a reduction of content delivery network fees due to transition of these costs to alternative vendors with reduced rates and direct costs associated with local advertising revenue which correlates with the reduction in local advertising revenue discussed above. There were also decreases to ad serving costs and technology license fees used in service delivery. These were partially offset by an increase in revenue sharing expense due to increase in national advertising revenue and infrastructure costs as we transitioned our on-premises infrastructure to the Amazon cloud environment.

General and administrative (excluding depreciation and amortization)

General and administrative expense for the year ended December 31, 2018 was \$6.6 million compared to \$8.2 million for the comparable period of 2017, a decrease of \$1.6 million. When excluding a large bad debt reserve in the amount of \$0.7 million which was recognized in the first quarter of 2018 relating to one advertising customer, the decrease between the periods was \$2.2 million. The decrease was primarily due to a reduction in compensation costs, including stock-based compensation, due to the headcount reduction related to the Company wide reduction-in-force ("RIF"). In addition to the above, there was a significant reduction in rent and rent related expenses and travel and entertainment expense associated with the closure of the San Francisco office.

Selling and marketing

Selling and marketing expense for the year ended December 31, 2018 was \$1.7 million compared to \$2.6 million for the comparable period of 2017, a decrease of \$0.9 million. The decrease was primarily due to a reduction in compensation costs, including stock-based compensation, due to the headcount reduction related to the Company wide RIF. In addition, in the 2018 period, there was a reduction in expenses incurred associated with the Company's presence at the NAB tradeshow.

Research and development (excluding depreciation and amortization)

Research and development expense for the year ended December 31, 2018 was \$4.0 million compared to \$4.3 million for the comparable period of 2017, a decrease of approximately \$0.3 million. When considering the reduction in capitalized development costs of \$1.4 million, the decrease of gross research and development costs between the periods was \$1.7 million. The decrease was primarily due to a reduction in compensation costs, including stock-based compensation, due to the headcount reduction related to the Company wide RIF.

Depreciation and amortization

Depreciation and amortization expense for the year ended December 31, 2018 was \$3.9 million compared to \$4.4 million for the comparable period of 2017, a decrease of approximately \$0.5 million. The decrease was due to full impairment of our customer relationship intangible assets and capitalized software development costs as well as the majority of our property and equipment as of September 30, 2018.

Impairment expense

Impairment expense for the year ended December 31, 2018 was \$12.8 million compared to \$6.6 million for the comparable period of 2017, an increase of approximately \$6.2 million. The increase was due to full impairment of our customer relationship intangible assets and capitalized software development costs which each had carrying values prior to impairment of \$6.1 million as of September 30, 2018 as well as property and equipment impairment of approximately \$567,000. The impairment was driven by the Customer Terminations described in this document. This was partially offset by reduction in goodwill impairment of \$6.5 million as the Company impaired the remaining carrying value of its goodwill in 2017.

(Gain) loss on extinguishment of debt

(Gain) loss on extinguishment of debt for the year ended December 31, 2018 was \$9.3 million compared to \$0.0 million for the comparable period of 2017, an increase of approximately \$9.3 million. The increase was due to the gain on extinguishment of debt recognized in connection with the October 15, 2018 amendment to our non-revolving credit facility with Raycom Media, Inc.

Nasdaq listing fees

Nasdaq listing fees for the year ended December 31, 2018 were \$0 compared to \$0.9 million for the comparable period of 2017, a decrease of approximately \$0.9 million. The decrease was due to write-off of all deferred financing costs associated with our registration process in the U.S. in the third quarter of 2017. As a result of the GEI complaint filed on July 21, 2017, we decided to terminate the U.S. IPO.

Restructuring expense

Restructuring expense for the year ended December 31, 2018 was \$1.0 million compared to \$0 for the comparable period of 2017, an increase of approximately \$1.0 million. The increase was primarily due to the Company wide RIF which was implemented by the Company in mid February 2018. The expenses included in this line item represent one-time termination benefits (severance) for employees that were a part of the RIF. In addition, we recorded a lease termination expense of \$0.5 million as of December 31, 2018 in connection with the early termination of our Long Island City, New York lease of office space. We finalized our move out of our Long Island City, New York headquarters into a smaller space in New York City, New York at year end.

Retention expense

Retention expense for the year ended December 31, 2018 was \$1.0 million compared to \$0.7 million for the comparable period of 2017, an increase of approximately \$0.3 million. The increase was primarily due to our employee retention plan which was rolled out in connection with the strategic process in the fourth quarter of 2017. The remaining increase was due to an accrual relating to the second phase of our employee retention plan. As the strategic process was unsuccessful, the second phase of the employee retention plan was rolled out in the third quarter of 2018.

Other expense

Other expense for the year ended December 31, 2018 was \$0 compared to \$0.4 million for the comparable period of 2017, a decrease of approximately \$0.4 million. In the 2017 period, other expense was primarily comprised of \$382,000 relating to settlement of an employee litigation matter and legal fees incurred in connection with the GEI complaint. Refer to the "Legal Proceedings" section for update to the GEI complaint.

Interest expense, net

Interest expense, net for the year ended December 31, 2018 was \$1.9 million compared to \$2.5 million for the comparable period of 2017, a decrease of approximately \$0.6 million. The decrease was primarily due to the October 2018 amendment to our non-revolving credit facility with Raycom, wherein the principal was reduced from \$21.8 million to \$10.0 million. In connection with computing the gain on extinguishment of debt, the carrying value of the debt was required to be recorded at the future undiscounted cash flows of the amended debt instrument in the amount of \$13.0 million, which was comprised of \$10.0 million in principal and \$3.0 million in interest expense over the remaining life of the facility. As such, no interest expense was recognized on our non-revolving credit facility in the fourth quarter of 2018.

Income tax expense

No income tax expense was recognized during the periods presented.

Known Trend on the Results of Operations

As discussed earlier in this MD&A, the Customer Terminations are expected to have a material negative impact on the Company's 2019 revenues and related income (loss).

Liquidity and Capital Resources

Since inception, we have financed our cash requirements (including acquisitions) primarily through the issuance of securities and convertible promissory notes. As of December 31, 2018, we had total current assets of approximately \$6.6 million and total current liabilities of approximately \$8.3 million. As of December 31, 2018, our principal sources of liquidity were our cash and trade accounts receivable. Our cash and cash equivalents and trade accounts receivable, net balances as of December 31, 2018 were \$3.5 million and \$2.2 million, respectively.

As of December 31, 2018, we had an accumulated deficit of \$82.1 million, representative of recurring losses since inception. We had not generated positive cash flow from operations since inception when excluding changes in working capital, until the second quarter of 2018, after implementation of various cost savings initiatives. In the latter part of 2018, we had several customers provide notice that they would terminate their current customer agreements with us on or about December 31, 2018. Raycom Media, Inc. ("Raycom") and Gray Television, Inc. ("Gray"), who both were individually significant customers of ours accounting for 18% and 26%, respectively, of our revenue for year ended December 31, 2018, finalized their merger on January 2, 2019. Raycom and Gray's customer agreements with us were terminated on December 31, 2018. Separately, five other of our larger, but not individually significant customers, terminated their agreements with us on or before December 31, 2018 (together with Raycom and Gray, the "Customer Terminations"). In the aggregate, these terminations represent a significant percentage of our revenue and are expected to have a material negative impact on our 2019 revenues and related net income (loss). These conditions raise substantial doubt about our ability to continue as a going concern within one year after the issuance of its financial statements.

To reduce our operating cash needs, in February 2018, we executed a reduction-in-force that removed approximately 20 full-time employees from our headcount. In addition, we subleased our remaining office space in San Francisco, CA and finalized our move out of its Long Island City, New York headquarters into a smaller space in New York City, New York.

With the Customer Terminations described above, we will continue efforts to reduce costs and increase revenue, and will need to complete financing or a strategic transaction to provide cash necessary to continue operations through 2019 and beyond. On April 1, 2019, we finalized an agreement with Gray wherein Gray agreed to forgive our remaining principal debt to Raycom of \$10.0 million as well as accounts payable due to Gray and Raycom amounting to approximately \$2.9 million relating to unpaid national advertising revenue share payables. The debt forgiveness is contingent upon us closing a financing transaction on or before June 13, 2019, with an aggregate investment of at least \$4.0 million and us making a one-time cash payment of \$1.0 million to Gray on the closing date of the financing. We believe this agreement with Gray would substantially improve our ability to attract new debt or equity financing in the near term given the elimination of secured debt and the elimination of the accounts payable to Gray and Raycom that would result on closing of new capital investment. There can be no assurance that we will close the required financing to have the debt forgiven or achieve any other actions necessary to sustain our operations and execute our business plan through the next 12 months from the date of this filing.

Operating Activities

Net cash used in operating activities for the year ended December 31, 2018 was \$3.2 million compared to cash provided by operating activities of \$0.2 million for the comparable period of 2017, an increase in cash used of \$3.4 million. The increase in cash used resulted primarily from an increase of \$6.7 million in changes in operating assets and liabilities, primarily driven by cash used to settle past due accounts payable and amounts due to related parties, which was primarily the reduction of Raycom deferred revenue in connection with the advance agreement. This was partially offset by a decrease in cash used by net loss adjusted for non-cash charges of \$3.3 million.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2018 was \$1.9 million compared to \$3.4 million for the comparable period of 2017, a decrease in cash used of \$1.5 million. The decrease was primarily due to a decrease of \$1.4 million in capitalized software costs. The decrease was primarily driven by the full impairment of our capitalized software development costs as of September 30, 2018. We did not capitalize any development costs in the fourth quarter of 2018.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2018 was \$7.4 million compared to cash used in financing activities of \$1.6 million for the comparable period of 2017, an increase in cash provided of \$9.0 million. The increase was primarily due to an increase in proceeds from the non-revolving credit facility of \$7.4 million and decrease in payments made on our revolving credit facility of \$1.4 million.

Unit Purchase Agreement and Worldnow Promissory Notes

On July 28, 2015, we signed an agreement (the “Unit Purchase Agreement”) to purchase the outstanding units of Gannaway Web Holdings, LLC, operating as Worldnow, pursuant to which we issued the Worldnow Promissory Notes to Gannaway Entertainment Inc. (“GEI”) and Raycom Media, Inc. (“Raycom”) in the aggregate principal amounts of \$11 million and \$4 million, respectively, as partial consideration for their respective membership interests in Gannaway Web Holdings, LLC. The Worldnow Promissory Notes bore simple interest at a rate of 5% per year.

The August 2016 Refinancing

On August 31, 2016, we entered into a \$14.5 million credit facility (the “Credit Facility”) under a credit agreement, as amended on December 20, 2016, March 30, 2017, May 25, 2017, October 25, 2017, December 27, 2017 and March 28, 2018 (the “Credit Agreement”) with Raycom. The proceeds of the Credit Facility were used to pay in full the \$11 million promissory note (the “GEI Promissory Note”) issued to GEI and \$3 million of the \$4 million promissory note issued to Raycom (the “Original Raycom Note” and together with the GEI Promissory Note, the “Worldnow Promissory Notes”), each issued in connection with the acquisition of Gannaway Web Holdings, LLC, now Frankly Media. In addition, we issued to Raycom warrants to purchase 871,160 common shares (the “Raycom Warrants”) at a price per share of CDN\$8.50 (\$6.63 based on the exchange rate at August 18, 2016) and repaid in full our \$2.0 million outstanding revolving credit facility with Bridge Bank (the “Bridge Bank Loan”). Subject to Raycom’s discretion, we also have an additional \$1.5 million available for borrowing under the Credit Facility. We also entered into a share purchase agreement, as amended on December 20, 2016 and March 30, 2017 (the “Raycom SPA”) pursuant to which we converted \$1.0 million of the Original Raycom Note into 150,200 common shares. We refer to these transactions as the “August 2016 Refinancing.”

On May 7, 2018, we amended and restated the Credit Agreement (the “Amended Credit Agreement”) to increase the amount of funding available under the Credit Agreement by \$7.5 million. The Amended Credit Agreement superseded the original Credit Agreement. The \$1.0 million that was advanced by Raycom to us on March 13, 2018 was included in the \$7.5 million funding increase, bringing the total amount provided to us under the Amended Credit Agreement to \$22 million (the “Credit Facility”). Of the \$7.5 million, our former customer Cordillera Communications (“Cordillera” and together with Raycom, the “Lenders”) was participating as a lender for up to \$300,000. Under the Amended Credit Agreement, outstanding term loans in the amount of \$14.5 million were characterized as Term B Loans under a non-revolving term loan facility in such amount (“Facility B”) and an outstanding term loan in the amount of \$1.0 million was characterized as a Term A Loan under a non-revolving term loan facility in the amount of \$7.5 million (“Facility A”).

On October 15, 2018, we amended the Amended Credit Agreement with Raycom to reduce our principal debt balance due under the Amended Credit Agreement as of October 2, 2018 from \$21,800,000 (includes \$300,000 due to Cordillera) plus accrued interest as of September 30, 2018 of \$1,298,653 (together the “Loan Balance”) to \$10,000,000 (the “New Loan Balance”) as of October 1, 2018.

In addition, the Amended Credit Agreement was amended as follows:

- a. Commencing on October 1, 2018, interest under the Amended Credit Agreement will accrue on the New Loan Balance at the annual rate of 10%.
- b. The maturity date of the New Loan Balance was revised to September 30, 2021. The New Loan Balance along with all accrued interest will be due on the revised maturity date. All interest payments on the New Loan Balance will be deferred and made on the revised maturity date.
- c. Commencing on October 1, 2018, various provisions of the Amended Credit Agreement will no longer be operative, which primarily removed all scheduled mandatory principal repayments and financial covenants under the Amended Credit Agreement. In addition, the deleted provisions under the Amended Credit Agreement reduced the scope of events that qualify as events of default.
- d. Our debt to Cordillera under the Amended Credit Agreement has been extinguished and Cordillera is no longer party to the Amended Credit Agreement as of October 1, 2018.

Upon an event of default, the Lenders may by written notice terminate the facility immediately and declare all obligations under the Amended Credit Agreement and the related loan documents, whether matured or not, to be immediately due and payable. The Lenders may also as and by way of collateral security, deposit and retain in an interest bearing account, amounts received by the Lenders from us under the Amended Credit Agreement and the related loan documents and realize upon the Security Interest Agreements, Guaranty Agreements and Pledge Agreement, as defined in the Amended Credit Agreement. If we fail to perform any of our obligations under the Amended Credit Agreement and the related loan documents, the Lenders may upon 10 days' notice, perform such covenant or agreement if capable. Any amount paid by the Lenders under such covenant or agreement will be repaid by us on demand and will bear interest at 12% per annum.

In addition to the above amendment to the Amended Credit Agreement, Raycom exercised its right to terminate its website agreement, with such termination effective as of December 31, 2018. Raycom agreed to forgive remaining balances of deferred revenue and accrued interest under the Advance Agreement as of December 31, 2018, which amounted to \$749,673 and \$470,000, respectively.

Guaranty Agreements, Security Interest Agreements and Pledge Agreement

In connection with the Amended Credit Agreement, our subsidiaries Frankly Co. and Frankly Media LLC have entered into Guaranty Agreements whereby Frankly Co. and Frankly Media LLC have guaranteed our obligations under the Amended Credit Agreement. In addition, each of Frankly Inc., Frankly Co. and Frankly Media LLC have entered into security interest agreements (the "Security Interest Agreements") pursuant to which Raycom has first priority security interests in substantially all of our assets. Under the Security Interest Agreements, we do not have a right to sell or otherwise dispose of all or part of the collateral except in the ordinary course of business that are not material. Frankly Media LLC has also entered into an Intellectual Property Pledge Agreement pursuant to which it has granted a security interest in all of its intellectual property to Raycom. We have also (i) deposited our intellectual property in escrow accounts for the benefit of Raycom, (ii) in furtherance of the security interest granted to Raycom in our equity interest in Frankly Media LLC, entered into a pledge agreement and a control agreement pursuant to which we granted Raycom control of the equity interest of Frankly Media LLC and (iii) entered into an insurance transfer and consent assigning our rights and payments under insurance policies covering our operations and business naming Raycom as mortgagee, first loss payee and additional named insured.

In addition, we have entered into a Pledge Agreement pursuant to which we granted Raycom a security interest on substantially all the assets and securities of our current and future subsidiaries.

Upon an event of default, we would be required to deposit all interests, income, dividends, distributions and other amounts payable in cash in respect of the pledged interests into a collateral account over which Raycom has the sole control and may apply such amounts in its sole discretion to the secured obligations under the Amended Credit Agreement. Upon the cure or waiver of a default, Raycom will repay to us all cash interest, income, dividends, distributions and other amounts that remain in such collateral account. In addition, upon an event of default, Raycom has the right to (i) transfer in its name or the name of any of its agents or nominees the pledged interests, (ii) to exercise all voting, consensual and other rights and power and any and all rights of conversion, exchange, subscription and other rights, privileges or options pertaining to the pledged interests whether or not transferred into the name of Raycom, and (iii) to sell, resell, assign and deliver all or any of the pledged interests. We have also agreed to use our best efforts to cause a registration under the Securities Act and applicable state securities laws of the pledged interests upon the written request from Raycom.

Raycom may transfer or assign, syndicate, grant a participation interest in or grant a security interest in, all or any part of its rights, remedies and obligations under the Amended Credit Agreement and the related loan documents, without notice or our consent.

Western Alliance Bank Letter of Credit

On August 31, 2016, in lieu of a security deposit under the lease dated October 26, 2010, with Metropolitan Life Insurance Company, for real property located at 27-01 Queens Plaza North, Long Island City, NY, we entered into a standby Letter of Credit with Western Alliance Bank for an amount of \$500,000. For each advance, interest will accrue at a rate equal to the sum of (i) the Base Rate, plus (ii) 3.50%, provided that such interest rate will change from time to time as the Base Rate changes. Interest will accrue from the date of the advance until such advance is paid in full. We have granted Western Alliance Bank a security interest in a \$524,115 restricted account together with (i) all interest, whether now accrued or hereafter accruing; (ii) all additional deposits hereafter made to the account; (iii) any and all proceeds from the account; and (iv) all renewals, replacements and substitutions for any of the foregoing.

On December 21, 2018, we entered into a termination agreement of our sublease agreement with Metropolitan Life Insurance Company discussed above. As the sublease expiration date was March 1, 2023, this was an early termination. In connection with this early termination, we agreed to pay an early termination fee of approximately \$499,158, which represented the amount of our security deposit through our standby Letter of Credit discussed above. Subsequent to the funding of the termination fee by Western Alliance Bank in January 2019, the standby Letter of Credit was also terminated.

Recent Developments

Legal Proceedings

On July 21, 2017, a complaint was filed by GEI, Albert C. Gannaway III, and Samantha Gannaway, and was served on August 4, 2017, captioned Gannaway Entertainment, Inc., Albert C. Gannaway III, Samantha Gannaway V.S. Frankly Inc., Steve Chung, SKP America, LLC, JJR Private Capital Limited Partnership, Ron Schmeichel, Louis Schwartz in the United States District Court for the Northern District of California against Frankly, our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer and others alleging violations of U.S. securities laws, fraud and breach of fiduciary duties, and seeking in excess of \$15 million in damages, arising out of our acquisition of Gannaway Web Holdings, LLC from GEI and other parties in 2015.

On March 15, 2018, the plaintiffs in the GEI complaint re-filed their complaint in the California Superior Court, San Francisco County. By order dated September 18, 2018, the state court granted the defendants' motion to compel arbitration of the matter in New York and staying further proceedings in the state court action. On October 22, 2018, the Gannaway plaintiffs filed a two-count arbitration demand with the American Arbitration Association in New York seeking unspecified damages from the Company, Steve Chung, SKP America, LLC and Louis Schwartz. We believe that the claims are without merit and submitted an answer in December 2018. A preliminary hearing in the matter is scheduled for June 25, 2019.

Critical Accounting Policies

Our discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. During the preparation of these consolidated financial statements, we were required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, capitalization of software development costs, impairment of long-lived assets, impairment of intangible assets including goodwill and stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements.

We consider certain accounting policies to be critical accounting policies when that policy requires management to make significant estimates and assumptions in applying the policy or in determining carrying values. Such critical accounting policies include:

Revenue Recognition

Revenue is measured as the fair value of the consideration received or receivable, and represents amounts earned for services rendered. Our primary sources of revenue are license fees for the use of our CMS and video software, and digital advertising revenue. We begin to recognize revenue when all of the following criteria under ASC 605-10 – *Revenue Recognition*, are met: (i) we have evidence of an arrangement with a customer; (ii) license agreement terms are fixed or determinable and free of contingencies or uncertainties that may alter the agreement such that it may not be complete and final; (iii) we deliver the specified services or products; and (iv) collection is reasonably assured. Revenue is recorded net of applicable sales taxes.

We account for license fees for the use of our content management system in accordance with ASC 605-25 – *Multiple Element Arrangements*. License fees and maintenance (post-contract support) relating to our video software are accounted for in accordance with ASC 985-605 – *Certain Revenue Arrangements that Include Software Elements*. As we account for our video software in accordance with the software accounting guidance, we allocate revenue to deliverables based on the Vendor Specific Objective Evidence (“VSOE”) of each element, and if VSOE does not exist revenue is recognized when elements lacking VSOE are delivered.

License Fees. We enter into license agreements with customers for our CMS, video software, and mobile applications. These license agreements, generally non-cancellable, without paying a termination penalty, and multiyear, provide the customer with the right to use our application solely on a company-hosted platform or, in certain instances, on purchased encoders. The license agreements also entitle the customer to technical support. Revenue from these license agreements is recognized ratably over the license term. Early termination fees are recognized when a customer ceases use of agreed upon services prior to the expiration of their contract. These fees are recognized in full on the date the customer has completed their migration off of our solutions and there is no continuing service obligation to the customer.

Usage Fees. We charge our customers for the optional use of our content delivery network to stream and store videos. Revenue from these fees is recognized as earned based on actual usage because it has stand-alone value and delivery is in control of the customer. We also charge our customers for the use of our ad serving platform to serve ads under local advertising campaigns. We report revenue as earned based on the actual usage.

Advertising (National Advertising). Under national advertising agreements with advertisers, we source, create, and place advertising campaigns that run across our network of publisher sites. National advertising revenue, net of third-party costs, is shared with publishers based on their respective contractual agreements. We invoice national advertising amounts due from advertisers and remit payments to publishers for their share. Depending on the agreement with the publisher, the obligation to remit payment to the publisher is based on either billing to the advertiser or the collection of cash from the advertiser. National advertising revenue is recognized in the period during which the ad impressions are delivered. We report revenue earned through national advertising agreements either on a net or gross basis in accordance with ASC Subtopic 605-45, Revenue Recognition - Principal Agent Considerations. Under national advertising agreements wherein we do not bear inventory risk and only have credit risk on our portion of the revenue, national advertising revenues are accounted for on a net basis and the publisher is identified as the customer. In select national advertising agreements with our publishers, we take on inventory risk and additional credit risk. Under these agreements, we either a) provide the publisher with a guaranteed minimum gross selling price per advertising unit delivered, wherein the greater of the actual selling price or guaranteed minimum selling price is used in determining the publisher’s share or b) provide the publisher with a fixed rate per advertising unit delivered, wherein the publisher is paid the fixed rate per advertising unit delivered irrespective of the actual selling price. Under these national advertising agreements, national advertising revenues are accounted for on a gross basis with the advertiser identified as the customer and the publisher identified as a supplier, with amounts billed to the advertiser reported as revenue and amounts due to the publisher reported as a revenue sharing expense, within cost of revenue.

Advertising (Local Advertising). Under local advertising agreements with customers, we provide local ad sales consulting and support services in exchange for monthly fees over the term of the agreement. The fees are established in the agreement with the customer in one of three ways: fixed annual amounts for an unlimited number of advertisers, flat fee paid per advertiser, or a commission rate of the local advertising revenue paid by the advertiser. Fixed amounts are recognized as revenue ratably over the contract term, and flat fee and commission-based amounts are recognized as revenue based on the revenue earned for each respective period based on actual delivery of the local advertising campaigns.

Professional Services and Other. Professional services consist primarily of installation and website design services. Installation fees are contracted on a fixed-fee basis. We recognize revenue as services are performed. Such services are readily available from other vendors and are not considered essential to the functionality of the product. Website design services are also not considered essential to the functionality of the product and have historically been insignificant; the fee allocable to website design is recognized as revenue as we perform the services.

Capitalization of Software Development Costs

We account for our software development costs on our content management system and mobile applications as internal-use software in accordance with ASC 350-40 – Intangibles, Goodwill and other Internal-Use Software because software usage by our customers is cloud-based. Costs incurred during the preliminary project stage for internal use software programs are expensed as incurred. External and internal costs incurred during the application development stage of new software development as well as for upgrades and enhancements for software programs that result in additional functionality are capitalized. We account for our software development costs on our video software in accordance with ASC 985-20 – Costs of Software to Be Sold, Leased, or Marketed because software is maintained by the client on purchased encoders. All costs incurred to establish the technological feasibility of a software product to be sold, leased, or otherwise marketed are expensed as incurred. Costs incurred subsequent to establishing technological feasibility are capitalized.

During the years ended December 31, 2018 and 2017, we capitalized \$1,856,214 and \$3,251,162, respectively, of combined internal and external costs related to the application development stage. Internal and external training and maintenance costs are expensed as incurred. Capitalized costs are amortized on a straight-line basis over the software’s estimated useful life, which is three to five years beginning when the software is ready for use. Periodically, we reassess the useful life considering technology, obsolescence, and other factors.

Impairments and Fair Value Measurements

Goodwill Impairment. Goodwill is determined as the excess of fair value over amounts attributable to specific tangible and intangible assets. Goodwill is reviewed for impairment annually, or more frequently if impairment indicators exist. An impairment exists when a reporting unit’s carrying value exceeds its fair value. The impairment charge, if any, is the excess of the tested reporting unit’s carrying value over its fair value, limited to the total amount of goodwill allocated to the tested reporting unit.

We have one reporting unit, which is the same as our reportable segment. In connection with our annual goodwill impairment testing as of December 31, 2017, we determined that under ASC 350-20 – *Intangibles, Goodwill and other Internal-Use Software*, the remaining goodwill related to the Worldnow acquisition was impaired and recorded a non-cash goodwill impairment charge of \$6.5 million.

Significant judgments and estimates are required in assessing the fair value of the reporting unit. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, revenue growth rates, future cash flows, discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions that are consistent with information used by the business for planning purposes and that we believe to be reasonable; however, actual future results may differ from those estimates. Changes in judgments on any of these factors could materially affect the value of the reporting unit.

Impairment of Long-Lived Assets, excluding Goodwill. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models or, when available, quoted market values and third-party appraisals.

During the year ended December 31, 2017, we recorded a non-cash impairment charge of \$0.1 million on software development costs, net related to a specific asset which was not part of the our core product and service offerings. As we had no plans to generate future cash flows from the asset, it was written off as of December 31, 2017.

During the year ended December 31, 2018, we recorded impairment expense of approximately \$12.8 million in the third quarter of 2018, which was comprised of a full impairment of our capitalized software development costs and customer relationship intangible assets, which each had carrying values prior to impairment of approximately \$6.1 million as of September 30, 2018, as well as impairment expense of approximately \$567,000 to property and equipment. The Customer Terminations discussed elsewhere in this document were a strong indicator that the carrying amount of our long-lived assets would not be recoverable. We performed a recoverability test as of September 30, 2018 and concluded the carrying amounts of our long-lived assets were not recoverable. Considering the impact of the Customer Terminations, we are forecasting negative cash flows in 2019 and beyond which did not support the carrying value of our long-lived assets.

Fair Value Measurements. We follow the authoritative guidance on fair value measurements and disclosures with respect to assets and liabilities that are measured at fair value on both a recurring and non-recurring basis. Under this guidance, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels defined as follows:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable for the asset or liability.

As part of our testing of goodwill and intangible assets for impairment, we determine the fair value of our assets and liabilities, many of which were based on discounted cash flows analysis and forecasted future operating results which represent Level 3 inputs.

Stock-Based Compensation

We record compensation costs related to stock-based awards in accordance with ASC 718, Compensation—*Stock Compensation* whereby we measure stock-based compensation cost at the grant date based on the estimated fair value of the award. Compensation cost is recognized on a straight-line basis over the requisite service period of the award. We utilize the Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of highly subjective assumptions including: the expected option life, the risk free interest rate, the dividend yield, the volatility of our stock price and an assumption for employee forfeitures. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected term of the option. We have not historically issued any dividends and do not expect to in the near future. Changes in any of these subjective input assumptions can materially affect the fair value estimates and the resulting stock-based compensation recognized.

Emerging Growth Company

We are an “emerging growth company” as defined by the Jumpstart Our Business Startups (“JOBS”) Act of 2012. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can selectively delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption and, as a result, our financial statements may not be comparable to the financial statements of issuers that are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable.

Recent Accounting Pronouncements

Refer to Note 2, “Summary of Significant Accounting Policies,” to the consolidated financial statements for a discussion of recent accounting pronouncements applicable to us.

Off-Balance Sheet Financing

Other than our operating lease obligations, we have no off-balance sheet arrangements such as guarantees, retained or contingent interests in assets transferred to an unconsolidated entity, obligations indexed to our own stock or variable interests in unconsolidated entities. Future obligations under operating leases, capital leases and debt arrangements are detailed in our consolidated financial statements included elsewhere in this report.

Exhibit A

Any investment in our common shares involves a high degree of risk. Investors should carefully consider the risks described below and all of the information contained in this document before deciding whether to purchase our common shares. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. This document also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this document. See “Cautionary Notice Regarding Forward-Looking Statements.”

Risks Related to Our Business

We require additional financing to continue operations in 2019 and such financing may not be available on reasonable terms when required, or at all.

We require additional financing to continue operations in 2019. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. To the extent we draw on our credit facilities, if any, to fund certain obligations, we may need to raise additional funds and we cannot assure investors that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our common shares, and existing shareholders may experience dilution.

Our independent registered public accounting firm has expressed in its report on our audited consolidated financial statements a substantial doubt about our ability to continue as a going concern.

We have not yet generated sufficient revenues from our operations to fund our activities, and we are therefore dependent upon external sources for the financing of our operations. As a result, our independent registered public accounting firm has expressed in its report on the audited consolidated financial statements included as part of this document a substantial doubt regarding our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result if we are unable to continue as a going concern. If we are unable to continue as a going concern, holders of our common shares might lose their entire investment.

Two large customers terminated their relationship with us in late 2018. These two customers provided a significant percentage of our revenue for the year ended December 31, 2018 and for the year ended December 31, 2017. The terminations of these and other customers will materially and adversely affect our business.

Two large customers terminated their relationship with us in late 2018. Approximately 44% and 38% of our revenue for the years ended December 31, 2018 and 2017, respectively, was generated in the aggregate by these two customers, each individually accounting for greater than 10% of revenue. Separately, five other of the Company’s larger, but not individually significant customers, terminated their agreements with the Company on or before December 31, 2018. These terminations will materially and adversely affect our business and operations.

Our degree of leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting operational goals.

As of December 31, 2018, our total indebtedness was approximately \$13.0 million. Our degree of leverage could have important consequences for the holders of our common shares, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

We may incur substantial additional indebtedness in the future, subject to the restrictions contained in the Credit Facility. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our debt agreements contain restrictions that limit our flexibility in operating our business. Our obligations under such agreements are secured by liens on substantially all of our assets.

Amounts outstanding under the Amended Credit Agreement are secured by security interests in substantially all of our assets and are guaranteed by our subsidiaries.

The terms of the Amended Credit Agreement contain various covenants that limit our ability to engage in specified types of transactions. The covenants limit and restrict our and our subsidiaries’ ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell or transfer assets;

- create liens;
- amalgamate, consolidate or merge with any other person;
- sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the notes. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations.

Since our inception, we have experienced losses and have an accumulated deficit of approximately \$82.1 million as of December 31, 2018 and we may incur additional losses in the future.

We have in the past incurred, and we may in the future incur, losses and experience negative cash flow, either or both of which may be significant. We experienced losses since our inception. We recorded net losses of \$11.2 million and \$17.2 million for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, our consolidated accumulated deficit was approximately \$82.1 million. We cannot assure you that we can achieve profitability on a quarterly or annual basis in the future. Failure to become profitable may materially and adversely affect the market price of our common shares.

We and certain of our current and former officers and directors and others have been named as defendants in a purported securities lawsuit. This could result in substantial damages and may divert management's time and attention from our business.

Securities-related actions and shareholder derivative litigation has often been brought against companies, including many technology companies, which experience volatility in the market price of their securities. This risk is especially relevant for us because technology companies often experience significant stock price volatility in connection with their product development programs.

On July 21, 2017, a complaint was filed by GEI, Albert C. Gannaway III, and Samantha Gannaway, and was served on August 4, 2017, captioned Gannaway Entertainment, Inc., Albert C. Gannaway III, Samantha Gannaway V.S. Frankly Inc., Steve Chung, SKP America, LLC, JJR Private Capital Limited Partnership, Ron Schmeichel, Louis Schwartz in the United States District Court for the Northern District of California against Frankly, our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer and others alleging violations of U.S. securities laws, fraud and breach of fiduciary duties, and seeking in excess of \$15 million in damages, arising out of our acquisition of Gannaway Web Holdings, LLC from GEI and other parties in 2015.

On March 15, 2018, the plaintiffs in the GEI complaint re-filed their complaint in the California Superior Court, San Francisco County. By order dated September 18, 2018, the state court granted the defendants' motion to compel arbitration of the matter in New York and staying further proceedings in the state court action. On October 22, 2018, the Gannaway plaintiffs filed a two-count arbitration demand with the American Arbitration Association in New York seeking unspecified damages from the Company, Steve Chung, SKP America, LLC and Louis Schwartz. We believe that the claims are without merit and submitted an answer in December 2018. A preliminary hearing in the matter is scheduled for June 25, 2019.

This lawsuit and any other potential related lawsuits are subject to inherent uncertainties, and the actual cost will depend upon many unknown factors. The outcome of the litigation is necessarily uncertain, we could be forced to expend significant resources in the defense of these suits and we may not prevail. Monitoring and defending against legal actions is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities. In addition, we may incur substantial legal fees and costs in connection with the litigation. We are not currently able to estimate the possible cost to us from these matters, as the lawsuit is currently at an early stage and we cannot be certain how long it may take to resolve these matters or the possible amount of any damages that we may be required to pay. We have not established any reserves for any potential liability relating to this lawsuit. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on this action could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations, financial position and ability to raise additional funds. In addition, the uncertainty of the currently pending litigation could lead to more volatility in our stock price.

Our revenue and operating results may fluctuate, which may make our results difficult to predict and could cause our results to fall short of expectations.

As a result of the rapidly changing nature of the markets in which we compete, our quarterly and annual revenue and operating results may fluctuate from period to period. These fluctuations may be caused by a number of factors, many of which are beyond our control. For example, changes in industry or third-party specifications may alter our development timelines and consequently our ability to deliver and monetize new or updated products and services. Additionally, impending changes to technology standards may cause customers to delay investing in new or additional products and services such as the ones we offer. Other factors that may cause fluctuations in our revenue and operation results include but are not limited to:

- any failure to maintain strong customer relationships;
- any failure of significant customers to renew their agreements with us;
- our ability to attract and retain current and new customers;

- variations in the demand for our services and products and the use cycles of our services and products by our customers;
- changes in our pricing policies or those of our competitors;
- service outages, other technical difficulties or security breaches;
- limitations relating to the capacity of our networks, systems and processes;
- maintaining appropriate staffing levels and capabilities relative to projected growth;
- the timing of costs related to the development or acquisition of technologies, services or businesses to support our existing users and potential growth opportunities; and
- general economic, industry and market conditions and those conditions specific to internet usage and advertising businesses.

For these reasons and because the market for our services and products is relatively new and rapidly changing, it is difficult to predict our future financial results.

If we are unable to retain and acquire new CMS platform customers, our financial performance may be materially and adversely affected.

Our financial performance and operations are dependent on retaining our current CMS platform customers and acquiring new CMS platform customers. We compete with the other technology providers in the market and increasing competition may affect our ability to retain current and acquire new customers. Any number of factors could potentially negatively affect our customer retention or acquisition. For example, a current customer may request products or services that we currently do not provide and may be unwilling to wait until we can develop or source such additional features. Other factors that affect our ability to retain or acquire new CMS platform customers include:

- customers increasingly use competing products or services;
- we fail to introduce new and improved products or if we introduce new products or services that are not favorably received;
- we are unable to continue to develop new products and services that work with a variety of mobile operating systems and networks and/or that have a high level of market acceptance;
- there are changes in customer preference;
- there is consolidation or vertical integration of our customers;
- there are changes in customer sentiment about the quality or usefulness of our products and services;
- there are adverse changes in our products that are mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees;
- technical or other problems prevent us from delivering our products in a rapid and reliable manner;
- we fail to provide adequate customer service to our customers; or
- we, our software developers, or other companies in our industry are the subject of adverse media reports or other negative publicity.

If we are unable to retain and acquire new customers, our financial performance may be materially and adversely affected.

If we are unable in the future to generate new customers for our mobile technology products, our financial performance may be materially and adversely affected.

As consumer preferences migrate to accessing news and information content through mobile devices, we expect that an increasing amount of our revenue will be derived from our native mobile technology software applications. Our ability to grow our revenues is dependent, in part, on our ability to increase the number of customers that license our mobile software applications. If we are unable to provide compelling native mobile technology and platforms to our customers or if customer adoption of native mobile technology and platforms is slow to develop, we may be unable to retain our current customers or acquire new customers.

A significant portion of our projected revenue is generated from the sale of national and local online advertising inventory, which is dependent on available advertising inventory and market demand and prices for such inventory. A decline in available supply of advertising inventory, general demand for advertising inventory and general economic conditions may materially and adversely affect our advertising revenue.

A significant portion of our projected revenue is generated from the sale of national and local online advertising inventory, the majority of which we sell on an automated basis through real-time bidding. We also sell a small portion of our inventory to premium direct advertising customers to whom we provide advertisement inventory on a fixed price and placement basis. Our advertising revenue is dependent on the amount of advertising inventory that is available to us to sell and market demand and prices for such inventory.

The amount of advertising inventory available for us to sell is affected by many variables including but not limited to:

- the negotiated amount of inventory we receive from our current CMS customers;
- the amount of additional inventory our current CMS customers permit us to sell on their behalf;
- our ability to acquire inventory to sell on behalf of parties that are not customers of our CMS;
- the amount of end-user traffic to our customers' online properties; and
- the specific type of advertising to be sold, such as display, video or mobile advertising.

While we endeavor to maximize the amount of inventory we are able to sell, some of the foregoing variables, and by extension the amount of inventory we may sell, are affected by market forces and other contingencies that we do not control.

The other principal component of gross advertising revenue is the price at which advertising inventory may be sold. To a large extent, the prices we are able to achieve for our advertising inventory are a product of the market supply and demand, which may vary based on several factors including ad size, ad type, geographic region and time of year. At a macro level, advertising spending is also sensitive to overall economic conditions, and our advertising revenues will be adversely affected if advertisers respond to weak and uncertain economic conditions by reducing their budgets or changing their spending patterns. There are limitations on the amount that we can compensate for fluctuations in the prevailing market prices for advertising inventory. Any reduction in spending by existing or potential advertisers and a decline in available advertising inventory or demand for such inventory would negatively affect our advertising revenue and could affect our ability to grow our advertising customer base.

Some of our customer agreements require us to guarantee certain advertising revenues. If market rates fall below our guaranteed customer agreement rates, we will experience a loss on those advertising inventory units subject to the guarantee.

We have entered into agreements with certain of our existing customers, and in the future we may enter into additional customer agreements, that require us to guarantee minimum amounts of revenue per advertising unit sold, for national advertising inventory that we sell on behalf of these customers. In the event that market rates for national advertising inventory fall below the rates we have guaranteed, we will experience a loss on those advertising inventory units subject to the guarantee. If the amount of advertising inventory subject to guarantees and sold at a loss is large enough and/or the margin by which the market rates fall short of the guaranteed rates is great enough, we could experience a material reduction in our advertising revenues, which would materially and adversely affect our overall revenues.

If we are unable to respond to the rapid technological changes in our industry or develop new products and services in a cost effective manner, we may be unable to compete successfully in the competitive market in which we operate and our financial results could be adversely affected.

Business on the internet is characterized by rapid technological change. Accordingly, we continue to upgrade and improve the features of our products and services. Given the high level of competition in our market and the ever changing technology needs of our customers, our ability to successfully compete depends on our successful development of new products and services. If we are unable, for technological, legal, financial or other reasons, to adapt in a timely manner to changing market conditions in our industry or address or satisfy our customers’ requirements or preferences in their technology needs, our business, results of operations and financial condition would be materially and adversely affected. Sudden changes in user requirements and preferences, frequent new product and service introductions embodying new technologies, and the emergence of new industry and regulatory standards and practices such as data privacy and security standards could render our products, services and our proprietary technology and systems obsolete. The rapid evolution of these products and services will require that we continually improve the performance, features and reliability of our products and services. However, the complexity of developing new technology in a rapidly changing marketplace may increase our development costs. If we are unable to develop new products and services in a cost-effective manner, we may be unable to compete successfully in the market in which we operate.

We may introduce significant changes to our existing products or develop and introduce new and unproven products. If any of our new products or services, including upgrades to our current products or services, do not meet our customers’ expectations or fail to generate revenue, we could lose our customers or fail to generate any revenue from such products or services and our business may be harmed.

We may introduce significant changes to our existing products or develop and introduce new and unproven products or services, including using technologies with which we have little or no prior development or operating experience. If new or enhanced products fail to attract or retain customers or to generate sufficient revenue, operating margin, or other value to justify certain investments, our business may be adversely affected. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenue as anticipated or recover any associated development costs.

In addition, updating our technology may require significant additional capital expenditures. If any of our upgrades to our current services do not meet our customer’s expectations, we could lose customers and our business may be harmed. If new services require us to grow rapidly, this could place a significant strain on our managerial, operational, technical and financial resources. In order to manage our growth, we could be required to implement new or upgraded operating and financial systems, procedures and controls. Our failure to expand our operations in an efficient manner could cause our expenses to grow, our revenue to decline or grow more slowly than expected.

The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business.

We currently depend on the continued services and performance of our key personnel, including Louis Schwartz, our Chief Executive Officer, Omar Karim, our Chief Operating Officer, and Mike Munoz, our Chief Financial Officer. The loss of key personnel, including members of management as well as key engineering, product development, marketing, and sales personnel, could disrupt our operations and have an adverse effect on our business. As we continue to grow, we cannot guarantee that we will continue to attract the personnel we need to maintain our competitive position. In particular, we intend to hire a significant number of personnel in the coming years, and we expect to face significant competition from other companies in hiring such personnel, particularly in the New York City markets. As we grow, the incentives to attract, retain, and motivate employees provided by our equity awards or by future arrangements, such as through cash bonuses, may not be as effective as in the past. If we do not succeed in attracting, hiring, and integrating excellent personnel, or retaining and motivating existing personnel, we may be unable to grow effectively.

We have recorded significant impairment charges relating to the impairment of our goodwill and amortizable intangible assets as of December 31, 2018 and 2017 and may incur additional impairment charges in future periods.

Under U.S. generally accepted accounting principles (“U.S. GAAP”), we review our goodwill for impairment at least annually as of December 31 and when events or changes in circumstances indicate that the carrying value may not be recoverable. Similarly, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. As a result of these review processes, we determined that our goodwill and amortizable intangible assets were impaired as of December 31, 2018 and 2017 and, accordingly, we recorded an impairment charge to earnings of approximately \$12.8 million for the year ended December 31, 2018 and \$6.6 for the year ended December 31, 2017. No assurance can be given that we will not record significant impairment charges in future periods.

We may expand our business through acquisitions of, or investments in, other companies or new technologies, or joint ventures or other strategic alliances with other companies, which may divert our management’s attention or prove not to be successful or result in equity dilution.

In December 2014, we completed a qualifying transaction through a reverse triangular merger with TicToc and WB III Subco Inc. In August 2015, we acquired Frankly Media LLC. We may decide to pursue other acquisitions of, investments in, or joint ventures involving other technologies and businesses in the future. Such transactions could divert our management’s time and focus from operating our business.

Integrating an acquired company, business or technology is risky and may result in unforeseen operating difficulties and expenditures, including, among other things, with respect to:

- incorporating new technologies into our existing business infrastructure;
- consolidating corporate and administrative functions;
- coordinating our sales and marketing functions to incorporate the new business or technology;
- maintaining morale, retaining and integrating key employees to support the new business or technology and managing our expansion in capacity; and
- maintaining standards, controls, procedures and policies (including effective internal control over financial reporting and disclosure controls and procedures).

In addition, a significant portion of the purchase price of companies we may acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our earnings based on this impairment assessment process, which could harm our operating results.

Future acquisitions could result in potentially dilutive issuances of our equity securities, including our common shares, or the incurrence of debt, contingent liabilities, amortization expenses or acquired in-process research and development expenses, any of which could harm our business, financial condition and results of operations. Future acquisitions may also require us to obtain additional financing, which may not be available on favorable terms or at all.

Finally, our skill at investing our funds in illiquid securities issued by other companies is untested. Although we will review the results and prospects of any such investments carefully, it is possible that such investments could result in a total loss. Additionally, we may have little or no control over the companies in which we may invest, and we may be forced to rely on the management of the companies in which we invest to make reasonable and sound business decisions. If the companies in which we invest are not successfully able to manage the risks facing them, such companies could suffer, and we may lose all or part of our investment in such companies.

If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants, and third parties with whom we have relationships. In the future we may acquire patents or patent portfolios, which could require significant cash expenditures. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any or all of these cases, we may be required to expend significant time and expense in order to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. In addition, we occasionally include open source software in our products. As a result of the use of open source in our products, we may license or be required to license innovations that turn out to be material to our business and may also be exposed to increased litigation risk. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could have an adverse effect on our business and financial results.

We are a holding company and our only asset is the direct ownership of Frankly Co. and Frankly Media.

We are a holding company and have no material non-financial assets other than direct ownership of Frankly Co. and Frankly Media. We have no independent means of generating revenue. To the extent that we will need funds beyond our own financial resources to pay liabilities or to fund operations, and Frankly Co. and/or Frankly Media are/is restricted from making distributions to us under applicable laws or regulations or agreements, or not have sufficient earnings to make these distributions, we may have to borrow or otherwise raise funds sufficient to meet these obligations and operate our business and, thus, our liquidity and financial condition could be materially adversely affected.

We may be party to litigation, which can be expensive and time consuming, and, if resolved adversely, could have a significant impact on our business, financial condition, or results of operations.

Our business, financial condition, or results of operations could be adversely affected as a result of an unfavorable resolution of future disputes and litigation. Companies in the internet, technology, and media industries own large numbers of patents, copyrights, trademarks, and trade secrets, and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. In addition, various “non-practicing entities” that own patents and other intellectual property rights often attempt to aggressively assert their rights in order to extract value from technology companies. Furthermore, from time to time we may introduce new products, including in areas where we currently do not compete, which could increase our exposure to patent and other intellectual property claims from competitors and non-practicing entities.

Defending patent and other intellectual property litigation is costly and can impose a significant burden on management and employees, and there can be no assurances that favorable final outcomes will be obtained in all cases. In addition, plaintiffs may seek, and we may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring us to cease some or all of our operations. We may decide to settle such lawsuits and disputes on terms that are unfavorable to us. Similarly, if any litigation to which we are a party is resolved adversely, we may be subject to an unfavorable judgment that may not be reversed upon appeal. The terms of such a settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, we may have to seek a license to continue practices found to be in violation of a third party's rights, which may not be available on reasonable terms, or at all, and may significantly increase our operating costs and expenses. As a result, we may also be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative non-infringing technology or practices could require significant effort and expense or may not be feasible.

Our software is highly technical, and if it contains undetected errors, our business could be adversely affected.

Our products incorporate software that is highly technical and complex. Our software may now or in the future contain, undetected errors, bugs, or vulnerabilities. Some errors in our software codes may only be discovered after the codes have been released. Any errors, bugs, or vulnerabilities discovered in our codes after release could result in damage to our reputation, loss of users, loss of revenue, or liability for damages.

We rely on third parties to provide the technologies necessary to deliver products and services to our customers, and any change in the licensing terms, costs, availability, or acceptance of these technologies could adversely affect our business.

We rely on third parties to provide the technologies that we use to deliver our products and services to our customers. These technologies include software that provides some of the core functionality contained within our CMS, as well as third-party software and services that provide some of the external features of our CMS, such as email functionality, user traffic reporting, ad-serving, content delivery services and ad-exchange services. There can be no assurance that these providers will continue to license their technologies or otherwise make them available to us on reasonable terms, or at all. Providers may change the fees they charge users or otherwise change their business models in a manner that impedes the acceptance of their technologies. In order for our services to be successful, there must be a large base of users of the technologies necessary to deliver our products and services. We have limited or no control over the availability or acceptance of these technologies, and any change in the licensing terms, costs, availability or user acceptance of these technologies could adversely affect our business.

Failure to license necessary third party software for use in our products and services, or failure to successfully integrate third party software, could cause delays or reductions in our sales, or errors or failures of our service.

We license third party software that we incorporate into our products and services. In the future, we might need to license other software to enhance our products and meet evolving customer requirements. These licenses may not continue to be available on commercially reasonable terms or at all. Some of this technology could be difficult to replace once integrated. The loss of, or inability to obtain, these licenses could result in delays or reductions of our applications until we identify, license and integrate or develop equivalent software, and new licenses could require us to pay higher royalties. If we are unable to successfully license and integrate third party technology, we could experience a reduction in functionality and/or errors or failures of our products, which may reduce demand for our products and services.

Third-party licenses may expose us to increased risks, including risks associated with the integration of new technology, the impact of new technology integration on our existing technology, open source software disclosure risks, the diversion of resources from the development of our own proprietary technology, and our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs.

Computer malware, viruses, hacking and phishing attacks, and spamming could harm our business and results of operations.

Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry and may occur on our systems in the future. Our main customers are local media companies and given the ability of American news outlets to reach a large user base, our technology and content platform could be the targets of hostile attempts to breach the security and integrity of the platform. A coordinated attack on our infrastructure is a risk to the stability of the platform. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain the performance, reliability, security, and availability of our products and technical infrastructure to the satisfaction of our customers may harm our reputation and our ability to retain existing customers and attract new customers.

System failures or capacity constraints could harm our business and financial performance.

The provision of our services and products depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service. Such interruptions could harm our business, financial condition and results of operations, and our reputation could be damaged if people believe our systems are unreliable. Our systems are vulnerable to damage or interruption from extreme weather events, terrorist attacks, floods, fires, power loss, telecommunications failures, security breaches, computer malware, computer hacking attacks, computer viruses, computer denial of service attacks or other attempts to, or events that, harm our systems. Our data centers may also be subject to break-ins, sabotage and intentional acts of vandalism and to potential disruptions if the operators of the facilities have financial difficulties. If we were forced to rely on our system back-ups to restore the systems, we could experience significant delays in restoring the functionality of our platform and could experience loss of data, which could materially harm our business and our operating results. Although we maintain insurance to cover a variety of risks, the scope and amount of our insurance coverage may not be sufficient to cover our losses resulting from system failures or other disruptions to our online operations. Any system failure or disruption and any resulting losses that are not recoverable under our insurance policies may materially harm our business, financial condition and results of operations. To date, we have never experienced any material losses as a result of system failures or online disruptions.

Our business depends on continued and unimpeded access to the Internet by us, our customers and their end users. Internet access providers or distributors may be able to block, degrade or charge for access to our content, which could lead to additional expenses to us and our customers and the loss of end users and advertisers.

Products and services such as ours depend on our ability and the ability of our customers' users to access the Internet. Currently, this access is provided by companies that have, or in the future may have, significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies and government-owned service providers. Some of these providers may take, or have stated that they may take, measures that could degrade, disrupt, or increase the cost of user access to products or services such as ours by restricting or prohibiting the use of their infrastructure to support or facilitate product or service offerings such as ours, or by charging increased fees to businesses such as ours to provide content or to have users access that content. Such interference could result in a loss of existing viewers, subscribers and advertisers, and increased costs, and could impair our ability to attract new viewers, subscribers and advertisers, thereby harming our revenues and growth.

We may not maintain acceptable website performance for our platform, which may negatively impact our relationships with our customers and harm our business, financial condition and results of operations.

A key element to our continued growth is the ability of our customers' audience to access the platform and other offerings within acceptable load times. We refer to this as website performance. We may in the future experience platform disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our technology simultaneously, and denial of service or fraud or security attacks.

In some instances, we may not be able to identify the cause or causes of these website performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve website performance, especially during peak usage times, as our solutions become more complex and our user traffic increases. If our platform is unavailable when consumers attempt to access them or do not load as quickly as they expect, our customers seek alternative services or services from our competitors. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be harmed.

We may incur liability as a result of information retrieved from or transmitted over the internet or through our customer websites and claims related to our products.

We may face claims relating to information that is retrieved from or transmitted over the internet or through our customers' websites and claims related to our products. In particular, the nature of our business exposes us to claims related to defamation, intellectual property rights, and rights of publicity and privacy. This risk is enhanced in certain jurisdictions outside the U.S. where our protection from liability for third-party actions may be unclear and where it may be less protected under local laws than it is in the U.S. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. If any of these events occur, our business and financial results could be adversely affected.

We may expand our operations into international markets where we have limited experience and we will be subject to risks associated with international operations.

Although our current primary focus is on the North American market, we may expand our product offerings internationally. We have limited experience in marketing and operating our services and products in international markets, and we may not be able to successfully develop or grow our business in these markets due to local competition and regulations. If we cannot manage these risks effectively, the costs of doing business in some international markets may be prohibitive or our costs may increase disproportionately to our revenue.

We cannot be certain that our net operating loss ("NOL") carryforwards will be available to offset future taxable income for tax purposes.

As of December 31, 2018, we had federal and state NOL carryforwards of approximately \$34.4 million and \$20.9 million, respectively, which, if unused will expire on various dates in the next 20 years. Additionally, as of December 31, 2018, we had Canadian tax NOL carryforwards of approximately \$7.8 million which will begin to expire in 2033. As of December 31, 2018, we had no research and development credit carryforwards. To the extent available, we intend to use these net operating loss carryforwards to offset future taxable income associated with our operations. There can be no assurance that we will generate sufficient taxable income in the carryforward period to utilize any remaining net operating loss carryforwards before they expire.

The use of our U.S. federal income tax NOLs (and possibly our state income tax NOLs) may be further limited under applicable tax laws. Under Section 382 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), if a corporation with NOLs undergoes an "ownership change" (generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period), the corporation's ability to use its pre-ownership change NOL carryforwards and other pre-ownership change tax attributes (such as tax credits) to offset its post-ownership change income may be limited. We will not make a determination as to whether an ownership change has occurred until we generate taxable income that could be offset by our NOLs. We may also experience ownership changes in the future as a result of subsequent offerings of stock or other changes in our stock ownership. As a result, if we earn net taxable income for U.S. federal income tax purposes, our ability to use our pre-change NOL carryforwards to offset U.S. federal taxable income may be subject to limitations, which potentially could result in increased future tax liability to us.

In addition, we may be limited in the use of our NOLs in the United States because of the potential application of the "dual consolidated loss" rules as described below under "Material U.S. Federal Income Tax Considerations."

The preparation of our financial statements will involve the use of estimates, judgments and assumptions, and our financial statements may be materially affected if such estimates, judgments and assumptions prove to be inaccurate.

Financial statements prepared in accordance with U.S. GAAP require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management’s judgment include, but are not limited to, determining the fair value of our assets and the timing and amount of cash flows from our assets. These estimates, judgments and assumptions are inherently uncertain and, if they prove to be wrong, we face the risk that charges to income will be required. Any such charges could significantly harm our business, financial condition, results of operations and the price of our securities. Estimates and assumptions are made on an ongoing basis for the following: revenue recognition, capitalization of software development costs, impairment of long-lived assets, impairment of goodwill and stock-based compensation expense. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a discussion of the accounting estimates, judgments and assumptions that we believe are the most critical to an understanding of our future plan of operations.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, shareholders could lose confidence in our financial and other public reporting, which would likely negatively affect our business and the market price of our common shares.

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing conducted by us, or any testing conducted by our independent registered public accounting firm may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which is likely to negatively affect our business and the market price of our common shares.

We have a limited operating history which may make it difficult for investors to evaluate our prospects for success.

Frankly Co. was incorporated under the laws of the State of Delaware on September 10, 2012. Frankly Inc. was incorporated on June 7, 2013 and completed a reverse triangular merger with Frankly Co. and a wholly-owned subsidiary, WB III Subco Inc., in December 2014. In addition, we completed the acquisition of Gannaway Web Holdings, LLC, now Frankly Media LLC, on August 25, 2015. Although Frankly Media LLC has been operating since 1998, we have a limited operating history as a consolidated company. This lack of consolidated operating history may make it difficult for investors to evaluate our prospects for success. There is no assurance that we will be successful and the likelihood of success must be considered in light of our relatively early stage of consolidated operations.

Risks Related to Our Industry

Our business is highly competitive. Competition presents an ongoing threat to the success of our business.

Our current primary focus is the North American market in which we face significant competition from a number of service and software providers, nearly all of whom have greater financial, marketing and technical resources than us. Specifically in the local broadcast segment, our chief competitor is Nexstar Broadcasting’s subsidiary Lakana, LLC (NASDAQ: NXST), which is owned by a larger broadcasting group which provides it with a captive customer base of TV stations owned by its parent company and significant industry contacts. In generalized CMS offerings, we compete against Wordpress VIP and other open source platforms. Open source platforms utilize a developer community in which product innovation and advancements are crowdsourced rather than developed in-house as we do. In video solutions, we compete against providers such as Brightcove, Inc. (NASDAQ: BCOV), Neulion, Inc. (TSE: NLN), MLB Advanced Media and Google’s newly acquired video solutions company, Anvato (NASDAQ: GOOG). These video solution companies are larger publicly listed companies with significantly larger research and development budgets. In mobile app frameworks, we compete with Verve, Accedo and Newscycle’s recently acquired DoApps. In advertising solutions, we compete against a variety of advertising programmatic and agency businesses. In addition, some larger broadcasters have opted for in-house solutions. Many of these competitors focus on singular product lines and thus may have a competitive advantage compared to companies like ours that offer a range of products and services.

Additionally, as we introduce new products and as our existing products evolve, or as other companies introduce new products and services, we may become subject to additional competition. Some of our current and potential competitors have significantly greater resources and better competitive positions in certain markets than us. These factors may allow our competitors to respond more effectively than we can to new or emerging technologies and changes in market requirements. Our competitors may also develop products, features, or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Certain competitors could use strong or dominant positions in one or more markets to gain a competitive advantage against us.

We believe that our ability to compete effectively depends upon many factors both within and beyond our control, including:

- the usefulness, ease of use, performance, and reliability of our products compared to our competitors;
- the timing and market acceptance of products, including developments and enhancements to our or our competitors' products;
- our ability to monetize our products;
- customer service and support efforts;
- marketing and selling efforts;
- our financial condition and results of operations;
- our ability to establish and maintain customer interest in building on our platform;
- changes mandated by legislation, regulatory authorities, or litigation, including settlements and consent decrees, some of which may have a disproportionate effect on us;
- acquisitions or consolidation within our industry, which may result in more formidable competitors;
- acquisitions or consolidation within the media industry in which we focus our current customer base, which may result in loss of customers or advertising inventory;
- our ability to attract, retain, and motivate talented employees, particularly software engineers;
- our ability to cost-effectively manage and grow our operations; and
- our reputation and brand strength relative to that of our competitors.

If we are not able to effectively compete, we may lose our customer base which will materially and adversely affect our revenue and results of operations.

Recent consolidation within the local news broadcasting industry may materially and adversely affect our ability to expand our customer base.

The majority of our customers are local television stations that use our white-label CMS to distribute their content online and to mobile devices. The local media industry has experienced consolidation and ownership of local television stations that have news operations is increasingly being concentrated in entities that operate large groups of stations. If the trend of consolidation continues, our customer base may decline which could materially and adversely affect our results of operations.

Our business may be subject to the adverse effects of Federal Communications Commission (“FCC”) regulations.

The majority of our customers are television broadcasters that are subject to comprehensive regulation by the FCC and the future amendment, repeal or enactment of FCC regulations could affect our customers and/or their demand for our services. Changes in FCC regulations may limit our customers’ ability to acquire other broadcast properties or may require or make it advantageous for them to divest themselves of current broadcast properties. Additionally, in the past, the FCC has and in the future may promulgate additional regulations that govern the online activities of our customers and the websites and other services they provide to end-users. Such regulations may increase the cost and complexity of the services we provide, and we may not be able to recover the full amount of such additional costs from our customers.

The adoption of ATSC 3.0 has the potential to disrupt the demand for or composition of the products and services we provide to our customers.

The Advanced Television Systems Committee, which determines the industry standards for television signals, is promulgating a revised standard called ATSC 3.0. The revised standard may require or enable our customers to internally adopt in their newsroom operations some of the technology we currently supply or otherwise obviate the need for some of the services we provide. It is not known whether ATSC 3.0, when implemented, will require us to incur additional costs to ensure compatibility and/or may reduce customer demand for some of the services we currently provide.

The broadcast industry is subject to changing demographics and user preferences.

Our ability to maintain and grow our business with television broadcasters is subject our customers’ ability to retain and grow online audiences. As technology, audience composition and user preferences change, our customers face the ongoing challenge of competing for online users in a diverse and changing online marketplace for news and information content. Changing end-user demographics, the online availability of alternative sources of news and platform and technology preferences are challenges our broadcast customers face in retaining and developing audiences for their online services. If our customers are not successful in meeting these challenges, our ability to monetize the services we provide may diminish and/or our customers may reduce the amount of services they purchase from us, the foregoing having the potential to reduce the amount of revenue we realize from this category of customers. While we are empowering our customers to meet their online challenges and seeking to diversify our business into other market sectors, we will remain subject to the risk that our customers may experience a reduction in their online business operations and the risk that we may not be able to effectively diversify our current customer base to mitigate this risk.

The growth of the market for our services and products depends on the continued growth of the internet and mobile devices as mediums for content, advertising, commerce and communications.

Our growth depends on the continued acceptance of the internet and mobile devices as platforms for content, advertising, commerce and communications. The acceptance of the internet and mobile devices as mediums for such uses could be adversely impacted by delays in the development or adoption of new standards and protocols to handle increased demands of internet activity and mobile phone services, security, privacy protection, reliability, cost, ease of use, accessibility and connectivity, and quality of service. The performance of the internet and mobile devices and their acceptance as such mediums has been harmed by connectivity issues, viruses, worms, and similar malicious programs, and the internet and mobile phone services have experienced a variety of outages and other delays as a result of damage to portions of their infrastructure. If for any reason the internet and mobile devices do not remain mediums for widespread content, advertising, commerce and communications, the demand for our services and products would be significantly reduced, which would harm our business.

The growth of the market for our services and products depends on the development and maintenance of the internet infrastructure and the mobile phone services and technology.

Our business strategy depends on continued internet and high-speed internet access growth and development of mobile device services and technology. Any downturn in the use or growth rate of the internet or high-speed internet access or the quality and connectivity of mobile devices would be detrimental to our business. If the internet and mobile devices continue to experience significant growth in number of users, frequency of use and amount of data transmitted, the internet infrastructure or mobile device services may not be able to support the demands placed on them and the performance or reliability of the internet or mobile device services may be adversely affected. The success of our business therefore depends on the development and maintenance of a sound internet infrastructure and mobile device services. Consequently, as internet and mobile device usage increases, the growth of the market for our products depends upon improvements made to the internet and mobile device services and technology as well as to individual customers' networking infrastructures to alleviate overloading and congestion. In addition, any delays in the adoption of new standards and protocols required to govern increased levels of internet activity or mobile device activity or increased governmental regulation may have a detrimental effect on the internet infrastructure and mobile device activity and technology.

Government regulation of the internet continues to evolve, and new laws and regulations could significantly harm our financial performance.

Today, there are relatively few laws specifically directed towards conducting business over the internet. We expect more stringent laws and regulations relating to the internet to be enacted. The adoption or modification of laws related to the internet could harm our business, financial condition and results of operations by, among other things, increasing our costs and administrative burdens. Due to the increasing popularity and use of the internet, many laws and regulations relating to the internet are being debated at the international, federal and state levels, which are likely to address a variety of issues such as:

- user privacy and expression;
- ability to collect and/or share necessary information that allows us to conduct business on the internet;
- export compliance;
- pricing and taxation;
- fraud;
- advertising;
- intellectual property rights;
- consumer protection;
- protection of minors;
- content regulation;
- information security; and
- quality of services and products.

Several federal laws that could have an impact on our business have been adopted. The Digital Millennium Copyright Act of 1998 reduces the liability of online service providers of third-party content, including content that may infringe copyrights or rights of others. The Children's Online Privacy Protection Act imposes additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children from Sexual Predators Act requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.

It could be costly for us to comply with existing and potential laws and regulations, and they could harm our marketing efforts and our attractiveness to advertisers by, among other things, restricting our ability to collect demographic and personal information from consumers or to use or disclose that information in certain ways. If we were to violate these laws or regulations, or if it were alleged that we had, we could face private lawsuits, fines, penalties and injunctions and our business could be harmed.

Finally, the applicability to the internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the internet and other online services could also increase our costs of doing business, discourage internet communications, reduce demand for our services and expose us to substantial liability.

Risks Related to Our Securities

There is no existing market for our securities in the United States, and we do not know if one will develop to provide you with adequate liquidity. The price of our securities may fluctuate significantly, and you could lose all or part of your investment.

There has been no public market for our securities in the United States. An active and liquid public market for our securities may not develop or be sustained in the United States. The market price of our securities could fluctuate significantly for various reasons, many of which are beyond our control. These factors include:

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in financial estimates or publication of research reports and recommendations by financial analysts with respect to us or other financial institutions;
- reports in the press or investment community generally or relating to our reputation or the industry in which we operate;
- strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions, or financings;
- fluctuations in the common share price and operating results of our competitors;
- future sales of our common shares or sales of significant number of common shares by large investors;
- proposed or adopted regulatory changes or developments;
- domestic and international economic factors unrelated to our performance; and
- general market conditions and, in particular, developments related to market conditions for the social media industry.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our common share price, notwithstanding our operating results. We expect that the market price of our securities will fluctuate and there can be no assurances about the levels of the market prices for our securities.

If research analysts do not publish research about our business or if they issue unfavorable commentary or downgrade our common shares, the price of our common shares and their trading volume could decline.

The trading market for our common shares may depend in part on the research and reports that research analysts publish about us and our business. If we do not maintain adequate research coverage, or if one or more analysts who covers us downgrades our common shares or publishes inaccurate or unfavorable research about our business, the price of our common shares could decline. If one or more of the research analysts ceases to cover us or fails to publish reports on us regularly, demand for our common shares could decrease, which could cause the price or trading volume to decline.

We may issue additional equity securities, or engage in other transactions that could dilute our book value or affect the priority of our common shares, which may adversely affect the market price of our common shares.

Our Articles allow our Board, subject to the provisions of the BCBCA, to issue an unlimited number of common shares and Class A Restricted Voting Shares (“Restricted Shares”) without shareholder approval. Our Board may determine from time to time that we need to raise additional capital by issuing common shares or other equity securities. Except as otherwise described in this document, we are not restricted from issuing additional securities, including securities that are convertible into or exchangeable for, or that represent the right to receive, common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future offerings, or the prices at which such offerings may be affected. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Holders of our common shares are not entitled to pre-emptive rights or other protections against dilution. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, the then-current holders of our common shares. Additionally, if we raise additional capital by making offerings of debt or preference shares, upon our liquidation, holders of our debt securities and preference shares, and lenders with respect to other borrowings, may receive distributions of our available assets before the holders of our common shares.

The exercise of outstanding options, RSUs and warrants may dilute current shareholders.

As of December 31 2018, there were outstanding warrants and options to purchase a total of 932,458 common shares. Additionally, as of December 31 2018, there were outstanding RSUs that, subject to vesting, are convertible into 15,474 common shares. The exercise or conversion of a substantial number of these outstanding warrants, options and RSUs could adversely affect our share price and dilute current shareholders.

We have not paid any cash dividends in the past and have no plans to issue cash dividends in the future, which could cause our common shares to have a lower value than that of similar companies which do pay cash dividends.

We have not paid any cash dividends on our common shares to date and do not anticipate any cash dividends being paid to holders of our common shares in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board. In addition, the Amended Credit Agreement contains a negative covenant which prohibits us from paying dividends to our shareholders without the prior written consent of Raycom and the terms of any future debt or credit facility may preclude us from paying any dividends.

While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that any earnings will be retained to finance our future expansion. As we have no plans to issue cash dividends in the future, our common shares could be less desirable to other investors and as a result, the value of our common shares may decline, or fail to reach the valuations of other similarly situated companies that pay cash dividends.

Two large shareholders have substantial control over us, which will limit an investor’s ability to influence the outcome of important transactions, including a change in control.

As of December 31, 2018, two large shareholders own approximately 20.6% and 20.5% of our outstanding common shares, respectively, excluding common shares underlying warrants held by the shareholder owning 20.6%. Upon exercise of such warrants, the shareholder holding 20.6% will hold approximately 40.2%. Such shareholders have the ability to control or substantially influence aspects of our business, including the determination to enter into a corporate transaction or to prevent a transaction, regardless of whether our other shareholders believe that any such transaction is in their or our best interests. They may also have interests that differ from other investors and may vote in a manner that is adverse to investors’ interests. This concentration of ownership may discourage, delay or prevent a change in control, which could deprive our shareholders of an opportunity to receive a premium for their common shares as part of a sale of the Company.