UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

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

For the transition period from __________ to __________

Commission File Number: 000-55821

FRANKLY INC.

(Exact name of registrant as specified in its charter)

British Columbia	**98-1230527**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
27-01 Queens Plaza North, Suite 502 Long Island City, NY	**11101**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(212) 931-1200**

Not applicable

(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Date File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
		Emerging growth company	[X]

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

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

As of November 14, 2018, there were 2,660,155 shares of the Company's common shares, no par value, issued and outstanding.

FRANKLY INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Frankly Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 2,889,377	$ 1,254,886
Restricted cash	524,115	634,115
Accounts receivable, net	2,193,971	3,483,347
Prepaid expenses and other current assets	273,784	535,111
Total Current Assets	**5,881,247**	**5,907,459**
Property & equipment, net	57,780	985,321
Software development costs, net	-	6,972,741
Intangible assets, net	-	6,762,216
Other assets	304,859	311,046
Total Assets	**$ 6,243,886**	**$ 20,938,783**
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable	$ 4,472,804	$ 5,740,788
Accrued expenses	1,315,594	1,717,030
Capital leases, current portion	-	40,449
Deferred revenue, non-related party	70,566	92,279
Due to related parties	2,476,380	5,090,358
Total Current Liabilities	**8,335,344**	**12,680,904**
Non-revolving credit facility, net	20,677,686	12,155,573
Deferred rent	30,674	35,882
Other liabilities	363,820	840,973
Total Liabilities	**29,407,524**	**25,713,332**
Commitments and Contingencies (Note 10)		
Shareholders' Deficit		
Common shares, no par value, unlimited shares authorized, 2,656,917 and 2,226,861 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	-	-
Class A restricted voting shares, no par value, unlimited shares authorized, 0 shares outstanding as of September 30, 2018 and December 31, 2017	-	-
Additional paid-in capital	67,099,415	66,127,485
Accumulated deficit	(90,208,144)	(70,836,330)
Accumulated other comprehensive loss	(54,909)	(65,704)
Total Shareholders' Deficit	**(23,163,638)**	**(4,774,549)**
Total Liabilities and Shareholders' Deficit	**$ 6,243,886**	**$ 20,938,783**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Operations and Comprehensive Loss – Unaudited

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Total Revenue	**$ 6,047,225**	**$ 6,537,308**	**$ 17,576,696**	**$ 19,390,089**
Costs and operating expenses:				
Cost of revenue (excluding depreciation and amortization)	2,739,062	3,307,870	8,052,914	9,142,558
General and administrative (excluding depreciation and amortization)	1,216,535	1,869,037	5,106,030	5,999,894
Selling and marketing	420,363	606,383	1,341,873	2,013,174
Research and development (excluding depreciation and amortization)	737,629	1,212,703	2,568,422	3,161,646
Depreciation and amortization	1,313,485	1,102,576	3,726,729	3,261,933
Impairment expense	12,789,343	-	12,789,343	-
Loss on disposal of assets	-	-	12,823	-
Loss on extinguishment of debt	-	38,287	-	38,287
Transaction costs	(2,110)	-	76,582	-
Nasdaq listing fees	-	943,822	-	943,822
Restructuring expense	-	-	542,210	-
Retention expense	247,548	-	835,647	-
Other expense	-	-	-	27,017
Loss from operations	**(13,414,630)**	**(2,543,370)**	**(17,475,877)**	**(5,198,242)**
Foreign exchange loss (gain)	3,940	(16,144)	15,608	(20,236)
Interest expense, net	684,230	601,910	1,880,329	1,859,058
Loss before income tax expense	**(14,102,800)**	**(3,129,136)**	**(19,371,814)**	**(7,037,064)**
Income tax expense	-	-	-	-
Net Loss	**$ (14,102,800)**	**$ (3,129,136)**	**$ (19,371,814)**	**$ (7,037,064)**
Other Comprehensive Net Income (Loss)				
Foreign currency translation	5,120	(18,237)	10,795	(14,140)
Comprehensive Loss	**$ (14,097,680)**	**$ (3,147,373)**	**$ (19,361,019)**	**$ (7,051,204)**
Basic and Diluted Net Loss Per Share	**$ (5.37)**	**$ (1.46)**	**$ (7.97)**	**$ (3.29)**
Basic and Diluted Weighted-Average Common and Class A Restricted Voting Shares Outstanding	**2,625,888**	**2,148,332**	**2,429,640**	**2,137,172**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Shareholders' (Deficit) Equity – Unaudited

	Common Shares	Class A Restricted Voting Shares	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
Balance, December 31, 2017	**2,226,861**	**-**	**$66,127,485**	**$ (70,836,330)**	**$ (65,704)**	**$ (4,774,549)**
Vesting of restricted share units	141,414	-	-	-	-	-
Issuance of common shares	288,642	-	597,524	-	-	597,524
Stock-based compensation	-	-	374,406	-	-	374,406
Net loss	-	-	-	(19,371,814)	-	(19,371,814)
Other comprehensive income	-	-	-	-	10,795	10,795
Balance, September 30, 2018	**2,656,917**	**-**	**$67,099,415**	**$ (90,208,144)**	**$ (54,909)**	**$ (23,163,638)**
Balance, December 31, 2016	**2,030,800**	**97,674**	**$64,986,368**	**$ (53,642,691)**	**$ (39,466)**	**$ 11,304,211**
Vesting of restricted share units	54,597	-	-	-	-	-
Exchange of restricted voting shares for common shares	97,674	(97,674)	-	-	-	-
Stock-based compensation	-	-	774,776	-	-	774,776
Net loss	-	-	-	(7,037,064)	-	(7,037,064)
Other comprehensive loss	-	-	-	-	(14,140)	(14,140)
Balance, September 30, 2017	**2,183,071**	**-**	**$65,761,144**	**$ (60,679,755)**	**$ (53,606)**	**$ 5,027,783**

See accompanying notes to the condensed consolidated financial statements.

Frankly Inc. and Subsidiaries
Condensed Consolidated Statements of
Cash Flows – Unaudited

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities		
Net loss	**$ (19,371,814)**	**$ (7,037,064)**
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	3,726,729	3,261,933
Amortization of debt discount	388,131	405,788
Amortization of deferred financing costs	35,329	80,652
Stock-based compensation expense	374,406	774,776
Deferred interest	1,298,653	-
Impairment expense	12,789,343	-
Loss on disposal of assets	12,823	-
Loss on extinguishment of debt	-	38,287
Provision for bad debt expense	687,806	-
Changes in assets and liabilities:		
Accounts receivable	601,570	499,840
Prepaid expenses and other current assets	256,695	(265,416)
Other assets	6,187	130,205
Accounts payable	(1,256,982)	448,127
Accrued expenses	(402,367)	(421,451)
Deferred revenue	(21,713)	25,901
Due to / from related parties	(2,613,978)	1,359,275
Deferred rent and other liabilities	115,163	30,476
Net cash used in operating activities	**(3,374,019)**	**(668,671)**
Cash flows from investing activities		
Capitalized software costs	(1,856,214)	(2,444,766)
Purchases of property & equipment	(19,817)	(93,667)
Proceeds from sale of intangible assets or equipment	9,635	-
Net cash used in investing activities	**(1,866,396)**	**(2,538,433)**
Cash flows from financing activities		
Restricted cash	110,000	-
Revolving credit facility payments	-	(1,375,474)
Capital lease payments	(40,449)	(127,622)
Proceeds from non-revolving credit facility	6,800,000	(64,615)
Net cash provided by (used in) financing activities	**6,869,551**	**(1,567,711)**
Effect of exchange rate changes on cash	5,355	(2,243)
Net change in cash and cash equivalents	**1,634,491**	**(4,777,058)**
Cash and cash equivalents at beginning of period	1,254,886	6,053,203
Cash and cash equivalents at end of period	**$ 2,889,377**	**$ 1,276,145**
Supplemental cash flow disclosure		
Cash paid for interest	123,421	1,138,557
Cash paid for income taxes	-	-
Issuance of common shares to settle retention plan	597,524	-

See accompanying notes to the condensed consolidated financial statements.

1. Description of Business and Going Concern

Description of Business

Frankly Inc. ("Frankly") has been operating since the incorporation of its predecessor, TicToc Planet Inc., on September 10, 2012. These condensed consolidated financial statements include Frankly and its subsidiaries (Frankly Co. and Frankly Media LLC), together referred to as the "Company."

The Company helps 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. The Company's 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 content management system ("CMS") platform, native mobile and over-the-top ("OTT") applications, responsive web framework, digital video solutions and digital advertising solutions. The Company generates revenues by charging monthly recurring software licensing fees, variable usage fees for our platform and sharing digital advertising revenue with our customers.

Going Concern

These condensed consolidated financial statements have been prepared on the assumption that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations.

As of September 30, 2018, the Company has an accumulated deficit of $90.2 million, representative of recurring losses since inception. The Company 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. Beginning January 1, 2018, the billing for all services provided to Raycom Media, Inc. ("Raycom"), a related party, are being applied to the advance agreement balance as of December 31, 2017 in the amount of $4,896,585 ($1,588,994 as of September 30, 2018) and Raycom will not be required to make cash payments for services provided by the Company until the balance has been fully repaid. The Company has recently had several customers provide notice that they plan to terminate their current customer agreements with the Company on or about December 31, 2018. Raycom, a significant customer of the Company which accounted for 19% of the Company's revenue for the nine months ended September 30, 2018, is in the process of a pending merger with Gray Television, Inc. Raycom has given the Company notification that it will terminate its existing customer agreement with the Company on December 31, 2018. Separately, five other of the Company's customers, including one other significant customer which accounted for 12% of the Company's revenue for the nine months ended September 30, 2018, have provided notice that their current customer agreements with the Company will terminate without renewal on or before December 31, 2018 (together with Raycom, the "Customer Terminations"). In the aggregate, these terminations represent a significant percentage of the Company's total revenue and are expected to have a material negative impact on the Company's 2019 revenues and related income (loss). These conditions raise substantial doubt about the Company's ability to continue as a going concern within one year after the issuance of its financial statements.

To reduce its operating cash needs, in February 2018, the Company executed a reduction-in-force that removed approximately 20 full-time employees from its headcount. In addition, the Company subleased its remaining office space in San Francisco, CA and is pursuing other areas where operating expenses can be reduced, including moving into a smaller space near its current Long Island City, New York headquarters.

On March 13, 2018, the Company received $1.0 million under the existing credit agreement with Raycom, bringing the total outstanding principal balance under the credit agreement to $15.5 million. On May 7, 2018, the Company entered into an amendment of the 2016 credit agreement, whereby Raycom provided the Company with an additional $7.3 million of funding, which was paid in installments over a six-month period. The $1.0 million advanced to the Company on March 13, 2018 was included in the additional $7.3 million funding noted above. As of September 30, 2018, $6.8 million of the $7.3 million had been funded and the remaining $500,000 was funded on October 2, 2018. As of October 2, 2018, the total outstanding principal balance under the amended credit agreement was $21.8 million. On October 15, 2018, the Company amended its amended credit agreement with Raycom to reduce its principal debt balance from $21.8 million (includes $300,000 due to Cordillera) plus accrued interest of $1,298,653 as of September 30, 2018 to $10.0 million (Note 11). With the Customer Terminations described above, the Company 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 into 2019 and beyond. There can be no assurance that the Company will achieve these actions necessary to sustain the Company's operations and execute its business plan through the next 12 months from the date of this filing.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The unaudited interim condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and include the accounts of Frankly and its wholly-owned subsidiaries Frankly Co. and Frankly Media LLC. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results and cash flows for the periods presented. These unaudited interim condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period.

The accompanying condensed consolidated balance sheet as of December 31, 2017 was derived from the audited financial statements as of that date, but does not include all the information and footnotes required by U.S. GAAP. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2017, included within the Company's Form 10-K as filed with the U.S. Securities and Exchange Commission on April 2, 2018.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and the accompanying notes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Such estimates primarily relate to unsettled transactions and events as of the date of the condensed consolidated financial statements. Accordingly, actual results may differ from estimated amounts.

Accounts Receivable and Concentrations of Risk

Accounts receivable are subject to credit risk and as of September 30, 2018 and December 31, 2017, two customers each accounted for greater than 10% of the Company's accounts receivable balance, respectively. In total, these customers accounted for 47% and 26% of the Company's accounts receivable balance as of September 30, 2018 and December 31, 2017, respectively. Additionally, approximately 54% and 36% of the Company's revenue for the nine months ended September 30, 2018 and 2017, respectively, was generated from three and two customers, respectively, that each accounted for greater than 10% of the Company's total revenue. Two of the three customers have recently provided notice that they plan to terminate their current customer agreements with the Company on or about December 31, 2018 (See Note 1). The allowance for doubtful accounts was $757,806 and $70,000 as of September 30, 2018 and December 31, 2017, respectively.

Recently Issued Accounting Pronouncements

The Company is an "emerging growth company" ("EGC") 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. The Company has elected to avail itself of this exemption and, as a result, its 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 the Company can elect to opt out of the extended transition period at any time, which election is irrevocable.

ASU 2014-09: Revenue from Contracts with Customers (Topic 606) — In May 2014, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers." The new topic will replace Topic 605, "Revenue Recognition," and creates modifications to various other revenue accounting standards for specialized transactions and industries. The topic is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards to reconcile previously differing treatment between U.S. practices and those of the rest of the world and to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for annual reporting periods beginning on or after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019, for private companies; this effective date is applicable for the Company due to the JOBS Act exemption described above. Therefore, the Company plans to adopt this ASU on January 1, 2019 and plans to use the modified retrospective method. The Company will further evaluate during 2018, the anticipated impact of the adoption of this updated guidance on its consolidated financial statements.

ASU 2016-02: Leases (Topic 842) — In February 2016, the FASB issued ASU 2016-02, which requires a lessee to recognize assets and liabilities on its consolidated balance sheet for leases with accounting lease terms of more than 12 months. ASU 2016-02 will replace most existing lease accounting guidance in U.S. GAAP when it becomes effective. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. ASU 2016-02 will be effective for the Company as an EGC in 2020 and requires the modified retrospective method of adoption. Although the Company is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

ASU 2016-18: Statement of Cash Flows (Topic 230), Restricted Cash — In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for the Company as an EGC in 2019. Early adoption is permitted, including adoption in an interim period. The adoption of this ASU will not have a significant impact on the consolidated financial statements.

Recently Adopted

ASU 2016-15: Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments — In August 2016, the FASB issued ASU 2016-15, which provides guidance related to cash flows presentation and is effective for annual reporting periods beginning after December 15, 2017, subject to early adoption, which is permitted using a retrospective transition approach. ASU 2016-15 is intended to standardize the classification of certain cash receipts and cash payments in the statement of cash flows, and was effective for the Company in its first quarter of fiscal 2018. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

3. Acquisition of Worldnow

On July 28, 2015, the Company signed an agreement (the "Purchase Agreement") to purchase all of the outstanding units of Gannaway Web Holdings LLC, operating as Worldnow, for total consideration of $45,000,000. On August 25, 2015 (the "Closing Date"), the Company completed the acquisition of Worldnow. Subsequent to the acquisition, Worldnow changed its name to Frankly Media LLC. The acquisition of Worldnow was made primarily to extend the reach of Frankly to Worldnow's existing customer base within the local broadcast marketplace.

Under the terms of the Purchase Agreement, the Company paid $10,000,000 in cash, issued $20,000,000 in Class A restricted voting shares of the Company (the "Share Consideration") and executed promissory notes to two shareholders of Worldnow bearing simple interest at a rate of 5 percent per year and agreed to pay $15,000,000 on August 31, 2016 (Notes 5 & 7).

4. Restructuring Expense

Following an extensive process to explore and evaluate strategic alternatives, the Company's Board of Directors, led by the Strategic Committee, determined the best path for the Company at that time was to pursue internal growth opportunities and focus on further optimizing its operations. In an effort to reduce its operating cash needs, in February 2018, the Company executed a reduction-in-force that removed approximately 20 full-time employees from its headcount. In addition, the Company subleased its remaining office space in San Francisco, CA and is pursuing other areas where operating expenses can be reduced. The restructuring also included a reorganization of the senior management team. Effective April 12, 2018, the Company's CEO resigned and was succeeded by the Company's former COO and CFO. A number of other senior management changes were implemented on the same date. The Company accounted for the one-time termination benefits and certain contract costs in accordance with ASC 420 – Exit or Disposal Cost Obligations.

The following table summarizes the changes in the restructuring liability (included in accrued expenses) for the periods presented, by each major type of cost associated with the restructuring activity:

	One-time Termination Benefits	Contract Costs	Total
Balance, December 31, 2017	$ -	$ -	$ -
Restructuring expense	443,134	99,076	542,210
Payments	(443,134)	-	(443,134)
Balance, September 30, 2018	$ -	$ 99,076	$ 99,076

5. Related Party Transactions and Balances

The Company has several significant shareholders as follows: Raycom Media Inc. ("Raycom"), SKP America LLC ("SKP America") and Gannaway Entertainment Inc. ("GEI") which each owned approximately 20.6%, 20.5% and 6.7%, respectively, as of September 30, 2018 and 24.6%, 24.5% and 8.0%, respectively, as of December 31, 2017 of the aggregate common shares and Class A restricted voting shares.

The following table summarizes related party balances in the condensed consolidated balance sheets for the periods presented:

Amounts Due (to) from Related Parties	September 30, 2018 (Unaudited)	December 31, 2017
Non-revolving credit facility, net		
Raycom	$ 20,677,686	$ 12,155,573
Due (to) from Raycom:		
Accounts receivable, net	-	427,489
Prepaid expenses and other current assets	-	-
Accounts payable	(419,789)	(275,960)
Accrued expenses	(467,597)	(432,802)
Deferred revenue	(1,588,994)	(4,896,585)
Total due to Raycom	(2,476,380)	(5,177,858)
Due from Mobdub:		
Prepaid expenses and other current assets	-	87,500
Total due from Mobdub	-	87,500
Total due to related parties	$ (2,476,380)	$ (5,090,358)

The following table summarizes related party transactions in the condensed consolidated statements of operations and comprehensive loss for the periods presented:

Revenue (Expense) from Related Parties	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Raycom:				
Revenue	$ 1,175,777	$ 1,272,827	$ 3,594,398	$ 3,920,180
Interest on non-revolving credit facility	(658,849)	(508,646)	(1,722,116)	(1,525,637)
Interest on the Advance Agreement	(25,385)	(78,021)	(157,946)	(234,062)
	491,543	686,160	1,714,336	2,160,481
Mobdub:				
License fees	(29,167)	(29,167)	(87,500)	(87,500)
	(29,167)	(29,167)	(87,500)	(87,500)
	$ 462,376	$ 656,993	$ 1,626,836	$ 2,072,981

Raycom

As partial consideration for the acquisition of Worldnow on August 25, 2015, the Company issued a $4,000,000 promissory note to Raycom and 397,126 Class A restricted voting shares (Note 3). The note bore interest at 5% per annum and was due on August 31, 2016 (Note 7). Raycom was a customer and significant shareholder of Worldnow and, subsequent to the acquisition of Worldnow, remains a customer and significant shareholder of Frankly. Accordingly, during the nine months ended September 30, 2018 and 2017, revenue-related transactions and balances with Raycom arose in the ordinary course of business.

On September 1, 2016, the Company completed the closing of its financing with Raycom (Note 7). The Company received a non-revolving term line of credit from Raycom in the principal amount of $14.5 million and, subject to approval of Raycom, an additional available $1.5 million non-revolving line of credit (collectively, the “Loan”). The proceeds were used to pay down $14 million of the $15 million outstanding promissory notes. In addition, Raycom converted the remaining $1.0 million of its existing $4.0 million promissory note from the Company into 150,200 common shares of the Company and the Company issued 871,160 common share purchase warrants to Raycom. The Loan was recorded at fair value of $11,578,593 with the remaining $2,921,407 being allocated to the warrants. On March 13, 2018, the Company received $1.0 million of the additional $1.5 million available under the Loan, bringing the total outstanding principal balance to $15.5 million.

On May 7, 2018, the Company entered into an amendment of the Loan between the Company and Raycom (Note 7), whereby Raycom agreed to provide the Company with an additional $7.5 million of funding, to be paid in installments over a six-month period, subject to the Company’s achievement of certain operational milestones. The $1.0 million Raycom advanced to the Company under the credit agreement on March 13, 2018 is included in the additional $7.5 million funding. During the second and third quarter of 2018 the Company received $5.8 million of the additional $6.5 million available under the credit facility with Raycom. The total principal outstanding on the Loan as of September 30, 2018 was $21.3 million (Note 7).

The carrying value of the Loan at September 30, 2018 and December 31, 2017, net of debt discount and deferred financing costs, was $20,677,686 and $12,155,573, respectively. Interest expense on the Loan for the three and nine months ended September 30, 2018 and 2017, amounted to $658,849, $1,722,116, $508,646 and $1,525,637, respectively, and is presented within interest expense, net on the consolidated statements of operations and comprehensive loss.

On December 22, 2016, Raycom pre-paid $3 million of future fees for services to be provided by the Company (the “Advance Agreement”). On March 30, 2017, the Company entered into an amendment to the Advance Agreement pursuant to which Raycom pre-paid an additional $2 million of future fees for services to be provided by the Company. In connection with the Advance Agreement, the Company recognized interest expense of $157,946 and $234,062, for the nine months ended September 30, 2018 and 2017, respectively. All services provided by the Company to Raycom since January 1, 2018 are being applied to the Advance Agreement balance. As of September 30, 2018, deferred revenue and accrued interest under the Advance Agreement amounted to $1,588,994 and $467,597, respectively.

Mobdub

The Company has a license agreement with a company that is owned by an officer of the Company. The agreement is for licensing of mobile applications and has a total contract value of $350,000. The period of the agreement is three years and commenced on October 14, 2015.

6. Long-Lived Assets

All of the Company’s long-lived assets are domiciled in the U.S. Depreciation and amortization expense for long-lived assets was as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation of property and equipment	$ 99,486	$ 151,281	$ 357,513	458,616
Amortization of capitalized software	995,665	732,961	2,714,214	2,148,315
Amortization of other intangibles	218,334	218,334	655,002	655,002
Total depreciation and amortization	$ 1,313,485	$ 1,102,576	$ 3,726,729	$ 3,261,933

Property and Equipment, Net

The following table summarizes property and equipment, net, including assets held under capital lease:

	September 30, 2018 (Unaudited)	December 31, 2017
Cost:		
Office and computer equipment and software	$ 1,759,717	$ 2,064,676
Leasehold improvements	603,978	603,978
	2,363,695	2,668,654
Accumulated depreciation and amortization:		
Office and computer equipment and software	(1,383,696)	(1,416,140)
Leasehold improvements	(354,831)	(267,193)
	(1,738,527)	(1,683,333)
Accumulated impairment:		
Office and computer equipment and software	(318,241)	
Leasehold improvements	(249,147)	-
	(567,388)	-
	$ 57,780	$ 985,321

Depreciation expense for assets held under capital lease for the three and nine months ended September 30, 2018 and 2017, respectively, was $0, $0, $35,400 and $107,299. The net carrying value of assets held under capital lease was $0 and $262,747 as of September 30, 2018 and December 31, 2017, respectively.

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. The Customer Terminations discussed in Note 1 were a strong indicator that the carrying amount of the Company's long-lived assets would not be recoverable. The Company performed a recoverability test as of September 30, 2018 and concluded the carrying amounts of its long-lived assets were not recoverable. Considering the impact of the Customer Terminations, the Company is forecasting negative cash flows in 2019 and beyond which do not support the carrying value of its long-lived assets. As a result of applying ASC 360-10-35-36 - Measuring an impairment – Step 3, the Company recorded impairment expense of approximately $12.8 million in the third quarter of 2018, which was comprised of a full impairment of its 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.

Software Development Costs, Net

The following table summarizes software development costs, net for the periods presented:

	September 30, 2018 (Unaudited)	December 31, 2017
Cost	$ 13,977,003	$ 12,120,789
Accumulated amortization	(7,862,262)	(5,148,048)
Accumulated impairment	(6,114,741)	-
	$ -	$ 6,972,741

During the nine months ended September 30, 2018 and 2017, the Company capitalized software development costs of $1,856,214 and $2,444,766, respectively. In addition, as of September 30, 2018, the Company recorded a full impairment of the remaining carrying value of its software development costs assets, as discussed above.

Intangible Assets, Net

The following table summarizes intangible assets, net for the periods presented:

	September 30, 2018 (Unaudited)	December 31, 2017
Cost:		
Broadcast relationships, 12-year useful life	$ 7,600,000	$ 7,600,000
Advertiser relationships, 5-year useful life	1,200,000	1,200,000
	8,800,000	8,800,000
Accumulated amortization:		
Broadcast relationships	(1,952,786)	(1,477,784)
Advertiser relationships	(740,000)	(560,000)
	(2,692,786)	(2,037,784)
Accumulated impairment:		
Broadcast relationships	(5,647,214)	-
Advertiser relationships	(460,000)	-
	(6,107,214)	-
	$ -	$ 6,762,216

As of September 30, 2018, the Company recorded a full impairment of the remaining carrying value of its customer relationship intangible assets, as discussed above.

7. Debt

Non-revolving Credit Facility

On September 1, 2016, the Company completed the closing of its financing with Raycom, a related party (Note 5). The Company received a non-revolving term line of credit from Raycom in the principal amount of $14.5 million and, subject to approval of Raycom, an additional available $1.5 million non-revolving line of credit. In addition, Raycom converted $1.0 million of its existing $4.0 million promissory note from the Company into 150,200 common shares of the Company and the Company issued 871,160 warrants to Raycom entitling the holder of each warrant to acquire one common share of the Company upon exercise of each warrant at a price per common share equal to CDN$8.50 ($6.63 based on the exchange rate at August 18, 2016). The warrants will expire on the earlier of: (i) the repayment of the Loan in accordance with its terms; and (ii) 5 years. To the extent that there is a mandatory repayment of any portion of the principal balance of the Loan, a proportionate number of the warrants will have their term reduced to the later of one year from issuance and 30 days from the date of such repayment. On March 13, 2018, the Company received $1.0 million of the additional $1.5 million available under the Loan, bringing the total outstanding principal balance to $15.5 million.

The warrants were recorded within shareholders' (deficit) equity in accordance with ASC 470-20 - *Debt with Conversion and Other Options*. Proceeds from the sale of the debt instrument with stock purchase warrants (detachable call options) were allocated to the two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The value allocated to the Loan with Raycom was $11,578,593 with the remaining $2,921,407 being allocated to the warrants. The fair value of the 871,160 warrants issued were estimated based on the Black-Scholes pricing model, using the following assumptions: 1) Dividend yield of 0%, 2) Risk free rate of 0.66% for 751,000 warrants and 0.56% for 120,160 warrants, 3) Volatility of 71.14%, 4) Expected term of 5 years for 751,000 warrants and 7 months for 120,160 warrants, and 5) Forfeiture rate of 0%.

The debt discount of $2,921,407 is being amortized to interest expense, net on the consolidated statements of operations and comprehensive loss using the effective-interest method. Amortization of debt discount included in interest expense, net for the three and nine months ended September 30, 2018 and 2017 amounted to $132,454, $388,131, $132,826 and $405,788, respectively. In accordance with ASC 470-50 - *Debt Modifications and Extinguishments*, the Company accounted for the refinancing transaction as an extinguishment of debt. The Company incurred legal fees directly related to the refinancing of $206,805, which were recorded as deferred financing costs and recorded against the carrying value of the Loan. Amortization of deferred financing costs included in interest expense, net for the three and nine months ended September 30, 2018 and 2017 amounted to $12,925, $35,329, $10,340 and $35,328, respectively.

Prior to the completion of the financing arrangements, Raycom held 397,125 voting shares of the Company, which represented approximately 21% of the issued and outstanding voting shares of the Company. Immediately following the completion of the financing transactions, Raycom held 547,325 voting shares of the Company and 871,160 warrants, which collectively represented approximately 27% of the issued and outstanding voting shares of the Company on a non-diluted basis.

The proceeds of the Loan were used to pay off the outstanding $15.0 million of promissory notes issued by the Company in connection with the 2015 acquisition of Worldnow, including $3.0 million of the $4.0 million of such notes issued to Raycom, with the remaining $1.0 million promissory note balance owed to Raycom being converted to common shares of the Company as described above.

On May 7, 2018, the Company amended and restated the Loan (the "Amended Loan") to increase the amount of funding available under the Loan by $7.5 million. The Amended Loan supersedes the original Loan. The $1.0 million that was advanced by Raycom to the Company on March 13, 2018 is included in the $7.5 million funding increase, bringing the total amount provided to the Company under the Amended Loan to $22 million. Of the $7.5 million, the Company's customer Cordillera Communications ("Cordillera" and together with Raycom, the "Lenders") is participating as a lender for up to $300,000. Under the Amended Loan, 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"). During the second and third quarter of 2018, the Company received an additional $5.8 million of the $7.5 million available under Facility A. The total principal outstanding on the Amended Loan as of September 30, 2018 was $21.3 million. Refer to Note 11 for amendment made to the Amended Loan on October 15, 2018.

The Company determined that the amendment of the Loan with Raycom was considered a troubled debt restructuring within the scope of ASC 470-60, "Debt – Troubled Debt Restructurings", as the Company was determined to be experiencing financial difficulties and was granted a concession by the lender. Accordingly, the Company expensed financing costs, consisting of third party legal fees, associated with the amendment to the Loan of $47,350 to transaction costs on the consolidated statements of operations and comprehensive loss. Further, for purposes of amortization of the debt discount, a new effective interest rate was established based on the carrying value of the Loan at the time of the amendment and the revised cash flows of the Amended Loan.

The Amended Loan terminates on December 31, 2020. The additional availability of $6.5 million under Facility A is available to be drawn until December 31, 2018, subject to monthly borrowing limits based on the achievement of minimum monthly operating profit thresholds. Facility B is postponed and subordinated to Facility A. The Amended Loan also provides that, if the Company (or Guarantors, as defined therein) receive any amount from such a customer for the early termination of any contractual arrangement with such customer, the availability under Facility A will be reduced by such amount and the Facility A lenders may reduce the monthly borrowing limits accordingly. As a result, the amount available under Facility A was reduced from $7.5 million to $7.3 million in the third quarter of 2018.

The interest rate payable under the Facility B is 10% and the increased credit amount of $7.5 million, Facility A, bears an interest rate of U.S. LIBOR (1 month) plus 8%. The U.S. LIBOR rate used for computation of interest will be updated on the first day of each interest period (month). Interest payments on the Amended Loan will be deferred and compounded annually at the end of each calendar year, to the principal balance of the Amended Loan, and thereafter interest shall be calculated on such increased principal balance.

To the maximum extent permitted by applicable law, the Company will pay interest on all overdue amounts, including any overdue interest payments, from the date each of those amounts is due until the date each of those amounts is paid in full. That interest will be calculated daily, compounded monthly and payable on demand of Raycom at a rate per annum of 12%. The Company has the option to repay all or a portion of principal outstanding under the Amended Loan without premium, penalty or bonus upon prior notice to Raycom and repayment of all interest, fees and other amounts accrued and unpaid under the Amended Loan.

The Amended Loan is subject to certain scheduled mandatory principal repayments, with additional mandatory repayments occurring upon the Company's raising of additional financing, sales of assets and excess cash flow. In addition, the Company must maintain certain leverage ratios and interest coverage ratios beginning with the fiscal quarter ending June 30, 2019. The Company is also subject to certain covenants relating to, among others, indebtedness, fundamental corporate changes, dispositions, acquisitions and distributions.

Upon an event of default, the Lenders may by written notice terminate the facility immediately and declare all obligations under the Amended Loan 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 the Company under the Amended Loan and the related loan documents and realize upon the security interest agreements, guaranty agreements and pledge agreement, as defined in the Amended Loan agreement.

Letter of Credit – Western Alliance Bank

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, Frankly Media LLC entered into a standby letter of credit with Western Alliance Bank for an amount of $500,000 (the “Letter of Credit”). For each advance, interest will accrue at a rate equal to the sum of (i) the Base Rate (as defined below), plus (ii) 3.50%, provided that such interest rate will change from time to time as the Base Rate changes. The “Base Rate” means the rate of interest used as the reference or base rate to establish the actual rates charged on commercial loans and which is publicly announced or reported from time to time by the Wall Street Journal as the “prime rate.” Interest will accrue from the date of the advance until such advance is paid in full. The Company has granted Western Alliance Bank a security interest in a $524,115 controlled cash deposit 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. As of September 30, 2018 and December 31, 2017, no advances were made under the Letter of Credit. The cash security interest of $524,115 is presented within restricted cash on the consolidated balance sheets.

8. Shareholders’ Equity

Common Shares and Class A Restricted Voting Shares

All common and Class A restricted voting shares and related stock-based grants are denominated in Canadian dollars and have been translated to U.S. dollars using the exchange rate in effect at the date of transaction or grant, as applicable.

The Class A restricted voting shares have the same voting rights as common shares except for voting for the election and removal of directors of the Company. The Class A restricted voting shares participate in dividends and liquidation events in the same manner as common shares. In terms of restrictions on transfer, no Class A restricted voting shares shall be transferred to another party unless an offer to acquire common shares is concurrently made that is identical to the offer for the Class A restricted voting shares in terms of price per share, percentage of outstanding shares to be transferred and in all other material respects.

Shares Issued During the Nine Months Ended September 30, 2018

During the nine months ended September 30, 2018, the Company issued a total of 141,414 common shares for employee and director restricted stock units (“RSUs”) that vested. In addition, on May 24, 2018, the Company issued 288,642 common shares to employees to settle a portion of the liability associated with the employee retention plan.

Stock-Based Compensation

Description of the Plan

On October 20, 2017, the Company adopted an amended and restated equity incentive plan (the "Restated Plan"). The Restated Plan amends the equity incentive plan, effective as of October 1, 2017, by replacing the compensation plan limit with a fixed total limit of 435,000 common shares that may be granted under option and RSU awards.

Options may be exercised over periods of up to 10 years as determined by the Company's Board of Directors ("Board") and the exercise price shall not be less than the closing price of the shares on the day preceding the award date. Option awards generally vest over four years with one year cliff vesting.

The Restated Plan allows the Company to award RSUs to officers, employees, directors and consultants of Frankly and its subsidiaries upon such conditions as the Board may establish, including the attainment of performance goals recommended by the Company's compensation committee. The purchase price for common shares of the Company issuable under each RSU award, if any, shall be established by the Board at its discretion. Shares issued pursuant to any RSU award may be made subject to vesting conditions based upon the satisfaction of service requirements, conditions, restrictions, time periods or performance goals established by the Board.

Based on the number of outstanding options and RSUs as of September 30, 2018 and RSUs vested through September 30, 2018, the Company had 166,150 options or RSUs remaining for issuance under the Restated Plan.

Total stock-based compensation expense for the three and nine months ended September 30, 2018 and 2017 was $42,518, $374,406, $262,604 and $774,776, respectively. The Company did not recognize any tax benefits for stock-based compensation during any of the periods presented.

Stock Options

The following table sets forth the activity for the Company's stock options during the periods presented:

		Weighted Average		
	Shares	**Exercise Price**	**Grant Date Fair Value**	**Remaining Contractual Term (Years)**
Balance, December 31, 2016	245,762	$ 19.52	$ 9.10	8.71
Adjustment - Balance, December 31, 2016	(53)	-	-	
Granted	74,327	5.48	2.81	
Exercised	-	-	-	
Forfeited or canceled	(50,431)	18.21	9.30	
Canceled (Option Replacement)	(193,339)	19.90	9.11	
Granted (Option Replacement)	113,677	5.30	9.11	
Balance, December 31, 2017	189,943	$ 5.47	$ 6.58	8.22
Vested and expected to vest, December 31, 2017	183,924	$ 5.48	$ 6.65	8.20
Exercisable, December 31, 2017	69,567	$ 5.73	$ 10.17	7.33
Unaudited interim activity:				
Balance, December 31, 2017	189,943	$ 5.47	$ 6.58	8.22
Granted	-	-	-	
Exercised	-	-	-	
Forfeited or canceled	(125,009)	5.55	7.92	
Balance, September 30, 2018	64,934	$ 5.33	$ 4.00	7.89
Vested and expected to vest, September 30, 2018	63,158	$ 5.33	$ 4.02	7.88
Exercisable, September 30, 2018	29,407	$ 5.31	$ 4.78	7.63

The aggregate intrinsic value of outstanding and exercisable stock options as of September 30, 2018 is $0.

Restricted Share Units

The following table sets forth the activity for the Company's RSUs for the periods presented:

	Shares	Weighted-Average Grant Date Fair Value
Balance, December 31, 2016	76,731	$ 7.31
Adjustment - Balance, December 31, 2016	(7)	-
Granted	201,507	3.11
Vested	(98,387)	5.04
Forfeited or canceled	(754)	6.44
Balance, December 31, 2017	179,090	$ 3.84
Unaudited interim activity:		
Balance, December 31, 2017	179,090	$ 3.84
Granted	-	-
Vested	(141,414)	3.13
Forfeited or canceled	(18,964)	6.80
Balance, September 30, 2018	18,712	$ 6.17

Unrecognized compensation cost related to the Company's non-vested RSUs was $29,444 as of September 30, 2018, and is expected to be recognized from 2018 through 2020.

9. Income Taxes

The Company had $0 income tax expense for all periods presented. Deferred tax assets have been fully reserved given the Company's history of losses.

10. Commitments and Contingencies

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 U.S. District Court for the Northern District of California against the Company, the Company's 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 the Company's acquisition of Gannaway Web Holdings, LLC from GEI and other parties in 2015.

On September 30, 2017, the defendants filed a motion to dismiss the complaint. On October 11, 2017 the plaintiffs filed an amended complaint. On October 31, 2017 the defendants filed a motion to dismiss the amended complaint. On March 12, 2018, the plaintiffs in the GEI complaint voluntarily terminated their case. 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. The Company is reviewing the demand with its counsel and believes that the claims are without merit. The Company intends to defend the claims vigorously.

Operating Lease Commitments

The Company is obligated under multiple non-cancellable operating leases for office space, expiring in 2019 through 2023. The Company has three subleases for its excess office space as of September 30, 2018.

The future aggregate minimum lease payments under these non-cancellable operating leases, without regard to subleases, are payable as follows as of September 30, 2018:

Payments Due During the Years Ending September 30,	Total
2019	$ 1,422,568
2020	955,761
2021	852,908
2022	852,908
2023	355,378
Thereafter	-
Total	$ 4,439,523

Employee Benefit Plan

The Company's subsidiaries, Frankly Co. and Frankly Media, have a 401(k) plan (the "Plan"), which covers all eligible employees. Under the Plan, employees may contribute from their gross salaries on a before tax basis up to annual statutory limits determined each year.

11. Subsequent Events

The Company has evaluated subsequent events through November 14, 2018 which is the date these unaudited interim condensed consolidated financial statements were available to be issued, and determined that there have been no events that have occurred that would require adjustments to or disclosure in the unaudited interim condensed consolidated financial statements except for the transactions described below.

Amendment to credit agreement with Raycom

On October 15, 2018, the Company amended its credit agreement with Raycom to reduce its principal debt balance due under the Amended Loan as of October 2, 2018 from $21,800,000 (includes $300,000 due to Cordillera) plus accrued interest of $1,298,653 as of September 30, 2018 (together the "Loan Balance") to $10,000,000 ("New Loan Balance") as of October 1, 2018. In addition, the Amended Loan was amended as follows:

a. Commencing on October 1, 2018, interest under the Amended Loan 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 Loan will no longer be operative, which primarily removed all scheduled mandatory principal repayments and financial covenants under the Amended Loan. In addition, the deleted provisions under the Amended Loan reduced the scope of events that qualify as events of default.

d. The Company's debt to Cordillera under the Amended Loan has been extinguished and Cordillera is no longer party to the Amended Loan as of October 1, 2018.

In addition to the above amendment to the Amended Loan, Raycom exercised its right to terminate its website agreement, with such termination to be effective as of December 31, 2018. The deferred revenue balance under the website agreement of $1,588,994 as of September 30, 2018 will continue to be reduced by monthly billings to Raycom under the website agreement through its December 31, 2018 termination date. The remaining balance owed by the Company to Raycom as of December 31, 2018 under the Advance Agreement, comprised of deferred revenue and accrued interest, will be forgiven in full on that date.

Legal Proceedings

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. The Company is reviewing the demand with its counsel and believes that the claims are without merit. The Company intends to defend the claims vigorously.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes that are included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that are based on our current expectations, estimates and projections about our business and operations. See "Cautionary Notice Regarding Forward-Looking Statements." 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" and elsewhere in this Form 10-Q.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements, which reflect our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this quarterly report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described under the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 quarterly report on Form 10-Q 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.

This quarterly report on Form 10-Q also includes estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. 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 quarterly report on Form 10-Q, currency amounts are stated in U.S. dollars ("$"), unless specified otherwise. All references to CDN$ are to Canadian dollars.

Overview

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. 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 200 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.

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.

We have recently had several customers provide notice that they plan to terminate their current customer agreements with us on or about December 31, 2018. Raycom, a significant customer of ours which accounted for 19% of our revenue for the nine months ended September 30, 2018, is in the process of a pending merger with Gray Television, Inc. Raycom has given us notification that it will terminate its existing customer agreement with us on December 31, 2018. Separately, five other of our customers, including one other significant customer which accounted for 12% of our revenue for the nine months ended September 30, 2018, have provided notice that their current customer agreements with us will terminate without renewal on or before December 31, 2018. In the aggregate, these terminations represent a significant percentage of our total revenue and are expected to have a material negative impact on our 2019 revenues and related 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 three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Loss	$ (14,102,800)	$ (3,129,136)	$ (19,371,814)	$ (7,037,064)
Interest expense, net	684,230	601,910	1,880,329	1,859,058
Income tax expense	-	-	-	-
Depreciation and amortization	1,313,485	1,102,576	3,726,729	3,261,933
Impairment expense	12,789,343	-	12,789,343	-
Stock-based compensation	42,518	262,604	374,406	774,776
Loss on disposal of assets	-	-	12,823	-
Loss on extinguishment of debt	-	38,287	-	38,287
Transaction costs	(2,110)	-	76,582	-
Nasdaq listing fees	-	943,822	-	943,822
Restructuring expense	-	-	542,210	-
Retention expense	247,548	-	835,647	-
Other expense	-	-	-	27,017
Adjusted EBITDA	$ 972,214	$ (179,937)	$ 866,255	$ (132,171)

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, mobile and OTT applications. These license agreements, generally non-cancellable 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. Beginning in the second quarter of 2016, we began amending certain advertising agreements with our publishers to take on inventory risk and additional credit risk. Under these revised 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 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, legal or other settlements, abandoned financing transactions, corporate restructuring and employee retention.

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

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

	Three Months Ended September 30,		
	2018	**2017**	**Variance**
Total Revenue	**$ 6,047,225**	**$ 6,537,308**	**$ (490,083)**
Costs and operating expenses:			
Cost of revenue (excluding depreciation and amortization)	2,739,062	3,307,870	(568,808)
General and administrative (excluding depreciation and amortization)	1,216,535	1,869,037	(652,502)
Selling and marketing	420,363	606,383	(186,020)
Research and development (excluding depreciation and amortization)	737,629	1,212,703	(475,074)
Depreciation and amortization	1,313,485	1,102,576	210,909
Impairment expense	12,789,343	-	12,789,343
Loss on extinguishment of debt	-	38,287	(38,287)
Transaction costs	(2,110)	-	(2,110)
Nasdaq listing fees	-	943,822	(943,822)
Retention expense	247,548	-	247,548
Loss from operations	**(13,414,630)**	**(2,543,370)**	**(10,871,260)**
Foreign exchange (gain) loss	3,940	(16,144)	20,084
Interest expense, net	684,230	601,910	82,320
Loss before income tax expense	**(14,102,800)**	**(3,129,136)**	**(10,973,664)**
Income tax expense	-	-	-
Net Loss	**$ (14,102,800)**	**$ (3,129,136)**	**$ (10,973,664)**

The following is a breakdown of total revenue for the three months ended September 30, 2018 compared to the three months ended September 30, 2017:

	Three Months Ended September 30,		
	2018	**2017**	**Variance**
Revenue:			
License fees	$ 2,488,765	$ 2,588,798	$ (100,033)
Advertising	2,720,641	2,775,704	(55,063)
Usage fees	523,878	712,074	(188,196)
Professional services and other	313,941	460,732	(146,791)
Total Revenue	**$ 6,047,225**	**$ 6,537,308**	**$ (490,083)**

License fees

License fees for the three months ended September 30, 2018 was $2.5 million compared to $2.6 million for the comparable period of 2017, a decrease of $0.1 million. When excluding one-time non-recurring license fees of approximately $0.2 million recognized during the three months ending September 30, 2018, there was a decrease of approximately $0.3 million between the periods presented. 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 three months ended September 30, 2018 was $2.7 million compared to $2.8 million for the comparable period of 2017, a decrease of $0.1 million. The decrease was primarily due to a decrease in local advertising revenue of $0.4 million resulting from the removal of low-margin local advertising products offered by the Company, partially offset by an increase in national advertising revenue of $0.4 million due primarily due to increased traffic.

Usage fees

Usage fees for the three months ended September 30, 2018 were $0.5 million compared to $0.7 million for the comparable period of 2017, a decrease of $0.2 million. The decrease was primarily due to 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 three months ended September 30, 2018 was $0.3 million compared to $0.5 million for the comparable period of 2017, a decrease of $0.2 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 three months ended September 30, 2018 was $2.7 million compared to $3.3 million for the comparable period of 2017, a decrease of $0.6 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 transition our on-premises infrastructure to the Amazon cloud environment.

General and administrative (excluding depreciation and amortization)

General and administrative expense for the three months ended September 30, 2018 was $1.2 million compared to $1.9 million for the comparable period of 2017, a decrease of $0.7 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 reduction-in-force (“RIF”) which was implemented in mid February 2018. 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 three months ended September 30, 2018 was $0.4 million compared to $0.6 million for the comparable period of 2017, a decrease of $0.2 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 RIF which was implemented by the Company in mid February 2018.

Research and development (excluding depreciation and amortization)

Research and development expense for the three months ended September 30, 2018 was $0.7 million compared to $1.2 million for the comparable period of 2017, a decrease of approximately $0.5 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 which was implemented by the Company in mid February 2018.

Depreciation and amortization

Depreciation and amortization expense for the three months ended September 30, 2018 was $1.3 million compared to $1.1 million for the comparable period of 2017, an increase of approximately $0.2 million. The increase was due to our next generation CMS products being placed into service as we began on-boarding existing customers onto our new platform.

Impairment expense

Impairment expense for the three months ended September 30, 2018 was $12.8 million compared to $0 for the comparable period of 2017, an increase of approximately $12.8 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 Form 10-Q.

Nasdaq listing fees

Nasdaq listing fees for the three months ended September 30, 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.

Retention expense

Retention expense was $0.2 million for the three months ended September 30, 2018 compared to $0 for the comparable period of 2017, an increase of approximately $0.2 million. The increase was due to an accrual of $248,000 in the third quarter of 2018 relating to the second phase of our employee retention plan which was initially rolled out in connection with the strategic investor search in the fourth quarter of 2017. As the strategic process was unsuccessful, the second phase of the employee retention plan was rolled out in the third quarter of 2018.

Interest expense, net

Interest expense, net was $0.7 million for the three months ended September 30, 2018 compared to $0.6 million for the comparable period of 2017, an increase of approximately $0.1 million. In 2018, we received an additional $6.8 million of the $7.5 million available under the Term A facility with Raycom.

Income tax expense

No income tax expense was recognized during the periods presented.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

	Nine Months Ended September 30,		
	2018	**2017**	**Variance**
Total Revenue	**$ 17,576,696**	**$ 19,390,089**	**$ (1,813,393)**
Costs and operating expenses:			
Cost of revenue (excluding depreciation and amortization)	8,052,914	9,142,558	(1,089,644)
General and administrative (excluding depreciation and amortization)	5,106,030	5,999,894	(893,864)
Selling and marketing	1,341,873	2,013,174	(671,301)
Research and development (excluding depreciation and amortization)	2,568,422	3,161,646	(593,224)
Depreciation and amortization	3,726,729	3,261,933	464,796
Impairment expense	12,789,343	-	12,789,343
Loss on disposal of assets	12,823	-	12,823
Loss on extinguishment of debt	-	38,287	(38,287)
Transaction costs	76,582	-	76,582
Nasdaq listing fees	-	943,822	(943,822)
Restructuring expense	542,210	-	542,210
Retention expense	835,647	-	835,647
Other expense	-	27,017	(27,017)
Loss from operations	**(17,475,877)**	**(5,198,242)**	**(12,277,635)**
Foreign exchange (gain) loss	15,608	(20,236)	35,844
Interest expense, net	1,880,329	1,859,058	21,271
Loss before income tax expense	**(19,371,814)**	**(7,037,064)**	**(12,334,750)**
Income tax expense	-	-	-
Net Loss	**$ (19,371,814)**	**$ (7,037,064)**	**$ (12,334,750)**

The following is a breakdown of total revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017:

	Nine Months Ended September 30,		
	2018	2017	Variance
Revenue:			
License fees	$ 7,536,053	$ 7,773,859	$ (237,806)
Advertising	7,330,091	8,026,011	(695,920)
Usage fees	1,837,702	2,362,983	(525,281)
Professional services and other	872,850	1,227,236	(354,386)
Total Revenue	**$ 17,576,696**	**$ 19,390,089**	**$ (1,813,393)**

License fees

License fees for the nine months ended September 30, 2018 were $7.5 million compared to $7.7 million for the comparable period of 2017, a decrease of $0.2 million. When excluding one-time non-recurring license fees of approximately $0.5 million recognized during the nine months ending September 30, 2018, there was a decrease of approximately $0.7 million between the periods presented. 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 nine months ended September 30, 2018 was $7.3 million compared to $8.0 million for the comparable period of 2017, a decrease of $0.7 million. The decrease was primarily due to a decrease in local advertising revenue between the two periods resulting from the removal of low-margin local advertising products offered by the Company.

Usage fees

Usage fees for the nine months ended September 30, 2018 were $1.8 million compared to $2.3 million for the comparable period of 2017, a decrease of $0.5 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 nine months ended September 30, 2018 was $0.9 million compared to $1.2 million for the comparable period of 2017, a decrease of $0.3 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 nine months ended September 30, 2018 was $8.0 million compared to $9.1 million for the comparable period of 2017, a decrease of $1.1 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 transition our on-premises infrastructure to the Amazon cloud environment.

General and administrative (excluding depreciation and amortization)

General and administrative expense for the nine months ended September 30, 2018 was $5.1 million compared to $6.0 million for the comparable period of 2017, a decrease of $0.9 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 $1.5 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 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 nine months ended September 30, 2018 was $1.3 million compared to $2.0 million for the comparable period of 2017, a decrease of $0.7 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. 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 nine months ended September 30, 2018 was $2.6 million compared to $3.2 million for the comparable period of 2017, a decrease of approximately $0.6 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 nine months ended September 30, 2018 was $3.7 million compared to $3.3 million for the comparable period of 2017, an increase of approximately $0.4 million. The increase was due to our next generation CMS products being placed into service as we began on-boarding existing customers onto our new platform.

Impairment expense

Impairment expense for the nine months ended September 30, 2018 was $12.8 million compared to $0 for the comparable period of 2017, an increase of approximately $12.8 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 Form 10-Q.

Nasdaq listing fees

Nasdaq listing fees for the nine months ended September 30, 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 nine months ended September 30, 2018 was $0.5 million compared to $0 for the comparable period of 2017, an increase of approximately $0.5 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, restructuring expense also included contract termination fees for one vendor.

Retention expense

Retention expense was $0.8 million for the nine months ended September 30, 2018 compared to $0 for the comparable period of 2017, an increase of approximately $0.8 million. The increase was primarily due to $588,000 relating 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 of $248,000 in the third quarter of 2018 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.

Interest expense, net

Interest expense, net was $1.9 million for the nine months ended September 30, 2018 and 2017. There was no significant change between the periods presented.

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). The expected reduction in cash flow resulted in additional impairment of intangible assets in third quarter of 2018.

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 September 30, 2018, we had total current assets of approximately $5.9 million and total current liabilities of approximately $8.3 million. As of September 30, 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 September 30, 2018 were $2.9 million and $2.2 million, respectively.

As of September 30, 2018, we had an accumulated deficit of $90.2 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. Beginning January 1, 2018, the billing for all services provided to Raycom are being applied to the advance agreement balance as of December 31, 2017 in the amount of $4,896,585 ($1,588,994 as of September 30, 2018) and Raycom will not be required to make cash payments for services provided by us until the balance has been fully repaid. We have recently had several customers provide notice that they plan to terminate their current customer agreements with us on or about December 31, 2018. Raycom, a significant customer of ours which accounted for 19% of our revenue for the nine months ended September 30, 2018, is in the process of a pending merger with Gray Television, Inc. Raycom has given us notification that it will terminate its existing customer agreement with us on December 31, 2018. Separately, five other of our customers, including one other significant customer which accounted for 12% of our revenue for the nine months ended September 30, 2018, have provided notice that their current customer agreements with us will terminate without renewal on or before December 31, 2018. In the aggregate, these terminations represent a significant percentage of our total revenue and are expected to have a material negative impact on our 2019 revenues and related income (loss). These conditions raise substantial doubt about our ability to continue as a going concern within one year after the issuance of our 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 are pursuing other areas where operating expenses can be reduced, including moving into a smaller space near our current Long Island City, New York headquarters.

On March 13, 2018, we received $1.0 million under our existing credit agreement with Raycom, bringing the total outstanding principal balance under the credit agreement to $15.5 million. On May 7, 2018, we entered into an amendment of the 2016 credit agreement, whereby Raycom provided us with an additional $7.3 million of funding, which was paid in installments over a six-month period. The $1.0 million advanced to us on March 13, 2018 was included in the additional $7.3 million funding noted above. As of September 30, 2018, $6.8 million of the $7.3 million had been funded and the remaining $500,000 was funded on October 2, 2018. As of October 2, 2018, the total outstanding principal balance under the amended credit agreement was $21.8 million. On October 15, 2018, we amended our amended credit agreement with Raycom to reduce our principal debt balance from $21.8 million (includes $300,000 due to Cordillera) plus accrued interest of $1,298,653 as of September 30, 2018 to $10.0 million. 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 into 2019 and beyond. There can be no assurance that we will achieve these 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 nine months ended September 30, 2018 was $3.4 million compared to cash used in operating activities of $0.7 million for the comparable period of 2017, an increase in cash used of $2.7 million. The increase in cash used resulted primarily from an increase of $5.1 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 $2.4 million.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2018 was $1.8 million compared to $2.5 million for the comparable period of 2017, a decrease in cash used of $0.7 million. The decrease was primarily due to a decrease of $0.6 million in capitalized software costs.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2018 was $6.9 million compared to cash used in financing activities of $1.5 million for the comparable period of 2017, an increase in cash provided of $8.4 million. The increase was primarily due to an increase in proceeds from the non-revolving credit facility of $6.8 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 Gannway 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 supersedes the original Credit Agreement. The $1.0 million that was advanced by Raycom to us on March 13, 2018 is 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 customer Cordillera Communications ("Cordillera" and together with Raycom, the "Lenders") is 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.

Securities Purchase Agreement

Pursuant to the Raycom SPA, we issued to Raycom an aggregate of 150,200 common shares for a purchase price of CDN$1,276,700 (or $1.0 million based on the exchange rate at August 18, 2016) in repayment of $1.0 million of the Original Raycom Note. Raycom’s 397,125 Class A restricted shares were also converted into our common shares on a one-for-one basis. Under the Raycom SPA, we agreed to enlarge our Board of Directors to seven (7) directors, subject to shareholder approval, within 90 days of August 31, 2016. In addition, so long as Raycom held not less than 20% of our issued and outstanding common shares calculated on a fully diluted basis, it had (i) the designation rights to two (2) directors as management’s nominees for election to our Board, one of which must be an independent director as defined in Rule 5605(a)(2) of the Nasdaq Rules, and (ii) approval rights to one of the independent directors named as management’s nominees for election to our Board outside of the two Raycom designated directors. On December 20, 2016, we entered into an amendment to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to extend the time period for enlargement of the Board to seven members from 90 days following August 31, 2016, to the earlier of, and subject to shareholder approval: (a) 45 days following the effective date of the Form S-1 registration statement for our U.S. IPO, or (b) April 15, 2017. On March 30, 2017, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to further extend the time period for enlargement of the Board to seven members to the earlier of, and subject to shareholder approval: (a) 45 days following the effective date of our Form S-1 registration statement for our U.S. IPO, or (b) May 31, 2017. On May 25, 2017, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to further extend the time period for the successful listing of our common shares on Nasdaq from May 31, 2017 to June 30, 2017 and the enlargement of the Board to seven members to the earlier of, and subject to shareholder approval: (a) 45 days following the effective date of the Form S-1 registration statement for our U.S. IPO, or (b) July 31, 2017. On October 25, 2017, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to further extend the time period for the successful listing of our common shares on Nasdaq from June 30, 2017 to December 31, 2017 and the enlargement of the Board to seven members to December 31, 2017, subject to shareholder approval. On December 27, 2017, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to extend the date we become subject to various financial covenant ratios from December 31, 2017 to March 31, 2018 and the enlargement of the Board to seven members from December 31, 2017 to March 31, 2018, subject to shareholder approval. On March 28, 2018, we entered into amendments to the Raycom SPA and Credit Agreement, pursuant to which Raycom and we agreed to extend the date we become subject to various financial covenant ratios from March 31, 2018 to June 30, 2019, the enlargement of the Board to seven members from March 31, 2018 to June 30, 2018, subject to shareholder approval and agreed that interest payments on the outstanding Loan balance for the period commencing on January 1, 2018 and continuing thereafter will be suspended, and each such suspended interest payment will be added to the principal balance of the Loan, and the 12% rate for overdue interest will not apply to such suspended interest.

Credit Agreement

The Amended Credit Agreement terminates on December 31, 2020. The additional availability of $6.5 million under Facility A is available to be drawn until December 31, 2018, subject to monthly borrowing limits based on the achievement of minimum monthly operating profit thresholds. Facility B is postponed and subordinated to Facility A. The Amended Credit Agreement also provides that, if we (or Guarantors, as defined therein) receive any amount from such a customer for the early termination of any contractual arrangement with such customer, the availability under Facility A will be reduced by such amount and the Facility A lenders may reduce the monthly borrowing limits accordingly. As a result, the amount available under Facility A was reduced from $7.5 million to $7.3 million in the third quarter of 2018. The interest rate payable under the original Credit Agreement amount outstanding bears an interest rate of 10% and the increased credit amount of $7.5 million bears an interest rate of U.S. LIBOR (1 month) plus 8%. The U.S. LIBOR rate used for computation of interest will be updated on the first day of each interest period (month). Interest payments on the Credit Facility will be deferred and capitalized annually and added at the end of each calendar year, to the principal balance of the Credit Facility, and thereafter interest shall be calculated on such increased principal balance. To the maximum extent permitted by applicable law, we will pay interest on all overdue amounts, including any overdue interest payments, from the date each of those amounts is due until the date each of those amounts is paid in full. That interest will be calculated daily, compounded monthly and payable on demand of Raycom at a rate per annum of 12%. We have the option to repay all or a portion of loans outstanding under the Amended Credit Facility without premium, penalty or bonus upon prior notice to Raycom and repayment of all interest, fees and other amounts accrued and unpaid under the Credit Facility.

We also agreed to make the following mandatory repayments:

(a) if any of Frankly, Inc., Frankly Media LLC or Frankly Co. completes a debt or equity financing in excess of $10 million, an amount of $2 million within five business days of completion of such financing, unless the debt or equity financing is equal to $10 million or less, then an amount equal to 20% of such financing within five business days of completion of such financing;

(b) commencing on December 31, 2019 and on the last day of the month of each three month period thereafter, an amount of $687,500 per three month period;

(c) proceeds (less actual costs paid and income taxes) on any asset sales; and

(d) commencing on the financial year ending December 31, 2017, and each financial year ending thereafter, 100% of the current year excess cash flow amount in excess of $2 million must be paid to the Lenders as a mandatory repayment amount no later than May 1 of the following year until a total leverage ratio of not more than 3:1 has been met for such fiscal year, at which point 50% of the current year excess cash amount in excess of $2 million will be paid to Raycom as mandatory repayment amounts. Such excess cash flow payments will be applied pro rata to reduce other mandatory payments due thereunder.

In addition, we must maintain certain leverage ratios and interest coverage ratios beginning the fiscal quarter ending June 30, 2019. The leverage ratio is 5.5:1 and 2:1 for the interest coverage ratio. We are also subject to certain covenants relating to, among others, indebtedness, fundamental corporate changes, dispositions, acquisitions and distributions.

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.

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 of $1,298,653 as of September 30, 2018 to $10,000,000 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.

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 will 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 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 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.

Raycom Advance

On December 22, 2016, pursuant to an amendment (the "Advance Agreement"), to the Website Software and Services Agreement (the "Raycom Services Agreement") dated October 1, 2011 by and between the Company and Raycom, Raycom pre-paid $3 million of future fees for services (the "Original Raycom Advance") to be provided by the Company pursuant to the Raycom Services Agreement. Pursuant to the Advance Agreement, if we had completed an equity raise of at least $5 million before March 31, 2017, then we could have either (i) refunded the prepayment to Raycom within 30 days of the completion of the equity raise along with an additional $30,000 for fees in connection with the prepayment by Raycom, or (ii) applied the prepayment to services provided by us for the year ending December 31, 2017 in which case Raycom would have received a discount of $300,000 (the "Discount") for the services to be provided by us. If we did not complete an equity raise of at least $5 million by March 31, 2017, then the prepayment would have been applied to the services to be provided for the year ending December 31, 2017 and the Discount will be applied to services to be provided by us for the year ending December 31, 2017.

On March 30, 2017, we entered into an amendment to the Advance Agreement (the "Second Raycom Advance") pursuant to which Raycom pre-paid an additional $2 million of future fees for services to be provided by the Company pursuant to the Raycom Services Agreement. The amendment also extended the date for completing the equity raise and if we did not complete an equity raise of at least $5 million by May 31, 2017, then the prepayment would have been applied to the services to be provided for the period commencing June 1, 2017 and Raycom would have received the Discount for services to be provided by us for the year ending December 31, 2017.

On May 25, 2017, we entered into a further amendment to the Advance Agreement, pursuant to which if we did not complete an equity raise of at least $5 million by June 30, 2017, then the prepayment would have been applied to the services to be provided for the period commencing July 1, 2017 and Raycom would have received the Discount for services to be provided by us for the year ending December 31, 2017.

On October 6, 2017, we entered into a further amendment to the Advance Agreement, pursuant to which the prepayment will be applied to the services to be provided for the period commencing January 1, 2018. Additionally, Raycom will receive an additional $180,000 discount (the "Second Discount") in the amount of their 2018 fees.

On October 15, 2018, in addition to the above amendment to the Amended Credit Agreement, Raycom exercised its right to terminate its website agreement, with such termination to be effective as of December 31, 2018. The deferred revenue balance under the website agreement of $1,588,994 will continue to be reduced by monthly billings to Raycom under the website agreement through its December 31, 2018 termination date. The remaining balance owed by us to Raycom as of December 31, 2018 under the Advance Agreement, comprised of deferred revenue and accrued interest, will be forgiven in full on that date.

Silicon Valley Bank Line of Credit

On December 28, 2016, we, Frankly Media and Frankly Co. had entered into the Loan and Security Agreement pursuant to which SVB has provided us with a $3 million revolving line of credit (the "SVB Line of Credit"). Borrowings under the SVB Line of Credit accrued interest at a floating per annum rate equal to 2.25% above the Prime Rate published in the Wall Street Journal, which interest was payable monthly.

The SVB Line of Credit was secured by substantially all of our and our subsidiaries' assets. We and our subsidiaries had also entered into Intellectual Property Security Agreements pursuant to which we and our subsidiaries have granted a security interest in all of our respective rights, titles and interests in our intellectual property. Pursuant to an intercreditor agreement dated December 28, 2016 (the "Intercreditor Agreement") between Raycom, The Teachers' Retirement Systems of Alabama, as agent for Raycom ("TRS") and SVB, Raycom had a first priority security interest in substantially all of our assets other than accounts receivable, cash, cash accounts, short and long term investments, all bank accounts including, without limitation, all operating accounts, depository accounts, savings accounts, and investment accounts, and all property contained therein, stock, securities, and investment property, and all proceeds arising out of any of the foregoing (the "SVB Priority Collateral") while SVB had a first priority security interest in the SVB Priority Collateral.

On August 1, 2017, the Company repaid all amounts owed to SVB under these agreements and such agreements were 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 are reviewing the demand with our counsel and believe that the claims are without merit. We intend to defend the claims vigorously.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates during the nine months ended September 30, 2018 as compared to those for the year ended December 31, 2017, included within our Form 10-K as filed with the SEC on April 2, 2018.

Recent Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies," to the condensed 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 condensed consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Smaller reporting companies are not required to provide disclosure pursuant to this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act) were effective.

Changes in Internal Control over Financial Reporting

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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 are reviewing the demand with our counsel and believe that the claims are without merit. We intend to defend the claims vigorously.

We may, from time to time, be party to litigation and subject to claims incident to the ordinary course of business. As our growth continues, we may become party to an increasing number of litigation matters and claims. The outcome of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect our future financial position, results of operations or cash flows.

Item 1A. Risk Factors

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in our Form 10-K as filed with the SEC on April 2, 2018.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1*	Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2*	Certification of the Principal Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished herewith

SIGNATURES

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

FRANKLY INC.

Dated: November 14, 2018

/s/ Lou Schwartz

Name: Lou Schwartz
Title: Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.1

CERTIFICATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
OF THE U.S. SECURITIES EXCHANGE ACT OF 1934
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Lou Schwartz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Frankly Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [omitted pursuant to the transition period exemption for newly public companies.]

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2018

By: */s/ Lou Schwartz*
Lou Schwartz
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
OF THE U.S. SECURITIES EXCHANGE ACT OF 1934
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Michael Munoz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Frankly Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [omitted pursuant to the transition period exemption for newly public companies.]

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2018

By: */s/ Michael Munoz*
Michael Munoz
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, Lou Schwartz, Chief Executive Officer of Frankly Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2018 (the “ Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: November 14, 2018	By: */s/ Lou Schwartz*
	Lou Schwartz Chief Executive Officer (Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

I, Michael Munoz, Chief Financial Officer of Frankly Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2018 (the " Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: November 14, 2018

By: */s/ Michael Munoz*
Michael Munoz
Chief Financial Officer
(Principal Financial and Accounting Officer)