

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38125

**CHICKEN SOUP FOR THE SOUL ENTERTAINMENT, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

81-2560811

(I.R.S. Employer Identification No.)

132 East Putman Avenue – Floor 2W, Cos Cob, CT

(Address of Principal Executive Offices)

06807

(Zip Code)

855-398-0443

(Registrant's Telephone Number, including Area Code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A common stock, \$.0001 par value per share	Nasdaq Global Market
9.75% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.0001 par value per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Aggregate market value of the common stock held by non-affiliates of the registrant at June 29, 2018 using our closing price on June 30, 2018, our most recent second quarter, was \$35,678,018.

The number of shares of Common Stock outstanding as of March 28, 2019 totaled 11,970,743 as follows:

Title of Each Class

Class A common stock, \$.0001 par value per share	4,153,505
Class B common stock, \$.0001 par value per share*	7,817,238

\*Each share convertible into one share of Class A common stock at the direction of the holder at any time.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for Registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## FORWARD-LOOKING STATEMENTS

*This Annual Report on Form 10-K (this "Report") contains forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding expectations, intentions and strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "target," "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predicts," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this Report are based on current expectations and beliefs concerning future developments and their potential effects on our company and its subsidiaries. There can be no assurance that future developments will be those that have been anticipated.*

Factors that might cause such differences include, but are not limited to, those discussed in Item 1A of Part I of this Report under the heading "Risk Factors," which are incorporated herein by reference.

Important factors that may affect our actual results include:

- our limited operating history;
- our financial performance, including our ability to generate revenue;
- our inability to pay dividends if we fall out of compliance with our loan covenants in the future and then are prohibited by our bank lender from paying dividends;
- ability of our content offerings to achieve market acceptance;
- success in retaining or recruiting, or changes required in, our officers, key employees or directors;
- potential ability to obtain additional financing when and if needed;
- ability to protect our intellectual property;
- ability to complete strategic acquisitions;
- ability to manage growth and integrate acquired operations;
- potential liquidity and trading of our securities;
- regulatory or operational risks;
- downward revisions to, or withdrawals of, our credit ratings by third-party rating agencies;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing; and
- the time during which we will be an Emerging Growth Company ("EGC") under the Jumpstart Our Business Startups Act of 2012, or JOBS Act.

*We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. You should read this Report and the documents we have filed as exhibits to this Report completely and with the understanding our actual future results may be materially different from what we expect, or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.*

## PART I

Our company, *Chicken Soup for the Soul Entertainment, Inc.*, is referred to in this Annual Report on Form 10-K as “CSSE,” the Company,” or “we” or similar pronouns. References to:

- “CSS Productions” means *Chicken Soup for the Soul Productions, LLC*, our immediate parent;
- “CSS” means *Chicken Soup for the Soul, LLC*, our intermediate parent company;
- “CSS Holdings” means *Chicken Soup for the Soul Holdings*, the parent company of CSS and our ultimate parent company;
- “Screen Media” means *Screen Media Ventures, LLC*, a wholly owned subsidiary of CSSE;
- “A Plus” means *A Sharp Inc. (d/b/a A Plus)*, a wholly owned subsidiary of CSSE; and
- “Pivotshare” means *Pivotshare, Inc.*, a wholly owned subsidiary of CSSE.

### ITEM 1. Business

#### Overview

CSSE is a growing media company building online video-on-demand (“VOD”) networks that provide positive and entertaining video content for all screens. We own Popcornflix®, a popular online advertiser-supported VOD (“AVOD”) network, Pivotshare, a subscription-based VOD (“SVOD”) network, Truli.com, a faith-based AVOD network, and four additional AVOD networks. These VOD networks collectively have rights to exhibit tens of thousands of hours of movies and television episodes to our millions of monthly unique visitors. Another subsidiary, Screen Media, is a leading global independent television and film distribution company, which owns one of the largest independently owned television and film libraries. We also curate, produce and distribute long- and short-form video content that brings out the best of the human spirit, and distribute the online content of our U.S. based subsidiary, A Plus. We are aggressively growing our business through a combination of organic growth, licensing and distribution arrangements, acquisitions and strategic relationships. We are also expanding our partnerships with sponsors, television networks and independent producers.

All of our online networks are available for all screens, including mobile devices. We expect the increasingly widespread penetration of 5G mobile networks, with virtually no latency and 10 times the download capacity of 4G, to be an accelerator of mobile video consumption.

We have an exclusive, perpetual and worldwide license agreement (“CSS License Agreement”) with our intermediate parent, CSS, a publishing and consumer products company, to create and distribute video content under the *Chicken Soup for the Soul®* brand (the “Brand”).

We operate in three areas:

- **Online Networks.** In this business area, we distribute and exhibit VOD content directly to consumers across all digital platforms, such as smartphones, tablets, gaming consoles and the web through our owned and operated AVOD networks including Popcornflix® and Truli. We also distribute our own and third-party owned content to end users across various digital platforms through our owned and operated SVOD network Pivotshare. Popcornflix® delivers tens of millions of advertisements every month and Pivotshare has approximately 25,000 active subscriptions. Our VOD content library includes over 37,000 hours of programming. Our AVOD networks have over 3 million monthly unique visitors. We generate advertising revenues primarily by serving video advertisements to our streaming viewers. In March 2019, we entered into an agreement to form a joint venture with Crackle, Inc. (“Crackle”) which is currently a business of Sony Pictures Television (“SPT”) to build a VOD business. Crackle has agreed to contribute certain assets comprising its Crackle AVOD network, to the joint venture and we agreed to contribute our VOD networks and assets. Subject to satisfaction of closing conditions, we expect to close the acquisition and launch the joint venture on or around May 2019. The joint venture will be branded “Crackle Plus”.
- **Television and Film Distribution.** In this business area, we distribute movies and television series worldwide to consumers through license agreements across all media, including theatrical, home video, pay-per-view, free, cable, pay television, VOD, mobile and new digital media platforms worldwide. We own the copyright or long-term distribution rights to approximately 1,500 television series and feature films.
- **Television and Short-Form Video Production.** In this business area, we work with sponsors and use highly regarded independent producers to develop and produce our television and short-form video content, including Brand-related content. We also derive revenue from our subsidiary A Plus, which develops and distributes high-quality, empathetic short-form videos to millions of people worldwide. A Plus enhances our ability to distribute short form versions of our video productions and video library and provide us with content developed and distributed by A Plus that is complementary to the Brand.

Since our inception in January 2015, our business has grown rapidly. For the full year 2018, our net revenue was \$26.9 million, as compared to 2017 net revenue for the full year of \$10.7 million. This increase was primarily due to the revenue impact of Screen Media, the acquisition of Pivotshare in August of 2018, and increased production revenue. We had net losses of \$2.0 million in 2018, as compared to net income of \$21.1 million in 2017. Our 2018 Adjusted EBITDA (excluding the accounting impact of our acquisition of A Plus) was \$11.3 million, as compared to 2017 Adjusted EBITDA of \$4.0 million (excluding a gain on bargain purchase of \$24.3 million related to the 2017 Screen Media acquisition).

#### Business Strategy

Our vision is to use our solid core of traditional media production and distribution assets to build a powerful portfolio of online VOD networks and assets. Our production and distribution businesses generate current revenue and Adjusted EBITDA to fund our rapidly growing online networks. We will build and acquire assets such as content libraries, digital publishers with content related to our own, and stand-alone VOD networks. Adjusted EBITDA is defined in the section titled “—Reconciliation of Historical GAAP Net Income as Reported to Adjusted EBITDA”.

One of our fundamental objectives is to continue to grow our VOD networks to create a “network of networks” as we continue to increase our content offerings to critical mass. Our strategy is to build our library of video content through a combination of Chicken Soup for the Soul original video content and opportunistic acquisitions of third-party video content libraries, such as our transformative acquisition of Screen Media, or other rights to video content as distressed networks seek to monetize their content libraries. Strategically, the proliferation of video content networks continues to create opportunities for us to aggregate existing networks under a single portal, acquire content and networks from distressed owners.

## **Online Networks**

Our acquisition of Screen Media accelerated our entry into the direct-to-consumer VOD market through Popcornflix® which has an extensive footprint with apps that have been downloaded more than 27 million times.

Popcornflix® is one of the largest AVOD services. Under the Popcornflix® brand, we operate a series of direct-to consumer advertising supported channels. On Popcornflix®, we have the rights to exhibit more than 3,000 films and approximately 60 television series comprised of approximately 1,500 episodes, with new content added regularly. As a “free-to-consumer” digital streaming channel, Popcornflix® is an extremely popular online video platform that can be found on the web, iPhones and iPads, Android products, Roku, Xbox, Amazon Fire, Apple TV, Chromecast and Samsung and Panasonic Internet-connected televisions, among others. Popcornflix® is currently available in 56 countries and territories, including the United States, United Kingdom, Canada, Australia, the Scandinavian countries, Germany, France, Hong Kong and Singapore, with additional countries and territories to be added.

While Popcornflix® is currently an advertiser-supported VOD network, we have also begun to also expand in SVOD networks.

Our entry into subscription-based VOD was initiated by our acquisition of the Pivotshare VOD network in August 2018. Pivotshare is comprised of a series of subscription-based VOD channels with 28,000 hours of programming. Pivotshare generates approximately \$2.5 million in gross billings and has approximately 25,000 paid subscriptions with average monthly billings of \$9 per subscription.

In October 2018, we completed the acquisition of the assets of Truli Media Corp., a nascent global family-friendly and faith-based online video channel (“Truli”). The Truli content library includes 2,500 hours of programming and brings us an additional 630,000 Facebook fans. Truli’s content fits strategically in our plans and includes film, television, music videos, sports, comedy, and educational material. With the completion of the acquisition, Truli became our seventh advertiser-supported VOD channel.

On March 27, 2019, we entered into an agreement (“Contribution Agreement”) with Crackle, Inc. (“Crackle”), which is currently a business of Sony Pictures Television (“SPT”), one of the television industry’s leading content providers, to contribute our respective VOD businesses to a newly-formed joint venture entity, Crackle Plus, LLC. The combined VOD businesses will be branded “Crackle Plus”. Pursuant to the Contribution Agreement, we agreed subject to satisfaction of closing conditions, to contribute assets relating to our VOD business and to assign to Crackle Plus the rights to use the Brand in VOD and Crackle agreed to contribute to Crackle Plus certain assets relating to the Crackle VOD business.

We believe that Crackle Plus will be one of the largest providers of free AVOD service in the United States with an expected approximately 10 million monthly unique users on our owned and operated networks with an audience of millions more served through our advertising representation network. We anticipate that Crackle Plus will have 26 million registered users. Crackle Plus will be highly competitive in the growing AVOD space as it is expected to launch with over 100 VOD networks and more than 90 content partnerships, assuming full contribution by the parties upon the terms of, and after closing of the Contribution Agreement. Upon launch, we believe Crackle Plus will stream over 1.3 billion minutes per month. The addition of Crackle Plus to our company is expected to more than double our overall annual revenue and will add meaningful EBITDA. The transaction is expected to close on or around May 2019. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

## **Television and Film Distribution**

We distribute television series and films worldwide through Screen Media. We own the copyright or long-term distribution rights to approximately 1,700 hours of television series and feature films, representing one of the largest independently owned libraries of filmed entertainment in the world. We distribute our television series and films through direct relationships across all media, including theatrical, home video, pay-per-view, free, cable and pay television, VOD and emerging digital media platforms worldwide.

Screen Media’s distribution capabilities across all media gives us the ability to distribute our produced television series directly and may eliminate the distribution fees (as much as 30% of revenue) that we currently pay to third parties for distribution of the rights we retain when we produce series with our sponsors. We believe that the cost savings from Screen Media’s distribution capabilities may enhance our revenue and profits from our produced television series.

We have distribution licensing agreements with numerous digital services across all major platforms, such as cable and satellite VOD and Internet VOD, which includes TVOD for rentals or purchases of films, AVOD for free-to-viewer streaming of films supported by advertisements and SVOD for unlimited access to films for a monthly fee.

Our cable and satellite VOD distribution agreements include those with DirecTV, Optimum (Altice USA), Verizon and In Demand (owned by Comcast, Charter and Cox). Our Internet VOD distribution agreements include those with Amazon, iTunes, Samsung, YouTube, Hulu, Xbox, Netflix, Sony and Vudu, among others.

We are rapidly expanding international distribution of our content through agreements with Film Mode Entertainment, iTunes, Sony PlayStation and Xbox, among others. Under these agreements, our titles are available on iTunes, Sony PlayStation and Xbox in the United Kingdom, Australia, France, Germany, Italy and Hong Kong, with additional territories added regularly.

## **Television and Short-Form Video Production**

We utilize the Chicken Soup for the Soul brand, together with our management’s industry experience and expertise, to generate revenue through the production and distribution of video content with sponsors. We partner with sponsors and use highly-regarded independent producers to develop and produce video content. Using this approach provides us with access to a diverse pool of creative ideas for new video content projects and allows us to scale our business on a variable cost basis. We currently have producer agreements or arrangements in place with a number of these producers, including Litton Entertainment (a Hearst company). We anticipate entering into relationships with additional independent producers.

We seek committed funding from corporate and foundation sponsors covering more than the production costs prior to moving forward with a project. Since we seek to secure both the committed funding and production capabilities for our video content prior to moving forward with a project, we have high visibility into the profitability of a particular project before committing to proceed with such project. In addition, we take limited financial risk on

developing our projects.

Corporate and foundation sponsors with which we work include HomeAway, Hilton Grand Vacations, American Humane, Chegg, Acorns, the Boniuk Foundation, State Farm, Michelson Found Animals Foundation and the Morgridge Family Foundation, and we are currently in discussions with numerous others. We endeavor to retain meaningful back-end rights to our video content in these relationships, which provides opportunities for improved profitability and enhances our library value.

In December 2018, we acquired all of the outstanding capital stock of A Plus, an affiliate of ours. Prior to the acquisition, A Plus was majority owned by an affiliate of CSS and, pursuant to a Distribution Agreement, we had the exclusive worldwide rights to distribute all video content (in any and all formants) and all editorial content (including articles, photos and still images) created, produced, edited or delivered by A Plus, and we received a net distribution fee equal to 30% of gross revenue generated by the distribution of the A Plus video content. As a result of the acquisition, the Distribution Agreement was terminated, resulting in our retention of 100% of the revenues generated by A Plus going forward, along with projected cost savings in 2018, and over \$5 million for our company in 2019.

Our long-form video content consists of 30- to 60-minute episodic programs typically distributed initially on traditional television or cable networks. Our current long-form video content projects include:

- ***Chicken Soup for the Soul's Hidden Heroes ("Hidden Heroes")***. The multi-award-winning *Hidden Heroes* was hosted by Brooke Burke. The series third season was on The CW Network. The Boniuk Foundation has agreed to sponsor a fourth season of *Hidden Heroes* with a new host. A segment of *Hidden Heroes* can be seen at <https://cssentertainment.com/hiddenheroes>. *Hidden Heroes* was nominated for an Emmy award for "Outstanding Children's or Family Viewing Series" in March 2019.
- ***Being Dad, a Chicken Soup for the Soul Original Series ("Being Dad")***. This series is an intimate, revealing and entertaining portrait of nine men who are tackling one of the most important roles in the world: fatherhood. The episodes are about the lives of dads who are facing challenges that are simultaneously unique and universal. The fathers are all bound by the singular belief that raising their children is life's greatest gift. In August 2018, the series began streaming on Netflix.
- ***Vacation Rental Potential***. This television series gives viewers the information and inspiration needed to realize their dreams of using real estate entrepreneurship to afford a vacation home for their family. Hosted by Holly Baker, *Vacation Rental Potential* offers insight on how to make the dream of vacation homeownership possible. The show premiered on A&E Network in December 2017. Its second season is currently airing on A&E Network. The series was nominated for a Real Screen award in the "Digital and Branded Content: Brand-Funded Content" category.
- ***Going From Broke***. Ashton Kutcher is the executive producer on this new series about the 44 million young Americans that are today saddled with student and credit card debt totaling nearly \$1.5 trillion. Recent college graduates have no idea how to dig themselves out of their financial disaster. *Going From Broke* is hosted by money expert Dan Rosensweig, CEO of multi-billion dollar company Chegg. Throughout the series, Dan helps these millennials deal with their financial challenges.
- ***Chicken Soup for the Soul's Animal Tales ("Animal Tales")***. This series is sponsored by Chicken Soup for the Soul Pet Food and American Humane, the country's first national humane organization. This series celebrates everything pets and animals add to our lives. The series will bring awareness to the Chicken Soup for the Soul mission of helping all pets eat well, whether that's by making super premium pet food that is affordable or donating millions of meals to shelter pets every year. The show premiered on the CW Network in January 2019 hosted by Eva La Rue.

Our short-form video content, including our branded short-form video content known as Sips, is receiving increased focus from our advertisers and sponsors. Such short-form video content is typically exhibited through online video content distribution through A Plus and various social media platforms, such as YouTube, Facebook, as well as on the social media channels of Chicken Soup for the Soul and our sponsors. A Plus is adding more short-form video content, and we are focusing on acquisitions in this space. Increasing revenue from short-form video will make our business less lumpy and assist in reducing the relative size of fourth quarter revenue compared to other quarters.

## Competition

Video content production and distribution direct to consumers are highly competitive businesses. We face competition from companies within the entertainment business and from alternative forms of leisure entertainment, such as travel, sporting events, outdoor recreation, video games, the internet and other cultural and computer-related activities. We compete with the major studios, numerous independent motion picture and television distribution and production companies, television networks, pay television systems and online media platforms for the services of performing artists, producers and other creative and technical personnel and production financing, all of which are essential to the success of our businesses.

In addition, our video content competes for media outlet and audience acceptance with video content produced and distributed by other companies. As a result, the success of any of our video content is dependent not only on the quality and acceptance of a particular production, but also on the quality and acceptance of other competing video content available in the marketplace at or near the same time.

Given such competition, and our stage of development, we intend to initially emphasize a lower cost structure, risk mitigation, reliance on financial partnerships and innovative financial strategies. Our cost structures are designed to utilize our flexibility and agility as well as the entrepreneurial spirit of our employees, partners and affiliates, in order to provide creative, desirable video content.

## Intellectual Property

We are party to the CSS License Agreement (as defined) through which we have been granted the perpetual, exclusive, worldwide license by CSS to produce and distribute video content using the brand and related content, such as stories published in the *Chicken Soup for the Soul* books. *Chicken Soup for the Soul* and related names are trademarks owned by CSS. We have the proprietary rights (including copyrights) in all our *Sips* and company-produced content. With the acquisition of Screen Media, the Company now owns copyrights or global long-term distribution rights to Screen Media film library as well as ownership of Screen Media's AVOD application Popcomflix®.

We rely on a combination of confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and intellectual property rights.

## Employees

As of December 31, 2018, we had 40 direct employees. We expect to add a material number of Crackle employees upon consummation of our joint venture transaction. The services of certain personnel, including our chairman and chief executive officer, vice chairman and chief strategy officer, our senior brand advisor and director, and chief financial officer, are provided to us under the CSS Management Agreement. We also utilize many consultants in the ordinary course of our business and hire additional personnel on a project-by-project basis. We believe that our employee and labor relations are good, and we are committed to inclusion and strict policies and procedures to maintain a safe work environment.

## Corporate Information

We are a Delaware corporation formed on May 4, 2016. CSS Productions, our predecessor and immediate parent company, was formed in December 2014 by CSS, and initiated operations in January 2015. We were formed to create a discrete entity focused on video content opportunities using the Brand. In connection with our succession to the operations of CSS Productions, all video content assets owned by CSS and any of its affiliates, including all rights and obligations related thereto, were transferred to us upon formation on May 4, 2016. Thereafter, CSS Productions' operating activities ceased, and the Company continued the business operations of producing and distributing the video content.

In May 2016, pursuant to the terms of the contribution agreement among CSS, CSS Productions and the Company (the "CSS Contribution Agreement"), all video content assets (the "Subject Assets") owned by CSS, CSS Productions and their CSS subsidiaries were transferred to the Company in consideration for its issuance to CSS Productions of 8,600,568 shares of the Company's Class B common stock. Since the date of the CSS Contribution Agreement, CSS Productions has transferred certain of these shares of Class B common stock to third parties in certain transactions. Concurrently with the consummation of the CSS Contribution Agreement, certain rights to receive payments under certain agreements comprising part of the Subject Assets owned by Trema, LLC ("Trema"), a company principally owned and controlled by William J. Rouhana, Jr., the Company's chairman and chief executive officer, were assigned to the Company under a contribution agreement (the "Trema Contribution Agreement") in consideration for the Company's issuance to Trema of 159,432 shares of our Class B common stock.

Thereafter, CSS Productions' operating activities ceased, and the Company continued the business operations of producing and distributing the video content.

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has irrevocably elected to avail itself of this exemption from new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

## Internet Address and Availability of Filings

We maintain a website at [www.cssentertainment.com](http://www.cssentertainment.com). The Company makes available, free of charge, on or through its internet website, the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission. The Company complied with this policy for every Exchange Act report filed during the year ended December 31, 2018.

## Implications of Being an Emerging Growth Company

We are an "emerging growth company", as defined in the JOBS Act, and, for so long as we are an emerging growth company, are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. These include, but are not limited to:

- Not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- Not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditors' report providing additional information about the audit and the financial statements;
- Reduced disclosure obligations regarding executive compensation; and
- Exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We may remain an "emerging growth company" until as late as December 31, 2022, the fiscal year-end following the fifth anniversary of the completion of our IPO, though we may cease to be an emerging growth company earlier under certain circumstances, including if (a) we have more than \$1.07 billion in annual revenue in any fiscal year, (b) the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any June 30 or (c) we issue more than \$1.0 billion of non-convertible debt over a three-year period.

In addition, Section 107 of 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 of 1933, as amended (the "Securities Act"), for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

## **ITEM 1A. Risk Factors**

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are set forth below.

### **Risks Related to our Company:**

*We do not have a long operating history on which to evaluate our company.*

Our predecessor, CSS Productions, was formed in December 2014 and we were formed in May 2016 to succeed to CSS Productions' assets in order to create a discrete, focused entity to pursue video content opportunities using the Chicken Soup for the Soul brand. We face all the risks faced by newer companies in the media industry, including significant competition from existing and emerging media producers and distributors, many of which are significantly more established, larger and better financed than our company.

It is only recently that we debuted our video content and accordingly do not have a long history on which to evaluate our ability to produce and distribute video content that will be desired by our target consumers across multiple media offerings. Similarly, we do not have a long-term operating or financial history that can be reviewed in evaluating an investment in our company.

*All of our tangible and intangible property is pledged to secure existing indebtedness.*

All of our tangible and intangible property, including accounts receivable and intellectual property, is pledged under a first priority security interest to secure our repayment obligations under indebtedness owed to Patriot Bank, N.A. under our Credit Facility, as described under "*Management's Discussion and Analysis of Operating and Financial Condition – Liquidity and Capital Resources - "Credit Facility."* In the event the holder of such indebtedness takes action with respect to our assets in connection with any default under the Credit Facility, we may not be able to continue our operations.

*Our long-term results of operations are difficult to predict and depend on the commercial success of our video content and the continued strength of the Chicken Soup for the Soul brand.*

Our ability in the long-term to obtain sponsorships and licensing arrangements and to distribute our video content will depend, in part, upon the commercial success of the content that we initially distribute and, in part, on the continued strength of the Chicken Soup for the Soul brand. We cannot predict whether our initial video content will be accepted by audiences at a level that will create strong demand for our future video content. Further, the continued strength of the brand will be affected in large part by the operations of CSS and its other business operations, none of which we control. CSS utilizes the brand through its other subsidiaries for various commercial purposes, including the sale of books (including educational curriculum products), pet foods and other consumer products. Negative publicity relating to CSS or its other subsidiaries or the brand, or any diminution in the perception of the brand could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects. We cannot assure you that we will manage the production and distribution of all of our video content successfully, that all or any portion of our video content will be met with critical acclaim or will be embraced by audiences on a one-time or repeated basis, or that the strength of the Chicken Soup for the Soul brand will not diminish over time.

*Our reliance on third parties for production and distribution could limit our control over the quality of the finished video content.*

We currently have limited internal production and distribution capabilities and are reliant on relationships with third parties for much of these capabilities. Working with third parties is an integral part of our strategy to produce and distribute video content on a cost-efficient basis, and our reliance on such third parties could lessen the control we have over the projects, despite our approval rights. Should the third-party producers we rely upon not produce completed projects to the standards we expect and desire, critical and audience acceptance of such projects could suffer, which could have an adverse effect on our ability to produce and distribute future projects. Further, we cannot be assured of entering into favorable agreements with such third-party producers on economically favorable terms or on terms that provide us with satisfactory intellectual property rights in the completed projects.

*An integral part of our strategy is to initially minimize our production and distribution costs by utilizing funding sources provided by others, however, such sources may not be readily available.*

The production and distribution of video content require a significant amount of capital. As part of our strategy, we will initially seek to fund the production and distribution of our video content through the payment of upfront fees by sponsors, licensors, broadcast, cable and satellite outlets and other producers and distributors, as well as through other initiatives, such as government tax incentives. Funding for our video content projects from the aforementioned sources or other sources may not be available on attractive terms or at all, as and when we need such funding. To the extent we are not able to secure agreements by which upfront fees are paid to us, we may need to curtail the amount of video content being produced or use our operating or other funds to pay for such video content, which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***As we grow, we may seek to fund and produce more of our video content directly, subjecting us to significant additional risks.***

Our current strategy of funding the production and distribution of our video content through the payment of upfront fees by third parties may limit the backend return to us. If we should determine to use our own funds to produce and distribute more of our video content in order to capture greater backend returns, we would face significant additional risks, such as the need to internally advance funds ahead of revenue generation and cost recoupment and the need to divert some of our resources and efforts away from other operations. In order to reduce these risks, we may determine to raise additional equity or incur additional indebtedness. In such event, our stockholders and our company will be subjected to the risks associated with issuing more of our shares or increasing our debt obligations.

***We have derived our revenue to date from a limited number of video content offerings and clients and have funded our projects from a limited number of sources.***

Historically, we have derived most of our revenue from a limited number of video content offerings and clients. While we continue to expand the number and type of our video content offerings, including through our acquisition of Screen Media, Pivotshare, Truli, and A Plus, we will need to continue to expand and broaden our video content offerings, the distribution channels into which they are placed, the clients to which we sell and the production and financing relationships utilized to create such video content to ensure that we are not reliant on a limited number of offerings or distribution partners in the future. A failure to continue to expand and broaden our video content offerings, client base or distribution, production and financing relationships could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***If studios, content providers or other rights holders refuse to license content or other rights upon terms acceptable to us, our business could be adversely affected.***

Our ability to provide content depends on studios, content providers and other rights holders licensing rights to distribute such content and certain related elements thereof, such as the public performance of music contained within the content we distribute. If studios, content providers and other rights holders are not or are no longer willing or able to license us content upon terms acceptable to us, our ability to provide content will be adversely affected and/or our costs could increase.

***Certain conflicts of interest may arise between us and our affiliated companies and we have waived certain rights with respect thereto.***

Our certificate of incorporation includes a provision stating that we renounce any interest or expectancy in any business opportunities that are presented to us or our officers, directors or stockholders or affiliates thereof, including but not limited to CSS Productions and its affiliates (collectively, the “CSS Companies”), except as may be set forth in any written agreement between us and any of the CSS Companies (such as the CSS License Agreement under which CSS has agreed that all video content operations shall be conducted only through CSSE). This provision also states that, to the fullest extent permitted by Delaware law, our officers, directors and employees shall not be liable to us or our stockholders for monetary damages for breach of any fiduciary duty by reason of any of our activities or any activities of any of the CSS Companies. As a result of these provisions, there may be conflicts of interest among us and our officers, directors, stockholders or their affiliates, including the CSS Companies, relating to business opportunities, and we have waived our right to monetary damages in the event of any such conflict.

***We are required to make continuing payments to our affiliates, which may reduce our cash flow and profits.***

We are required to make significant payments to our affiliates as described under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Affiliate Resources and Obligations — CSS Management Agreement*”, “*CSS License Agreement*” and described under “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources*”. Accordingly, in the aggregate, at least 10% of our gross revenue will be paid to our affiliates on a continuous basis and will not be otherwise available to us.

***If a project we are producing incurs substantial budget overruns, we may have to seek additional financing from outside sources to complete production or fund the overrun ourselves.***

If a production we are funding incurs substantial budget overruns, we may have to seek additional financing from outside sources to complete production or fund the overrun ourselves. We cannot be certain that any required financing will be available to us on commercially reasonable terms or at all, or that we will be able to recoup the costs of overruns. Increased costs incurred with respect to a particular project may result in the production not being ready for release at the intended time, which could cause a decline in the commercial performance of the project. Budget overruns could also prevent a project from being completed or released at all.

***We are subject to risks associated with possible acquisitions, business combinations, or joint ventures.***

We are actively pursuing discussions and activities with respect to possible acquisitions, sale of assets, business combinations, or joint ventures intended to complement or expand our business, some of which may be significant transactions for us. We may not realize the anticipated benefit from any of the transactions we pursue. Regardless of whether we consummate any such transaction, the negotiation of a potential transaction could require us to incur significant costs and cause diversion of management’s time and resources.

Integrating any business that we acquire may be distracting to our management and disruptive to our business and may result in significant costs to us. We could face several challenges in the consolidation and integration of information technology, accounting systems, personnel and operations. Any such transaction could also result in impairment of goodwill and other intangibles, development write-offs and other related expenses. Any of the foregoing could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***Our operating results may fluctuate.***

Our operating results are dependent, in part, on management's estimates of revenue to be earned over the life of a project. We will regularly review and revise our revenue estimates. This review may result in a change in the rate of amortization and/or a write-down of the video content asset to its estimated realizable value. Results of operations in future years depend upon our amortization of our video content costs. Periodic adjustments in amortization rates may significantly affect these results. Further, as many of our third-party relationships will be on a project-by-project basis, the profits, if any, generated from various projects will fluctuate based on the terms of the agreements between us and our third-party producers and distributors.

To date we have reported the vast majority of our revenue and net income in the fourth quarter of each year. We have begun to sign sponsorship contracts, and are beginning production of some series, earlier in the year than in recent years. This has resulted in more balanced revenue across the year. Additionally, revenue from both our online networks and television and film distribution business areas are more evenly spaced throughout the year, which should result in more balanced revenue, net income and Adjusted EBITDA going forward across all quarters of each year. While the operating results in these areas are expected to be more evenly distributed over fiscal quarters, the fourth quarter is generally the strongest quarter and the second quarter is generally the weakest quarter.

Variations in our quarterly and year-end operating results are difficult to predict and our income and cash flows may fluctuate significantly from period to period, which may impact our board of directors' willingness or legal ability to declare a monthly dividend. If our operating results fall below the expectations of investors or securities analysts, the price of our Common Stock and our Series A preferred stock could decline substantially. Specific factors that may cause fluctuations in our operating results include:

- demand and pricing for our products and services;
- introduction of competing products;
- our operating expenses which fluctuate due to growth of our business;
- timing and popularity of new video content offerings and changes in viewing habits or the emergence of new content distribution platforms; and
- variable sales cycle and implementation periods for content and services.

As a result of the foregoing and other factors, our results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future period.

***Distributors' failure to promote our video content could adversely affect our revenue and could adversely affect our business results.***

We will not always control the timing and manner in which our licensed distributors distribute our video content offerings. However, their decisions regarding the timing of release and promotional support are important in determining our success. Any decision by those distributors not to distribute or promote our video content or to promote our competitors' video content to a greater extent than they promote our content could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***We are smaller and less diversified than many of our competitors.***

Many of the producers and studios with which we compete are part of large diversified corporate groups with a variety of other operations, including television networks, cable channels and other diversified companies such as Amazon, which can provide both the means of distributing their products and stable sources of earnings that may allow them to better offset fluctuations in the financial performance of their operations. In addition, the major studios have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, and other personnel required for production. The resources of the major producers and studios may also give them an advantage in acquiring other businesses or assets, including video content libraries, that we might also be interested in acquiring.

***We must successfully respond to rapid technological changes and alternative forms of delivery or storage to remain competitive.***

The entertainment industry in general continues to undergo significant developments as advances in technologies and new methods of product delivery and storage, or certain changes in consumer behavior driven by these developments, emerge. Consumers are spending an increasing amount of time online and on mobile devices and are increasingly viewing content on a time-delayed or on-demand basis online, on their televisions and on handheld or portable devices. Our distributors and we must adapt our businesses to changing consumer behavior and preferences and exploit new distribution channels. Our strategy is to seek to take advantage of these changes and thereby to create new revenue streams and other opportunities for our video content. If we cannot successfully utilize these and other emerging technologies, it could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***We face risks from doing business internationally.***

We intend to increase the distribution of our video content outside the U.S. and thereby derive significant revenue in foreign jurisdictions. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws;

- the Foreign Corrupt Practices Act and similar laws regulating interactions and dealings with foreign government officials;
- changes in local regulatory requirements, including restrictions on video content;
- differing cultural tastes and attitudes;
- differing and more stringent user protection, data protection, privacy and other laws;
- differing degrees of protection for intellectual property;
- financial instability and increased market concentration of buyers in foreign television markets;
- the instability of foreign economies and governments;
- fluctuating foreign exchange rates;
- the spread of communicable diseases in such jurisdictions, which may impact business in such jurisdictions; and
- war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect our revenue from non-U.S. sources, which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***Protecting and defending against intellectual property claims may have a material adverse effect on our business.***

Our ability to compete depends, in part, upon successful protection of our intellectual property relating to our video content and the protection of the Chicken Soup for the Soul brand. We protect proprietary and intellectual property rights to our productions through available copyright and trademark laws and licensing and distribution arrangements with reputable international companies in specific territories and media. Under the terms of the CSS License Agreement, CSS has the primary right to take actions to protect the brand, and, if it does not, and we reasonably deem any infringement thereof is materially harmful to our business, we may elect to seek action to protect the brand ourselves. Although in the former case, we would equitably share in any recovery, and in the latter case, we would retain the entirety of any recovery, should CSS determine not to prosecute infringement of the brand, we could be materially harmed and could incur substantial cost in prosecuting an infringement of the Chicken Soup for the Soul brand.

***Others may assert intellectual property infringement claims against us.***

It is possible that others may claim from time to time that our productions and production techniques misappropriate or infringe the intellectual property rights of third parties with respect to their previously developed content, stories, characters and other entertainment or intellectual property. Although CSS is obligated to indemnify us for claims related to our use of the Chicken Soup for the Soul brand in accordance with the CSS License Agreement, we could face lawsuits with respect to claims relating thereto. Irrespective of the validity or the successful assertion of any such claims, we could incur significant costs and diversion of resources in defending against them, which could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***Our business involves risks of liability claims for video content, which could adversely affect our results of operations and financial condition.***

As a producer and distributor of video content, we may face potential liability for defamation, invasion of privacy, negligence and other claims based on the nature and content of the materials distributed. These types of claims have been brought, sometimes successfully, against producers and distributors of video content. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***Piracy of video content may harm our business.***

Video content piracy is extensive in many parts of the world, including South America, Asia, and certain Eastern European countries, and is made easier by technological advances and the conversion of video content into digital formats. This trend facilitates the creation, transmission and sharing of high-quality unauthorized copies of video content on DVDs, Blu-ray discs, from pay-per-view through set-top boxes and other devices and through unlicensed broadcasts on free television and the internet. The proliferation of unauthorized copies of our video content could have an adverse effect on our business.

***We rely upon a number of partners to offer streaming of content to various devices.***

We currently offer viewers the ability to receive streaming content through a host of internet-connected devices, including internet-enabled televisions, digital video players, game consoles and mobile devices, using third-party platforms and our own AVOD platforms, including Popcornflix and Truli, and our SVOD network, Pivotshare. We intend to continue to broaden our capability to instantly stream content to other platforms and partners over time. We do not own any of the technology utilized by third parties in the distribution of our content. If we are not successful in maintaining existing and creating new relationships, or if we encounter technological, content licensing or other impediments to our streaming content, our ability to grow our business could be adversely impacted. In addition, technology changes may require that our partners update their platforms. If partners do not update or otherwise modify their platforms, our service and our viewers' use and enjoyment could be negatively impacted.

***Any significant disruption in the computer systems of third parties that we utilize in our operations could result in a loss or degradation of service and could adversely impact our business.***

Our reputation and ability to attract, retain and serve our viewers is dependent upon the reliable performance of the computer systems of third parties that we utilize in our operations. These systems may be subject to damage or interruption from earthquakes, adverse weather conditions, other natural disasters, terrorist attacks, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to ham these systems. Interruptions in these systems or to the internet in general, could make our content unavailable or impair our ability to deliver such content.

***Our online activities are subject to a variety of laws and regulations relating to privacy, which, if violated, could subject us to an increased risk of litigation and regulatory actions.***

In addition to our websites, we use third-party applications, websites, and social media platforms to promote our video content offerings and engage consumers, as well as monitor and collect certain information about consumers. There are a variety of laws and regulations governing individual privacy and the protection and use of information collected from such individuals, particularly in relation to an individual's personally identifiable information. Many foreign countries have adopted similar laws governing individual privacy, such as the recent adoption of the EU's General Data Protection Regulation ("GDPR") and some of which are more restrictive than similar United States laws. If our online activities were to violate any applicable current or future laws and regulations that limit our ability to collect, transfer, and use data, we could be subject to litigation and regulatory actions, including fines and other penalties. Internationally, we may become subject to evolving, additional and/or more stringent legal obligations concerning our treatment of customer and other personal information, such as laws regarding data localization and/or restrictions on data export. Failure to comply with these obligations could subject us to liability, and to the extent that we need to alter our business model or practices to adapt to these obligations, we could incur additional expenses.

***If government regulations relating to the internet or other areas of our business change, we may need to alter the manner in which we conduct our business or incur greater operating expenses.***

The adoption or modification of laws or regulations relating to the internet or other areas of our business could limit or otherwise adversely affect the manner in which we currently conduct our business. In addition, the continued growth and development of the market for online commerce may lead to more stringent consumer protection laws, which may impose additional burdens on us such as recent adoption of the EU's GDPR. If we are required to comply with new regulations or legislation or new interpretations of existing regulations or legislation, this compliance could cause us to incur additional expenses or alter our operations.

***If we experience rapid growth, we may not manage our growth effectively, execute our business plan as proposed or adequately address competitive challenges.***

We anticipate continuing to grow our business and operations rapidly. Our growth strategy includes organic initiatives and acquisitions. Such growth could place a significant strain on the management, administrative, operational and financial infrastructure we utilize, a portion of which is made available to us by our affiliates under the CSS Management Agreement. Our long-term success will depend, in part, on our ability to manage this growth effectively, obtain the necessary support and resources under the CSS Management Agreement and grow our own internal resources as required, including internal management and staff personnel. To manage the expected growth of our operations and personnel, we also will need to increase our internal operational, financial and management controls, and our reporting systems and procedures. Failure to effectively manage growth could result in difficulty or delays in producing our video content, declines in overall project quality and increases in costs. Any of these difficulties could adversely impact our business financial condition, operating results, liquidity and prospects.

***Our exclusive license to use the Chicken Soup for the Soul brand could be terminated in certain circumstances.***

We do not own the Chicken Soup for the Soul brand or any other Chicken Soup for the Soul-related assets (including books), other than those assets transferred to us under the CSS Contribution and Trema Contribution Agreements. The brand is licensed to us by CSS under the terms of the CSS License Agreement. CSS controls the brand, and the continued integrity and strength of the Chicken Soup for the Soul brand will depend in large part on the efforts and businesses of CSS and how the brand is used, promoted and protected by CSS, which will be outside of the immediate control of our company. Although the license granted to us under the CSS License Agreement is perpetual, there are certain circumstances in which it may be terminated by CSS, including our breach of the CSS License Agreement.

***Claims against us relating to any acquisition or business combination may necessitate our seeking claims against the seller for which the seller may not indemnify us or that may exceed the seller's indemnification obligations.***

There may be liabilities assumed in any acquisition or business combination that we did not discover or that we underestimated in the course of performing our due diligence. Although a seller generally may have indemnification obligations to us under an acquisition or merger agreement, these obligations usually will be subject to financial limitations, such as general deductibles and maximum recovery amounts, as well as time limitations. We cannot assure you that our right to indemnification from any seller will be enforceable, collectible or sufficient in amount, scope or duration to fully offset the amount of any undiscovered or underestimated liabilities that we may incur. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***We may require and not be able to obtain additional funding to meet increased capital needs after an acquisition.***

Our ability to grow through acquisitions, business combinations and joint ventures and our ability to fund our operating expenses after one or more acquisitions may depend upon our ability to obtain funds through equity financing, debt financing (including credit facilities) or the sale or syndication of some or all of our interests in certain projects or other assets or businesses. If we do not have access to such financing arrangements, and if other funds do not become available on terms acceptable to us, there could be a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***Our success depends on our management and relationships with our affiliated companies.***

Our success depends to a significant extent on the performance of our management personnel and key employees, including production and creative personnel, made available to us through the CSS Management Agreement. The loss of the services of such persons or the resources supplied to us by our affiliated companies could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***To be successful, we need to attract and retain qualified personnel.***

Our success will depend to a significant extent on our ability to identify, attract, hire, train and retain qualified professional, creative, technical and managerial personnel. Competition for the caliber of talent required to produce and distribute our video content continues to increase. We cannot assure you that we will be successful in identifying, attracting, hiring, training and retaining such personnel in the future. If we were unable to hire, assimilate and retain qualified personnel in the future, such inability could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***We are an “emerging growth company” under the JOBS Act of 2012 and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.***

We are an “emerging growth company”, as defined in the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our Class A common stock less attractive because we may rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also 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 delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are choosing to take advantage of the extended transition period for complying with new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, although we will lose that status sooner if our revenue exceeds \$1.07 billion, if we issue more than \$1 billion in non-convertible debt in a three-year period, or if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of June 30 of any year.

***Our status as an “emerging growth company” under the JOBS Act of 2012 may make it more difficult to raise capital as and when we need it.***

Because of the exemptions from various reporting requirements provided to us as an “emerging growth company” and because we will have an extended transition period for complying with new or revised financial accounting standards, we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our financial accounting is not as transparent as other companies in our industry. Any inability to raise additional capital as and when we need it, could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

***Since our content is digitally stored and distributed online, and we accept online payments for various subscription services, we face numerous cybersecurity risks.***

We utilize information technology systems, including third-party hosted servers and cloud-based servers, to host our digital content, as well as to keep business, financial, and corporate records, communicate internally and externally, and operate other critical functions. If any of our internal systems or the systems of our third-party providers are compromised due to computer virus, unauthorized access, malware, and the like, then sensitive documents could be exposed or deleted, and our ability to conduct business could be impaired.

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, unauthorized access to our systems, computer viruses or other malicious code, denial of service attacks, malware, ransomware, phishing, SQL injection attacks, human error, or other events that result in security breaches or give rise to the manipulation or loss of sensitive information or assets. Cyber incidents can be caused by various persons or groups, including disgruntled employees and vendors, activists, organized crime groups, and state-sponsored and individual hackers. Cyber incidents can also be caused or aggravated by natural events, such as earthquakes, floods, fires, power loss, and telecommunications failures.

To date, we have not experienced any material losses relating to cyber-attacks, computer viruses, or other systems failures. Although we have taken steps to protect the security of data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning or the improper disclosure of personally identifiable information, such as in the event of cyber-attacks. In addition to operational and business consequences, if our cybersecurity is breached, we could be held liable to our customers or other parties in regulatory or other actions, and we may be exposed to reputation damages and loss of trust and business. This could result in costly investigations and litigation, civil or criminal penalties, fines, and negative publicity.

Certain information relating to our customers, including personally identifiable information and credit card numbers, is collected and maintained by us, or by third-parties that do business with us or facilitate our business activities. This information is maintained for a period of time for various business purposes, including maintaining records of customer preferences to enhance our customer service and for billing, marketing, and promotional purposes. We also maintain personally identifiable information about our employees. The integrity and protection of our customer, employee and company data is critical to our business. Our customers and our employees expect that we will adequately protect their personal information, and the regulations applicable to security and privacy are increasingly demanding. Privacy regulation is an evolving area and compliance with applicable privacy regulations may increase our operating costs or adversely impact our ability to service our customers and market our properties and services.

***We may not realize the advantages we expect from Crackle Plus; there may be unanticipated risks***

On March 27, 2019, we entered into a Contribution Agreement with Crackle, Inc., pursuant to which we and Crackle would contribute certain assets relating to our respective VOD businesses to a joint venture entity, Crackle Plus. We expect the Contribution Agreement and the transactions contemplated therein to close on or around May 2019. However, it is uncertain whether the Contribution Agreement will be consummated. We have diverted, and will continue to divert, management resources towards the consummation of the Contribution Agreement.

If the Contribution Agreement is not consummated as originally proposed, we may not realize any potential benefits of the joint venture entity. Our inability to consummate the Contribution Agreement could create uncertainty with respect to our business, delay us from pursuing other strategic opportunities, or otherwise adversely affect our business, financial results, and operations.

Furthermore, Crackle Plus may not be successful in the timeframe that we expect, or at all, and may open us up to a series of risks we may not be able to anticipate. For example, upon consummation of the joint venture acquisition, we will add a material number of Crackle employees, which may create a strain on our ability to effectively manage our operations and key personnel. We will experience increased costs in connection with these employees, including payroll and human resources costs. Additionally, we will be required to integrate data from the Crackle VOD assets and implement new data security measures and policies. Further, the acquisition of the Crackle VOD assets will likely involve risks associated with our assumption of some or all of the liabilities relating to those assets, which may be liabilities that we are currently unaware of, potential write-offs of acquired assets and potential loss of key employees or customers. We may encounter difficulties in successfully integrating our operations, technologies, services and personnel with that of Crackle, and our financial and management resources may be diverted from our existing operations. For instance, we may need to divert some resources from our existing business and assets to focus on the business and assets acquired from Crackle. Although we anticipate synergies and cost savings will result from the joint venture, we may not realize any or all of the cost savings that we believe we can realize from the joint venture. For example, we may be required to continue to operate or maintain functions that are currently expected to be combined or reduced. While many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time, our management continues to assess the magnitude of these costs, and additional unanticipated costs may be incurred in connection with the joint venture. Although we expect that the realization of benefits related to the joint venture will offset such costs and expenses over time, no assurances can be made that this net benefit will be achieved in the near term, or at all.

Our quarterly and annual operating results may fluctuate due to the costs and expenses of acquiring and integrating Crackle's business. We may require additional debt or equity financing, resulting in additional leverage or dilution of ownership.

Additionally, Crackle has certain protective voting rights in the joint venture. Certain corporate actions require supermajority approval of the board of managers of Crackle Plus, including the manager appointed by Crackle. As a result, our investment in our joint venture involves risks that are different from the risks involved in our independent operations. These risks include the possibility that Crackle has economic or business interests or goals that are or become inconsistent with our economic or business interests or goals; or that the joint venture is in a position to take action contrary to our instructions, requests, policies or objectives. The joint venture may also incur unexpected liabilities and the joint venture may agree to take actions that reduce our return on investment or takes action that harm our reputation or restrict our ability to run our business.

The joint venture agreement between us and Crackle includes a put arrangement with respect to Crackle's membership interests in the joint venture. At certain times and on the terms specified in the joint venture's operating agreement, Crackle has a put right to cause us to purchase all such membership interests. We may pay the purchase price for Crackle's membership interests in cash or in shares of Series A preferred stock, at our option. If we are required to purchase Crackle's joint venture membership interests, we could choose to make significant cash payment, or our other preferred stockholders could see their holdings diluted and our financial condition and the price of our Series A preferred stock may be adversely affected.

## **Risks Related to our Capital Stock:**

### ***Our chairman and chief executive officer effectively controls our company.***

We have two classes of common stock — Class A common stock, each share of which entitles the holder thereof to one vote on any matter submitted to our stockholders, and Class B common stock, each share of which entitles the holder thereof to ten votes on any matter submitted to our stockholders. Our chairman and chief executive officer, William J. Rouhana, Jr., has control over the vast majority of all the outstanding voting power as represented by our outstanding Class B and Class A common stock and effectively controls CSS Holdings and CSS, which controls CSS Productions, and, in turn, our company. Further, our bylaws provide that any member of our board may be removed with or without cause by the majority of our outstanding voting power, thus Mr. Rouhana exerts significant control over our board. This concentration of ownership and decision making may make it more difficult for other stockholders to effect substantial changes in our company and may also have the effect of delaying, preventing or expediting, as the case may be, a change in control of our company.

### ***We may issue shares of our capital stock or debt securities in the future, whether to complete any acquisition, a business combination or to raise additional funds, which would reduce the equity interest of our stockholders and might cause a change in control of our ownership.***

Our certificate of incorporation authorizes the issuance of up to 70 million shares of Class A common stock, par value \$.0001 per share, 20 million shares of Class B common stock, par value \$.0001 per share, and 10 million shares of preferred stock, par value \$.0001 per share, of which 1,500,000 shares have been designated 9.75% Series A Cumulative Redeemable Perpetual Preferred Stock (“Series A preferred stock”). We anticipate designating an additional 2,000,000 shares of preferred stock as Series A preferred stock in connection with the consummation of the Contribution Agreement. As of the date of this Report, we have 65,772,260 authorized but unissued shares of our Class A common stock remaining available for issuance, 12,182,762 authorized but unissued shares of our Class B common stock remaining available for issuance and 9,081,503 authorized but unissued shares of our preferred stock remaining available for issuance immediately after the offering. We also may issue a substantial number of additional shares of our common stock or preferred stock, or a combination of common and preferred stock, to raise additional funds or in connection with any acquisition or business combination in the future.

Additionally, under the terms of the Contribution Agreement, we have agreed to issue to Crackle’s Parent, CPE Holdings Inc. (“CPEH”) warrants to purchase an aggregate of 4 million shares of our Class A common stock, and we may be required to issue to Crackle, Inc. up to 200,000 shares of Series A preferred stock as reimbursement for expenses in connection with the creation of the joint venture and up to an aggregate of 1,600,000 shares of Series A preferred stock in the event that Crackle elects to exchange Crackle’s membership interest in the joint venture in 12 to 18 months.

### ***Our outstanding warrants may have an adverse effect on the market price of our common stock.***

We have outstanding Class W warrants to purchase up to an aggregate of 678,822 shares of Class A common stock and Class Z warrants to purchase up to an aggregate of 130,618 shares of Class A common stock. The sale, or even the possibility of sale, of the Class W warrants and the Class Z warrants or the shares underlying the Class W warrants and the Class Z warrants, could have an adverse effect on the market price for our securities or on our ability to obtain future public financing. Furthermore, we might issue warrants or other securities convertible or exchangeable for shares of common stock in the future in order to raise funds or to effect acquisitions or business combinations. If and to the extent our warrants are exercised, or we issue additional securities to raise funds or consummate any acquisition or business combination, you may experience dilution to your holdings. We will issue more warrants to CPEH as part of the Crackle transaction. We will grant 4 million warrants to CPEH at prices above the current market price. The exercise of certain warrants is subject to shareholder approval, to the extent that the shares issuable upon exercise exceed 19.9% of our outstanding common stock on the date of issuance.

***We may not pay any dividends on our common stock.***

We have not paid any cash dividends on our shares of common stock to date. The payment of cash dividends on our common stock in the future will be dependent upon our revenue and earnings, if any, capital requirements and general financial condition, our obligation to pay dividends on our Series A preferred stock, as well as the limitations on dividends and distributions that exist under the laws and regulations of the State of Delaware and will be within the discretion of our board of directors. As a result, any gain you may realize on our common stock (including shares of common stock obtained upon exercise of our warrants) may result solely from the appreciation of such shares.

***We may not be able to pay dividends on the Series A preferred stock if we fall out of compliance with our loan covenants and are prohibited by our bank lender from paying dividends.***

Our senior secured term loan and revolving line of credit agreement (the “Commercial Loan”) with Patriot Bank, N.A. requires us to maintain a minimum debt service coverage ratio. Related to this obligation, the Commercial Loan contains a negative covenant that restricts our ability to make dividend payments and other distributions and payments to stockholders and certain other people if such payments, distributions or expenditures would result in an event of default under the Commercial Loan or any other indebtedness, or would exceed our net earnings in excess of its debt service obligations. We are currently in compliance with all of our covenants under the Commercial Loan .

***We must adhere to prescribed legal requirements and also have sufficient cash in order to be able to pay dividends on our Series A preferred stock.***

In accordance with Section 170 of the Delaware General Corporation Law, we may only declare and pay cash dividends on the Series A preferred stock if we have either net profits during the fiscal year in which the dividend is declared and/or the preceding fiscal year, or a “surplus”, meaning the excess, if any, of our net assets (total assets less total liabilities) over our capital. We can provide no assurance that we will satisfy such requirements in any given year. Further, even if we have the legal ability to declare a dividend, we may not have sufficient cash to pay dividends on the Series A preferred stock. Our ability to pay dividends may be impaired if any of the risks described herein actually occur. Also, payment of our dividends depends upon our financial condition and other factors as our board of directors may deem relevant from time to time. We cannot assure you that our businesses will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay dividends on the Series A preferred stock.

***If our securities become subject to the SEC’s penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.***

If at any time we have net tangible assets of \$5,000,000 or less and our Class A common stock has a market price per share of less than \$5.00, transactions in our securities may be subject to the “penny stock” rules promulgated under the Exchange Act. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser’s written agreement to the transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in “penny stocks” and which describe the market for these “penny stocks” as well as a purchaser’s legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a “penny stock” can be completed.

If our securities become subject to these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. As a result, the market price of our securities may be depressed, and you may find it more difficult to sell our securities.

***Nasdaq could delist our Class A common stock from quotation on its exchange, which could limit investors' ability to sell and purchase our shares and subject us to additional trading restrictions.***

Our Class A common stock is currently listed on Nasdaq, a national securities exchange. If our Class A common stock is not listed on Nasdaq or another national securities exchange at any time after the date hereof, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our Class A common stock;
- reduced liquidity with respect to our Class A common stock;
- our Series A preferred stock would be required to meet more stringent listing requirements as a "primary equity security";
- a determination that our Class A common stock is "penny stock" which will require brokers trading in our shares to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our common stock;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

***If Nasdaq delists the Series A preferred stock, investors' ability to make trades in the Series A preferred stock could be limited.***

Our Series A preferred stock is currently listed on the Nasdaq Global Market under the symbol "CSSEP." We cannot assure you that the Series A preferred stock will continue to be listed on the Nasdaq Global Market in the future. In order to continue listing the Series A preferred stock on the Nasdaq Global Market, we must maintain certain financial, distribution, and share price levels. Generally, this means having a minimum number of publicly held shares of Series A preferred stock (generally 100,000 shares), a minimum market value (generally \$1,000,000) and a minimum number of holders (generally 100 public holders). If our Class A common stock is delisted from the Nasdaq Global Market, the Series A preferred stock would be required to meet the more stringent initial listing standards of the Nasdaq Global Market for a Primary Equity Security, including a minimum number of publicly held shares of Series A preferred stock (generally 1,100,000 shares) and a minimum number of holders (generally 400 public holders). If we are unable to meet these standards and the Series A preferred stock is delisted from the Nasdaq Global Market, we may apply to list our Series A preferred stock on the Nasdaq Capital Market. If we are also unable to meet the listing standards for the Nasdaq Capital Market, we may apply to have our Series A preferred stock quoted by OTC Markets. If we are unable to maintain listing for the Series A preferred stock, the ability to transfer or sell shares of the Series A preferred stock will be limited and the market value of the Series A preferred stock will likely be materially adversely affected. Moreover, since the Series A preferred stock has no stated maturity date, investors may be forced to hold shares of the Series A preferred stock indefinitely while receiving stated dividends thereon when, as and if authorized by our board of directors and paid by us with no assurance as to ever receiving the liquidation value thereof.

***The Series A preferred stock ranks junior to all of our indebtedness and other liabilities.***

In the event of our bankruptcy, liquidation, dissolution or winding-up of our affairs, our assets will be available to pay obligations on the Series A preferred stock only after all of our indebtedness and other liabilities have been paid. The rights of holders of the Series A preferred stock to participate in the distribution of our assets will rank junior to the prior claims of our current and future creditors and any future series or class of preferred stock we may issue that ranks senior to the Series A preferred stock. Also, the Series A preferred stock effectively ranks junior to all existing and future indebtedness and to the indebtedness and other liabilities of our existing subsidiaries and any future subsidiaries. Our existing subsidiaries are, and future subsidiaries would be, separate legal entities and have no legal obligation to pay any amounts to us in respect of dividends due on the Series A preferred stock.

We have incurred and may in the future incur substantial amounts of debt and other obligations that will rank senior to the Series A preferred stock. As of the date of this Annual Report on Form 10-K, our total liabilities (excluding contingent consideration) equaled approximately \$17.3 million, including \$7.9 million owed under a commercial loan facility consisting of a \$4.4 million term loan and \$3.5 million owed under our Commercial Loan. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets to pay amounts due on any or all of the Series A preferred stock then outstanding.

***The market for our Series A preferred stock may not provide investors with adequate liquidity.***

Liquidity of the market for the Series A preferred stock depends on a number of factors, including prevailing interest rates, our financial condition and operating results, the number of holders of the Series A preferred stock, the market for similar securities and the interest of securities dealers in making a market in the Series A preferred stock. We cannot predict the extent to which investor interest in our Company will maintain a trading market in our Series A preferred stock, or how liquid that market will be. If an active market is not maintained, investors may have difficulty selling shares of our Series A preferred stock.

***We are generally restricted from issuing shares of other series of preferred stock that rank senior the Series A preferred stock as to dividend rights, rights upon liquidation or voting rights, but may do so with the requisite consent of the holders of the Series A preferred stock and, further, no such consent is required for the issuance of additional series of preferred stock ranking pari passu with the Series A preferred stock.***

Under the Certificate of Designations of our Series A preferred stock, we are allowed to issue shares of other series of preferred stock that rank above the Series A preferred stock as to dividend payments and rights upon our liquidation, dissolution or winding up of our affairs, only with the approval of the holders of at least 66.67% of the outstanding Series A preferred stock. Additionally, agreements that we have entered into with Crackle, Inc. limit our ability to issue shares of other series of preferred stock that rank above the Series A preferred stock as to payments, distributions, or rights on liquidation, and we are not permitted to issue any shares of Series A preferred stock at a per share price below the stated value of the Series A preferred stock, which is \$25.00 per share. However, we are allowed to issue additional shares of Series A preferred stock and/or additional series of preferred stock that would rank equally to the Series A preferred stock as to dividend payments and rights upon our liquidation or winding up of our affairs without first obtaining the approval of the holders of our Series A preferred stock or obtaining the approval of Crackle, Inc. The issuance of additional shares of Series A preferred stock and/or additional series of preferred stock could have the effect of reducing the amounts available to the Series A preferred stock upon our liquidation or dissolution or the winding up of our affairs. It also may reduce dividend payments on the Series A preferred stock if we do not have sufficient funds to pay dividends on all Series A preferred stock outstanding and other classes or series of stock with equal or senior priority with respect to dividends. Future issuances and sales of senior or pari passu preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for the Series A preferred stock and our Class A common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

***Market interest rates may materially and adversely affect the value of the Series A preferred stock.***

One of the factors that will influence the price of the Series A preferred stock is the dividend yield on the Series A preferred stock (as a percentage of the market price of the Series A preferred stock) relative to market interest rates. Continued increase in market interest rates may lead prospective purchasers of the Series A preferred stock to expect a higher dividend yield (and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for dividend payments). Thus, higher market interest rates could cause the market price of the Series A preferred stock to materially decrease.

***Holders of the Series A preferred stock may be unable to use the dividends-received deduction and may not be eligible for the preferential tax rates applicable to “qualified dividend income.”***

Distributions paid to corporate U.S. holders of the Series A preferred stock may be eligible for the dividends-received deduction, and distributions paid to non-corporate U.S. holders of the Series A preferred stock may be subject to tax at the preferential tax rates applicable to “qualified dividend income,” only if we have current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Additionally, we may not have sufficient current earnings and profits during future fiscal years for the distributions on the Series A preferred stock to qualify as dividends for U.S. federal income tax purposes. If the distributions fail to qualify as dividends, U.S. holders would be unable to use the dividends-received deduction and may not be eligible for the preferential tax rates applicable to “qualified dividend income.” If any distributions on the Series A preferred stock with respect to any fiscal year are not eligible for the dividends-received deduction or preferential tax rates applicable to “qualified dividend income” because of insufficient current or accumulated earnings and profits, it is possible that the market value of the Series A preferred stock might decline.

***A reduction in the credit rating of our Series A preferred stock could adversely affect the pricing and liquidity of such stock.***

Any downward revision or withdrawal of the credit rating on our Series A preferred stock could materially adversely affect market confidence in such stock and could cause material decreases in the market price of such stock and could diminish market liquidity. Egan-Jones has initially rated our Series A preferred stock as BBB(-). Neither Egan-Jones nor any other agency is under any obligation to maintain any rating assigned to our Series A preferred stock and such rating could be revised downward or withdrawn at any time for reasons of general market changes or changes in our financial condition or for no reason at all.

***A reduction in the credit rating of our Series A preferred stock could adversely affect our ability to borrow from other sources.***

Our borrowing costs and our access to sources of debt financing could be significantly affected by any public credit rating applicable to us or our securities. Ratings, such as that initially assigned by Egan-Jones to our Series A preferred stock, can be reduced or withdrawn at any time, giving rise to negative credit implications with respect to our company. A reduction in our credit ratings could increase our borrowing costs and limit our access to the capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity.

***We may redeem the Series A preferred stock.***

On or after June 27, 2023, we may, at our option, redeem the Series A preferred stock, in whole or in part, at any time or from time to time. Also, upon the occurrence of a change of control prior to June 27, 2023, we may, at our option, redeem the Series A preferred stock, in whole or in part, within 120 days after the first date on which such change of control occurred. We may have an incentive to redeem the Series A preferred stock voluntarily if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the dividend rate on the Series A preferred stock. If we redeem the Series A preferred stock, then from and after the redemption date, dividends will cease to accrue on shares of Series A preferred stock, the shares of Series A preferred stock shall no longer be deemed outstanding and all rights as a holder of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

***A holder of Series A preferred stock has extremely limited voting rights.***

The voting rights for a holder of Series A preferred stock are limited. Our shares of Class A common stock and Class B common stock vote together as a single class and are the only class of our securities that carry full voting rights. Mr. Rouhana, our chairman of the board and chief executive officer, beneficially owns the vast majority of the voting power of our outstanding common stock. As a result, Mr. Rouhana exercises a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without his support, which in turn could reduce the price of our Series A preferred stock.

Voting rights for holders of the Series A preferred stock exist primarily with respect to the ability to elect, voting together with the holders of any other series of our preferred stock having similar voting rights, two additional directors to our board of directors, subject to certain limitations in the event that eighteen monthly dividends (whether or not consecutive) payable on the Series A preferred stock are in arrears, and with respect to voting on amendments to our certificate of incorporation, including the certificate of designations relating to the Series A preferred stock, that materially and adversely affect the rights of the holders of Series A preferred stock or authorize, increase or create additional classes or series of our capital stock that are senior to the Series A preferred stock.

***The Series A preferred stock is not convertible into Class A common stock, including in the event of a change of control, and investors will not realize a corresponding upside if the price of the Class A common stock increases.***

The Series A preferred stock is not convertible into shares of Class A common stock and earns dividends at a fixed rate. Accordingly, an increase in market price of our Class A common stock will not necessarily result in an increase in the market price of our Series A preferred stock. The market value of the Series A preferred stock may depend more on dividend and interest rates for other preferred stock, commercial paper and other investment alternatives and our actual and perceived ability to pay dividends on, and in the event of dissolution satisfy the liquidation preference with respect to, the Series A preferred stock.

**ITEM 1B. Unresolved Staff Comments**

Not applicable.

**ITEM 2. Properties**

We are party to the CSS Management Agreement under which the Company receives from CSS and affiliate companies' various integral operational services, including accounting, legal, marketing, management, data access and back office systems, and requires CSS to provide office space and equipment usage. See Item 7 – “*Management’s Discussions and Analysis of Financial Condition and Results of Operations – Affiliate Resources and Obligations – CSS Management Agreement*”.

CSS’ headquarters are located in an approximately 6,000 square foot leased facility in Cos Cob, Connecticut, the usage of which is provided to the Company under the terms of the CSS Management Agreement. The CSS headquarters lease expires in 2024. In addition, the Company leases office space of approximately 8,500 square feet in New York, New York, under a lease that expires in 2020.

### **ITEM 3. Legal Proceedings**

In the normal course of business, from time-to-time, we may become subject to claims in legal proceedings.

Legal proceedings are subject to inherent uncertainties, and an unfavorable outcome could include monetary damages, and in such event, could result in a material adverse impact on our business, financial position, results of operations, or cash flows.

We are not currently, and have not been since inception, subject to any material legal claims or actions. Further, we have no knowledge of any material pending legal actions and we do not believe we are currently a party to any pending material legal claims or actions.

### **ITEM 4. Mine Safety Disclosures**

Not applicable.

## **PART II**

### **ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our Class A common stock is listed on the Nasdaq Global Market ("Nasdaq") under the symbol "CSSE" and our Series A preferred stock is listed on Nasdaq under the symbol "CSSEP."

#### **Holders**

We had approximately 42 holders of record of Class A common stock as of March 28, 2019. This does not reflect persons or entities that hold our Class A common stock in nominee or "street" name through various brokerage firms. We had three holders of record of Class B common stock as of March 28, 2019, including Chicken Soup for the Soul Productions, LLC ("CSS Productions"), our immediate parent company.

#### **Dividends**

##### Series A Preferred Stock Dividends

We declared monthly cash dividends of \$0.2031 per share on its Series A preferred stock to holders of record as of each month end. The monthly dividends for each month were paid on approximately the 15th day subsequent to each respective month end. The total amount of dividends declared and paid were \$1.1 and \$0.9 million, respectively, as of December 31, 2018. The total amount of dividends declared and paid through March 2019 was approximately \$0.6 million.

##### Class A and Class B Common Stock Dividends

We declared a special one-time cash dividend of \$0.45 per share on shares of Class A and Class B common stock to holders of record of such stock as of August 6, 2018. The special one-time dividend totaling approximately \$5.2 million was paid on August 10, 2018. As a result of the special one-time dividend, a payment of approximately \$3.4 million was made to CSS as a holder of Class B common stock.

## **Recent Sales of Unregistered Securities**

### **Issuer Purchases of Equity Securities**

On March 27, 2018, our board of directors approved a stock repurchase program (the “Repurchase Program”) that will enable the Company to repurchase up to \$5 million of our Class A common stock prior to April 30, 2020. All open market repurchases under the Repurchase Program shall be made in compliance with Rule 10b-18 promulgated under the Exchange Act. Under the Repurchase Program, we may purchase shares of our Class A common stock through various means, including open market transactions, privately negotiated transactions, tender offers or any combination thereof. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors. The Repurchase Program may be modified, suspended or terminated at any time by our board of directors. Repurchases under the Repurchase Program will be funded from our existing cash and cash equivalents or future cash flow and equity or debt financings.

Any repurchase activity will depend on many factors such as our working capital needs, cash requirements for investments, debt repayment obligations, economic and market conditions at the time, including the price of our common stock, and other factors that we consider relevant. Our stock repurchase program may be accelerated, suspended, delayed or discontinued at any time.

As of December 31, 2018, the Company repurchased 74,235 shares of its Class A common stock pursuant to the Repurchase Program at a cost of approximately \$0.6 million. No share repurchases were made during the fourth quarter ended December 31, 2018.

## ITEM 6. Selected Financial Data

Not applicable.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our consolidated financial condition and results of operations should be read together with our consolidated financial statements and related notes appearing elsewhere in this Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Report on Form 10-K, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements involving risks and uncertainties and should be read together with the "Risk Factors" section of this Report on Form 10-K. Such risks and uncertainties could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Recent Developments

#### *Formation of Joint Venture with Crackle*

In March 2019, we entered into an agreement to form a joint venture with Crackle, Inc., which is currently a business of SPT. In connection with the joint venture, Crackle will, if the joint venture is consummated, contribute certain of the assets of its leading AVOD network to the joint venture. Pursuant to the Contribution Agreement, we agreed to contribute assets relating to our VOD business and to assign to the joint venture the rights to use the Brand in VOD. The combined VOD businesses will be branded "Crackle Plus". See *Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Segments*.

#### *Acquisition of A Plus*

On December 28, 2018, we completed the acquisition of 100% of the outstanding capital stock of A Sharp Inc (d/b/a "A Plus"). A Plus is a digital media company that develops and distributes high-quality, empathetic short-form videos and articles to millions of people worldwide, with an emphasis on positive journalism and social change. A Plus had reach of nearly 3 billion content views in 2018 and increased its social media by 10% to over 3.2 million followers. A Plus was founded by and is chaired by renowned actor and investor, Ashton Kutcher.

Prior to the acquisition, A Plus was majority owned by an affiliate of our parent company, Chicken Soup for the Soul, LLC ("CSS"). In September 2016, we entered into a distribution agreement with A Plus (the "A Plus Distribution Agreement"), pursuant to which we received the exclusive worldwide rights to distribute all video content (in any and all formats) and all editorial content (including articles, photos and still images) created, produced, edited or delivered by A Plus. Under the terms of the Distribution Agreement, we received a net distribution fee equal to 30% of gross revenue generated by the distribution of the A Plus video content.

As a result of the acquisition, A Plus is now a wholly owned subsidiary of the company, and the A Plus Distribution Agreement has been terminated, resulting in our retention of 100% of the revenues generated by A Plus and projected cost savings of over \$5 million for our company in 2019 thereby significantly enhancing our future Adjusted EBITDA.

Pursuant to the terms of the SPA, we acquired all the outstanding shares of common stock of A Plus (the "A Plus Shares") for an aggregate purchase price of \$15 Million (the "Purchase Price"). The Purchase Price was paid as follows: (a) the issuance of 350,299 Class A common stock at a share price of \$8.35 totaling a value of approximately \$2,925,000 to the individual sellers and (b) to CSS in consideration of all of its A Plus Shares, the balance remaining as an offset to amounts due pursuant to the intercompany cash management system.

The Purchase Price otherwise payable by the Company was reduced by approximately \$3.3 million of advances owed by A Plus to the Company. The balance of the cash portion of the Purchase Price was used to reduce all open amounts under the intercompany cash management account.

#### *Transaction impact*

We believe that the total purchase price will be less than the strategic value to the Company which takes into account synergies and cost savings which may benefit the Company. Strategic value considers the difficulty in replicating the highly-branded, celebrity-endorsed A Plus assets and its related captive viewership base, which our company believes would cost a multiple of the purchase price in the acquisition and time to replicate. We also believe that we will save approximately \$5.0 million per year in cost of distribution.

The acquisition of A Plus is expected to have a material positive impact on the Company's consolidated financial position, results of operations and cash flows.

The Company accounted for its acquisition of A Plus in accordance with ASC Subtopic 805-50, “Transactions between entities under common control”. ASC 805-50 provides guidance about accounting for transactions between entities under common control, including the determination of the basis at which the receiving entity in a “common control transaction” will record the net assets or business transferred and guidance on preparing financial statements and related disclosures. Specifically, when accounting for a transfer of assets or the exchange of shares between entities under common control, the entity receiving the net assets or equity interests shall initially measure such assets and liabilities transferred at their carrying amounts at the date of transfer and financial statements of the acquirer (receiving entity) will be restated to reflect the transaction from the date of common ownership. The financial statements of the receiving entity shall report results of operations for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Thus, the company results of operations for the period will comprise of those of the previously separate entities combined from the beginning of the period to the date the transfer was completed and those of the combined operations from the date to the end of the period. Financial statements and financial information presented for prior years also shall be retrospectively adjusted to furnish comparative information as required. All adjusted financial statements and financial summaries shall indicate clearly that financial data of previously separate entities are combined. However, the comparative information in prior years shall only be adjusted for periods during which the entities were under common control.

The effects of intra-entity transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings at the beginning of the periods presented shall be eliminated to the extent possible.

#### *Dividends*

We declared monthly cash dividends of \$0.2031 per share on its Series A preferred stock to holders of record as of each month end for June through December 2018. The monthly dividends for each month were paid on approximately the 15<sup>th</sup> day subsequent to each respective month end. The total amount of dividends declared and paid were approximately \$1.1 and \$0.9 million, through December 31, 2018.

#### *Repurchase Program*

On March 27, 2018, our board of directors approved a stock repurchase program (the “Repurchase Program”) that enables us to repurchase up to \$5.0 million of our Class A common stock prior to April 30, 2020. All repurchases under the Repurchase Program shall be made in compliance with Rule 10b-18 promulgated under the Exchange Act.

Under the Repurchase Program, we may purchase shares of Class A common stock through various means, including open market transactions, privately negotiated transactions, tender offers or any combination thereof. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with our requirements, general business conditions and other factors. The Repurchase Program may be modified, suspended or terminated at any time by our board of directors. Repurchases under the Repurchase Program will be funded from our existing cash and cash equivalents or future cash flow and equity or debt financing.

As of December 31, 2018, we have repurchased 74,235 shares of our Class A common stock pursuant to the Repurchase Program.

#### **Business Segments**

CSSE is a growing media company building online video-on-demand (“VOD”) networks that provide positive and entertaining video content for all screens. We also curate, produce and distribute long- and short-form video content that brings out the best of the human spirit, and distribute the online content of our subsidiary, A Plus. We are aggressively growing our business through a combination of organic growth, licensing and distribution arrangements, acquisitions and strategic relationships. We are also expanding our partnerships with sponsors, television networks and independent producers. Our subsidiary, Screen Media, is a leading global independent television and film distribution company, which owns one of the largest independently owned television and film libraries. We also own Popcornflix®, a popular online advertiser-supported VOD (“AVOD”) network, Pivotshare, a subscription-based VOD (“SVOD”) network, Truli.com, a faith-based AVOD network, and four additional AVOD networks, which collectively have rights to exhibit tens of thousands of hours of movies and television episodes.

All of our online networks are available for all screens, including mobile devices. We expect the increasingly widespread penetration of 5G mobile networks, with virtually no latency and 10 times the download capacity of 4G, to be an accelerator of mobile video consumption.

We have an exclusive, perpetual and worldwide license agreement (“CSS License Agreement”) with our intermediate parent, CSS, a publishing and consumer products company, to create and distribute video content under the Chicken Soup for the Soul® brand (the “Brand”).

Since our inception in January 2015, our business has grown rapidly. For the full year 2018, our net revenue was \$26.9 million, as compared to 2017 net revenue for the full year of \$10.7 million. This increase was primarily due to the revenue impact of Screen Media, the acquisition of Pivotshare in August of 2018, and increased production revenue. We had net losses of \$2.0 million in 2018, as compared to net income of \$21.1 million in 2017. Our 2018 Adjusted EBITDA (excluding the accounting impact of our acquisition of A Plus) was \$11.3 million for the full year, as compared to full year 2017 Adjusted EBITDA of \$4.0 million (excluding a gain on bargain purchase of \$24.3 million related to the 2017 Screen Media acquisition).

#### *Online Networks*

Our acquisition of Screen Media accelerated our entry into the direct-to-consumer VOD market through Popcornflix® which has an extensive footprint with apps that have been downloaded more than 27 million times.

Popcornflix® is one of the largest AVOD services. Under the Popcornflix® brand, we operate a series of direct-to consumer advertising supported channels. On Popcornflix®, we have the rights to exhibit more than 3,000 films and approximately 60 television series comprised of approximately 1,500 episodes, with new content added regularly.

As a “free-to-consumer” digital streaming channel, Popcornflix® is an extremely popular online video platform that can be found on the web, iPhones and iPads, Android products, Roku, Xbox, Amazon Fire, Apple TV, Chromecast and Samsung and Panasonic Internet-connected televisions, among others. Popcornflix® is currently available in 56 countries and territories, including the United States, United Kingdom, Canada, Australia, the Scandinavian countries, Germany, France, Hong Kong and Singapore, with additional countries and territories to be added.

While Popcornflix® is currently an advertiser-supported VOD network, we expect to also expand in subscription-based VOD networks.

Our entry into subscription-based VOD was recently initiated by our acquisition of the Pivotshare VOD network in August 2018. Pivotshare is comprised of a series of subscription-based VOD channels with 28,000 hours of programming. The network generates approximately \$2.5 million in gross billings and has approximately 25,000 paid subscriptions with average monthly billings of \$9 per subscription.

In October 2018, we completed the acquisition of the assets of Truli Media Corp., a global family-friendly and faith-based online video channel (“Truli”). The Truli content library includes 2,500 hours of programming and brings us an additional 630,000 Facebook fans. Truli’s content fits strategically in our plans and includes film, television, music videos, sports, comedy, and educational material. With the completion of the acquisition, Truli became our seventh advertiser-supported VOD channel.

On March 27, 2019, we entered into a Contribution Agreement with Crackle, Inc., which is currently a business of SPT, a wholly-owned subsidiary of SPT, one of the television industry’s leading content providers, to contribute our respective VOD businesses to a newly formed joint venture entity, Crackle Plus, LLC. The combined VOD businesses will be branded “Crackle Plus”. Pursuant to the Contribution Agreement, if the transaction is consummated, we agreed to contribute assets relating to our VOD business and to assign to Crackle Plus certain rights under our trademark licenses with CSS. Crackle agreed, if the transaction is consummated, to contribute to Crackle Plus certain assets relating to the Crackle VOD business.

We believe that Crackle Plus will be one of the largest providers of free AVOD service in the United States as it is expected to launch with approximately 10 million monthly unique users on its owned and operated networks plus millions more on its advertising representation network. We believe Crackle Plus will start with approximately 26 million registered users. Crackle Plus will be highly competitive in the growing AVOD space with an anticipated over 100 VOD networks and more than 90 content partnerships, assuming full contribution by the parties upon the terms of, and after the closing of, the Contribution Agreement. We expect that upon consummation of the closing, Crackle Plus will stream over 1.3 billion minutes per month. The addition of Crackle Plus is expected to more than double our overall annual revenue and will add meaningful EBITDA. The transaction is expected to close on or around May 2019.

#### *Television and Film Distribution*

We distribute television series and films worldwide through Screen Media. We own the copyright or long-term distribution rights to approximately 3,500 hours of television series and feature films, representing one of the largest independently owned libraries of filmed entertainment in the world. We distribute our television series and films through direct relationships across all media, including theatrical, home video, pay-per-view, free, cable and pay television, VOD and emerging digital media platforms worldwide.

Screen Media’s distribution capabilities across all media will allow us to distribute our produced television series directly and eliminate the distribution fees (as much as 30% of revenue) that we currently pay to third parties for distribution of the rights we retain when we produce series with our sponsors. We believe that the cost savings from Screen Media’s distribution capabilities will enhance our revenue and profits from our produced television series.

We have distribution licensing agreements with numerous VOD services across all major platforms, such as cable and satellite VOD and Internet VOD, which includes TVOD for rentals or purchases of films, AVOD for free-to-viewer streaming of films supported by advertisements and SVOD for unlimited access to films for a monthly fee.

Our cable and satellite VOD distribution agreements include those with DirecTV, Optimum (Altice USA), Verizon and In Demand (owned by Comcast, Charter and Cox). Our Internet VOD distribution agreements include those with Amazon, iTunes, Samsung, YouTube, Hulu, Xbox, Netflix, Sony and Vudu, among others.

We are rapidly expanding international distribution of our content through agreements with our film and video content partners. Using this approach provides us with access to a diverse pool of creative ideas for new video content projects and allows us to scale our business on a variable cost basis. In addition, this approach provides us with committed funding prior to moving forward with a project. Since we seek to secure both the committed funding and production capabilities for our video content prior to moving forward with a project, we have high visibility into the profitability of a particular project before committing to proceed with such project. In addition, we take limited financial risk on developing our projects (usually less than \$25,000 per project).

As described below in “*Results of Operations for the Year Ended December 31, 2018 Compared with the Year Ended December 31, 2017*,” under “*Revenue*”, we have created and distributed six episodic television series as of December 31, 2018: *Chicken Soup for the Soul’s Hidden Heroes* (“*Hidden Heroes*”); *Project Dad*, a *Chicken Soup for the Soul Original Series* (“*Project Dad*”); *Being Dad*, a *Chicken Soup for the Soul Original Series* (“*Being Dad*”); *Vacation Rental Potential*, *Going From Broke*, the first of two series to be executive produced by Ashton Kutcher, and *Chicken Soup for the Soul’s Animal Tales*.

We also derive online networks revenue from A Plus, which develops and distributes high-quality, empathetic short-form videos and articles to millions of people worldwide. A Plus allows us to accelerate the growth of our video library by providing us with content developed and distributed by A Plus that is complementary to the Brand. In December 2018, we acquired all of the outstanding capital stock of A Plus, an affiliate of ours. Prior to the acquisition, A Plus was majority owned by an affiliate of CSS and, pursuant to a Distribution Agreement, we had the exclusive worldwide rights to distribute all video content (in any and all formants) and all editorial content (including articles, photos and still images) created, produced, edited or delivered by A Plus, and we received a net distribution fee equal to 30% of gross revenue generated by the distribution of the A Plus video content. As a result of the acquisition, the Distribution Agreement was terminated, resulting in our retention of 100% of the revenues generated by A Plus going forward, along with projected cost savings of over \$5 million for our company in 2019.

### **JOBS Act Accounting Election**

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

### **Reporting Segment**

We operate in one reportable segment, the production and distribution of video content, and currently operate in the United States and internationally. We have a presence in over 56 countries and territories worldwide and intend to continue to sell our video content internationally.

### **Seasonality and Cyclicity**

Revenue derived from our long-form and short-form production activities has been cyclical as a result of the timing of sponsorship agreements funding those activities. To date, this has affected our production schedules and hence, our revenue, since we recognize revenue as each episode becomes available for delivery or becomes available for, and for short-form online videos, as the videos are posted to a website for viewing. As a result, to date we have reported the vast majority of our revenue in the fourth quarter of each year.

For 2018 and beyond, we are seeking to sign some sponsorship contracts, and to begin production of some series, earlier in the year than in recent years which should result in more balanced revenue across the third and fourth quarters of the years. Additionally, revenue from our online networks and television and film distribution segment are more evenly spaced through the year which should result in more balanced revenue and Adjusted EBITDA across all quarters of each year. While the operating results in these areas are not as seasonal and therefore are more evenly distributed over fiscal quarters, the fourth quarter is generally the strongest quarter and the second quarter is generally the weakest quarter.

## Financial Results of Operations

### *Revenue*

Our online network revenue is derived from content generated by online streaming of Screen Media's films and television programs on YouTube and Popcornflix®, and recently acquired subsidiaries A Plus, and Pivotshare. Our television and film distribution revenue are derived primarily from our distribution of television series and films in all media, including theatrical, home video, pay-per-view, free, cable and pay television, VOD and new digital media platforms worldwide as well as owned and operated networks, (i.e., Popcornflix® and A Plus). Our television and short-form video production revenue is derived primarily from corporate and charitable sponsors that compensate us for the production of half-hour or one-hour episodic television programs as well as short-form video content.

### *Cost of Revenue*

Our cost of revenue is derived from the amortization of capitalized programming and film library costs relating to both television and short-form online videos as well as film library costs. We record cost of revenue based on the individual-film-forecast method. This method requires costs to be amortized in the proportion that current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production or film. Our costs are fixed for each series before we begin production. We have a growing list of independent production companies that we work with. We generally acquire distribution rights of our films covering periods of ten or more years. Cost of revenue also includes distribution costs for television series and films and non-cash amortization of film library costs.

### *Selling, General and Administrative Expenses*

Our selling, general and administrative expenses include salaries and benefits, non-cash share-based compensation, public relations and investor relations fees, outside director fees, professional fees and other overhead. A significant portion of selling, general and administrative expenses are covered by our management agreement with CSS, as noted below.

### *Management and License Fees*

We pay management fees of five percent of our gross revenue to CSS pursuant to the CSS Management Agreement. CSS provides us with the operational expertise of its personnel, and we also receive other services, including accounting, legal, marketing, management, data access and back office systems, office space and equipment usage. We believe that the terms and conditions of the CSS Management Agreement are more favorable and cost effective to us than if we hired the full staff to operate the company.

We pay license and marketing support fees of five percent of our gross revenue to CSS pursuant to a License Agreement, which we refer to as the CSS License Agreement. Four percent of this fee is a recurring license fee for the right to use all video content of the Brand. One percent of this fee relates to marketing support activities through CSS' email distribution, blogs and other marketing and public relations resources. We believe that the terms and conditions of the CSS License Agreement, which provides us with the rights to use the trademark and intellectual property in connection with our video content, are more favorable to us than any similar agreement we could have negotiated with an independent third party.

### *Interest Expense*

Our interest expense is comprised of cash interest paid on the Credit Facility and Commercial Loan. On April 27, 2018, upon the closing of the Commercial Loan, the Credit Facility was repaid in full and the Credit Facility was terminated by us and the Lender. See "*Liquidity and Capital Resources*" below for a full description of the Credit Facility and Commercial Loan.

### *Income Taxes*

We provide for federal and state income taxes currently payable, as well as those deferred resulting from temporary differences between reporting income and expenses for financial statement purposes versus income tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable. The effect of the change in the tax rate, if it occurs, will be recognized as income or expense in the period of the enacted change in tax rate. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount that is more-likely-than-not to be realized.

**RESULTS OF OPERATIONS FOR THE YEAR ENDED  
DECEMBER 31, 2018 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2017**

The company completed the acquisition of A Plus, a subsidiary of our parent company, on December 28, 2018. The transaction was accounted for in accordance with ASC Subtopic 805-50, "Transactions between entities under common control". For transactions between entities under common control, the financial statements of the receiving entity are required to report results of operations for the period in which the transfer occurred as though the transfer of net assets had occurred at the beginning of the period. Thus, the company's results of operations for the period comprise of those of the previously separate entities combined from the beginning of the period to the date the transfer was completed and those of the combined operations from the date to the end of the period. Financial statements and financial information presented for prior years also has been retrospectively adjusted to furnish comparative information as required.

*Revenue*

The following table presents net revenue line items for the years ended December 31, 2018 and 2017 and the year-over-year dollar and percentage changes for those line items:

	Year ended December 31,		Year ended December 31,		Change Period over Period	
	2018	% of revenue	2017	% of revenue		
<b>Revenue:</b>						
Online networks	\$ 4,411,427	16%	\$ 796,664	7%	\$ 3,614,763	454%
Television and film distribution	13,188,560	49%	2,937,678	28%	10,250,882	349%
Television and short-form video production	10,152,020	38%	7,245,148	68%	2,906,872	40%
<b>Total revenue</b>	<b>27,752,007</b>	<b>103%</b>	<b>10,979,490</b>	<b>103%</b>	<b>16,772,517</b>	<b>153%</b>
Less: returns and allowances	(892,488)	-3%	(322,339)	-3%	(570,149)	177%
<b>Net revenue</b>	<b>\$ 26,859,519</b>	<b>100%</b>	<b>\$ 10,657,151</b>	<b>100%</b>	<b>\$ 16,202,368</b>	<b>152%</b>

Our net revenue increased by \$16.2 million, or 152%, for the year ended December 31, 2018 compared to 2017. This increase was primarily due to the inclusion of a full year of ownership of Screen Media's revenue and the growth of our online network audience, which resulted in significant and material increases in our television and film distribution revenue and online networks revenue.

Our online networks revenue increased by \$3.6 million, or 454%, for the year ended December 31, 2018 compared to 2017, primarily due to Screen Media's online streaming of films on Popcornflix and YouTube and the acquisition of Pivotshare. We recognize online network revenue when videos are posted to a website or VOD platform for viewing or as advertisements are viewed in connection with these videos.

Our television and film distribution revenue increased by \$10.3 million, or 349%, for the year ended December 31, 2018 compared to 2017, primarily due to Screen Media's licensing of television series and films in all media, including theatrical, home video, pay-per-view, free, cable and pay television, VOD and new digital media platforms worldwide. We acquired Screen Media in November 2017.

Our television and short-form video production revenue increased by \$2.9 million, or 40%, for the year ended December 31, 2018 compared to 2017, primarily due to the number of episodes that became available for delivery or became available for broadcast during the respective periods and licensing revenue earned on previously delivered episodes. We recognize television and short-form video production revenue as each episode becomes available for delivery or becomes available for broadcast or if already available, when an episode is licensed in other media or territories. We carried over significant revenue opportunities for our original series *Going From Broke*, *Chicken Soup for the Soul's Hidden Heroes* season 4, and *Chicken Soup for the Soul's Animal Tales* for 2019.

*Online network revenue*

Online network revenue was 16% and 7% of net revenue for the years ended December 31, 2018 and 2017, respectively. Our online revenue includes revenue generated from our online advertising-supported video on demand content on our owned and operated networks, Popcornflix® and YouTube and the subscription-based VOD third-party niche channels operating on our Pivotshare platform. Pivotshare had gross billings of \$0.9 million for the period beginning upon acquisition, and \$2.5 million for the full-year 2018. We only included our share of the gross billings in our revenue which was \$0.3 million

*Television and film distribution revenue*

Television and film distribution revenue was 49% and 28% of net revenue for the years ended December 31, 2018 and 2017, respectively. Our television and film distribution revenue are derived from Screen Media, comprised of revenue recognized from license sales in all media including theatrical, home video, pay-per-view, free, cable and pay television, VOD and new digital media platforms worldwide. Revenues from digital distribution and VOD platforms are recorded when revenue is reported by their respective platforms. Sales of DVD units are generally recorded upon their shipment to customers and provision for future returns and other allowances are established based upon historical experience.

*Television and short-form video production revenue*

Television and short-form video production revenue was 38% and 68% of net revenue for the years ended December 31, 2018 and 2017, respectively. We have now created 164 half-hours of *Chicken Soup for the Soul* original television productions and 132 short-form video productions which were created with sponsor funding while we retained significant rights to license all of this programming.

In 2018, the majority of our revenue in the category related to:

- *Chicken Soup for the Soul's Hidden Heroes* season three airing on The CW Network, the production of season four, and revenue relating to international distribution for seasons one, two and three,
- *Vacation Rental Potential* season one airing on A&E and FYI networks,
- *Vacation Rental Potential* season two airing on A&E and FYI networks beginning in January 2019,
- *Going from Broke* the first of two episodic series executive produced by Ashton Kutcher and
- *Chicken Soup for the Soul's Animal Tales* airing on the CW Network beginning in January 2019
- *Being Dad* streaming on Netflix

For episodic and short-form video production, revenue is recognized as each episode or short-form video becomes available for delivery or becomes available for broadcast.

With our growing library of *Chicken Soup for the Soul* original productions, we expect to be able to obtain an increasing percent of our television production revenue from library licensing as well as from newly created programs, including *Chicken Soup for the Soul's Animal Tales*, which began airing on the CW Network in January 2019.

**Cost of Revenue**

The following table presents cost of revenue line items for the years ended December 31, 2018 and 2017 and the year-over-year dollar and percentage changes for those line items:

	Year ended December 31,				Change	
	2018	% of revenue	2017	% of revenue	Period over Period	
<b>Cost of revenue:</b>						
Programming costs amortization	\$ 2,752,446	10%	\$ 2,474,836	23%	\$ 277,610	11%
Film library amortization (non-cash)	6,459,431	24%	1,378,869	13%	5,080,562	368%
Distribution costs	3,133,713	12%	383,466	3%	2,750,247	717%
<b>Total cost of revenue</b>	<b>\$ 12,345,590</b>	<b>46%</b>	<b>\$ 4,237,171</b>	<b>40%</b>	<b>\$ 8,108,418</b>	<b>191%</b>
<b>Gross profit</b>	<b>\$ 14,513,929</b>		<b>\$ 6,419,980</b>		<b>\$ 8,093,949</b>	<b>126%</b>
<b>Gross profit margin</b>		<b>54%</b>		<b>60%</b>		<b>-6%</b>

Our cost of revenue increased by \$8.1 million, or 191%, for the year ended December 31, 2018 compared to 2017. This increase resulted primarily from an increase in non-cash film library amortization of \$5.1 million and \$2.5 million in distribution costs attributable to Screen Media film library costs primarily as a result of a full year of operation.

## Operating Expenses

The following table presents operating expense line items for the years ended December 31, 2018 and 2017 and the year-over-year dollar and percentage changes for those line items:

	Year ended December 31,				Change Period over Period	
	2018	% of revenue	2017	% of revenue		
<b>Operating expenses:</b>						
Selling, general and administrative	\$ 10,745,235	40%	\$ 5,937,574	56%	\$ 4,807,661	81%
Amortization	326,988	1%	9,819	0%	317,169	*
Management and license fees	2,666,907	10%	1,065,700	10%	1,601,207	150%
<b>Total operating expenses</b>	<b>13,739,130</b>	<b>51%</b>	<b>\$ 7,013,093</b>	<b>66%</b>	<b>\$ 6,726,037</b>	<b>96%</b>

\* Not Meaningful

Including amortization and non-cash share-based compensation, our total operating expenses were 51% of net revenue for the year ended December 31, 2018 compared to 66% for the year end December 31, 2017, and increased in absolute dollars by \$6.7 million. This increase was primarily due to our acquisition of Screen Media and the hiring of additional employees for our sales team.

The following table presents selling, general and administrative expense line items for the years ended December 31, 2018 and 2017 and the year-over-year dollar and percentage changes for those line items:

	Year Ended December 31,		Change	
	2018	2017	Period over Period	
Payroll, benefits and commissions	\$ 4,629,115	\$ 2,656,428	\$ 1,972,687	74%
Share-based compensation	953,688	638,258	315,430	49%
Outside professional services	2,529,630	1,052,795	1,476,835	140%
Public company costs and expenses	421,791	316,987	104,804	33%
Bad debt expense	329,544	112,568	216,976	193%
Other costs and expenses	1,881,467	1,160,538	720,929	62%
	<b>\$ 10,745,235</b>	<b>\$ 5,937,574</b>	<b>\$ 4,807,661</b>	<b>81%</b>

Our selling, general and administrative expenses increased by \$4.8 million for the year ended December 31, 2018 compared to 2017. This increase resulted primarily from the 2017 Screen Media acquisition and the hiring of additional employees for our sales team and the added costs associated with business growth. See "Use of non-GAAP Financial Measure," below for further discussion relating to selling, general and administrative expense.

Our payroll, benefits and commission expense increased by \$2.0 million for the year ended December 31, 2018 compared to 2017. As noted above, this increase resulted primarily from the Screen Media acquisition and the hiring of additional employees for business growth.

Our outside professional services expense increased by \$1.5 million for the year ended December 31, 2018 compared to 2017. As noted above, this increase resulted primarily from the prior year 2017 Screen Media acquisition.

Bad debt expense of \$0.2 million represents the increase in the allowance for doubtful accounts of Screen Media based on our analysis regarding the collectability of accounts receivable.

Other costs and expenses increased by \$0.7 million for the year ended December 31, 2018 compared to 2017. This represents an increase in costs for rent, office expenses and other expenses related to the Screen Media acquisition and a general increase in other expenses due to business growth.

Effective January 1, 2017, we adopted our 2017 Long Term Incentive Plan (the "Plan") to attract and retain certain employees. The Plan currently allows us to issue up to 1.25 million common stock equivalents subject to the terms and conditions of the Plan. The Plan generally provides for quarterly and bi-annual vesting over terms ranging from two to three years. We account for the Plan as an equity plan.

In both 2018 and 2017, we issued stock options pursuant to the Plan. We recognize these stock options at fair value determined by applying the Black Scholes options pricing model to the grant date market value of the underlying common shares. The non-cash share-based compensation expense is amortized on a straight-line basis over their respective vesting periods. We recognized \$1.0 million and \$0.6 million of non-cash share-based compensation expense for the year ended December 31, 2018 and 2017, respectively.

We also recognized \$0.1 million and \$0.1 million respectively, of non-cash share-based compensation expense for share awards issued to our outside directors and non-employee producers for services rendered.

## Management and License Fees

We incurred management and license fees to CSS equal to 10% of the total gross revenue reported for each of the years ended December 31, 2018 and 2017 totaling \$2.6 million and \$1.0m, respectively. See “*Affiliate Resources and Obligations*” above for further discussion relating to the management services agreement and the license agreement. We believe that the terms and conditions of these agreements are more favorable to us than any similar agreements we could have negotiated with independent third parties.

## Interest Expense

For the year ended December 31, 2018, our interest expense was comprised primarily of cash interest paid on the Commercial Loan and a revolving credit line with an entity controlled by our chief executive officer (“Credit Facility”) prior to its repayment. For the year ended December 31, 2017, our interest expense was comprised primarily of cash interest paid on the 5% senior secured term notes (“Term Notes”) and the Credit Facility. We also recorded significant non-cash based interest as a result of the discount for the fair value of the Class W warrants that were issued with the Term Notes and the Credit Facility. In addition, financing costs incurred to complete the sale of Term Notes and to establish the Credit Facility were amortized over the term of the related debt.

We repaid the Term Notes and Credit Facility with part of the IPO proceeds in August 2017. As of March 31, 2018, we received an advance of \$1.7 million under the Credit Facility. On April 27, 2018, upon the closing of the Commercial Loan, the Credit Facility was repaid in full and the Credit Facility was terminated by us and the Lender. See “*Liquidity and Capital Resources*” below for a full description of the Credit Facility and Commercial Loan.

The following table presents cash based and non-cash based interest expense for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
Cash Based:		
Commercial Loan	\$ 300,607	\$ -
Term Notes	-	136,526
Revolving line of credit - related party	30,267	144,005
	<u>330,875</u>	<u>280,531</u>
Non-Cash Based:		
Amortization of debt discount	-	865,833
Amortization of deferred financing costs	57,161	43,747
	<u>57,161</u>	<u>909,580</u>
	<u>\$ 388,036</u>	<u>\$ 1,190,111</u>

## Acquisition Expenses

We account for the acquisitions by applying the acquisition method of accounting under ASC 805 “*Business Combinations*”. The acquisition method of accounting requires, among other things, that the assets acquired, and the liabilities assumed in a business combination be measured at their fair values as of the closing date of the transaction.

We account for common control transactions by applying the acquisition method of accounting under ASC 805 subtopic 805-50 “*Common Control Transactions*”. This acquisition method of accounting requires, among other things, that the assets acquired, and the liabilities assumed in a business combination be measured at their historical values as of the closing date of the transaction and are applied retrospectively to the commencement of common ownership.

Aggregate transaction-related costs, including legal fees, accounting fees and investment advisory fees totaled \$0.4 and \$2.2 million which is recognized as expenses on the consolidated statement of operations for the years ended December 31, 2018 and 2017, respectively.

## Provision (Benefit) from Income Taxes

The Company’s benefit from, or provision for income taxes, consists of federal and state taxes in amounts necessary to align our tax provision to the effective rate that we expect for the full year.

For the years ended December 31, 2018 and 2017, we reported an income tax provision of \$0.9 million and a tax benefit of \$0.7 million, respectively, consisting of federal and state taxes currently payable and deferred. The effective tax rate for the years ended December 31, 2018 and 2017 was 510% and (0.8%), respectively. The effective rate for the year ended December 31, 2017 was significantly impacted by permanent differences of approximately \$22.9 million which consisted principally of the gain on bargain purchase, the amortization of debt discounts included in interest expense and the impact of incentive stock options issued under the Company’s Long-Term Incentive Plan.

Temporary timing differences consist primarily of net programming costs being deductible for tax purposes in the period incurred (under Internal Revenue Code Section 181) as contrasted to the capitalization and amortization for financial reporting purposes under the guidance of ASC 926 — *Entertainment — Films*. Additionally, the Company amortized, for tax purposes only, an intangible asset under Section 197 of the Internal Revenue Code, with such amortization not reported in the consolidated financial statements.

## Affiliate Resources and Obligations

### *CSS License Agreement*

In May 2016, we entered into a trademark and intellectual property license agreement with CSS, which we refer to as the “CSS License Agreement.” Under the terms of the CSS License Agreement, we have been granted a perpetual, exclusive, worldwide license to produce and distribute video content using the *Chicken Soup for the Soul* brand and related content, such as stories published in the *Chicken Soup for the Soul* books.

We paid CSS a one-time license fee of \$5 million comprised of a \$1.5 million cash payment and the concurrent issuance to CSS of the CSS License Note, having a principal amount of \$3.5 million and bearing interest at 0.5% per annum. The CSS License Note has been repaid as of December 31, 2016. See “—*Liquidity and Capital Resources*,” below.

We also pay CSS an incremental recurring license fee equal to 4% of our gross revenue for each calendar quarter, and a marketing fee of 1% of our gross revenue for each calendar quarter, with each quarterly fee payable on or prior to the 45th day after the end of the calendar quarter to which it relates. Under the terms of the CSS License Agreement, the first quarterly fee was payable by us with respect to the quarter ended March 31, 2016, as CSS had already been rendering services to our predecessor with respect to the video content business. Provided that the CSS License Agreement remains in place, CSS has agreed that it will not engage, and will not cause or permit its subsidiaries (other than us) to engage, in the production or distribution of video content, including that which is unrelated to the *Chicken Soup for the Soul* brand, except in connection with the marketing of their other products and services.

For the years ended December 31, 2018 and 2017, we recorded \$1.3 million and \$0.5 million, respectively, of license fee expense under this agreement. We believe that the terms and conditions of the CSS License Agreement, which provides us with the rights to use the trademark and intellectual property in connection with our video content, are more favorable to us than any similar agreement we could have negotiated with an independent third party.

### *CSS Management Agreement*

In May 2016, we entered into a management services agreement, that has an initial term of five years and automatically renews for additional one-year terms at the discretion of the parties thereto, which we refer to as the “CSS Management Agreement.” Under the terms of the CSS Management Agreement, we are provided with the broad operational expertise of CSS and its subsidiaries and personnel, including the services of our chairman and chief executive officer, Mr. Rouhana, our vice chairman and chief strategy officer, Mr. Seaton, our senior brand advisor and director, Ms. Newmark, and our chief financial officer, Mr. Mitchell. The CSS Management Agreement also provides for services, such as accounting, legal, marketing, management, data access and back-office systems, and provides us with office space and equipment usage.

We pay CSS a management fee equal to 5% of our gross revenue for each calendar quarter, with each quarterly payable on or prior the 45th day after the end of the calendar quarter to which it relates.

In addition, for any sponsorship which is arranged by CSS or its affiliates for (i) our video content or (ii) a multi-element transaction for which we receive a portion of such revenue and CSS receives the remaining revenue (for example, a transaction that relates to both our video content and CSS’ printed products), we shall pay a sales commission to CSS equal to 20% of the portion of such revenue we receive. Each sales commission shall be paid within 30 days of the end of the month in which we receive it. If CSS collects the entire fee from such multi-element transaction, CSS will remit our portion of such fee to us after deducting its sales commission.

For the years ended December 31, 2018 and 2017, we recorded \$1.3 million and \$0.5 million, respectively, of management fee expense under this agreement. We believe that the terms and conditions of the CSS Management Agreement are more favorable and cost effective to us than if we hired the full staff to operate the company.

## Use of Non-GAAP Financial Measure

In addition to the results reported in accordance with GAAP, we use a non-GAAP financial measure, which is not recognized under GAAP, as a supplemental indicator of our operating performance. This non-GAAP financial measure is provided to enhance the readers understanding of our historical and current financial performance. Management believes that this measure provides useful information in that it excludes amounts that are not indicative of our core operating results and ongoing operations and provide a more consistent basis for comparison between periods. The non-GAAP financial measure that we currently use is Adjusted EBITDA which is defined as follows:

“Adjusted EBITDA” means earnings before interest, taxes, depreciation, amortization, acquisition-related costs, consulting fees related to acquisitions and non-cash share-based compensation expense, and adjustments for other identified charges. As our IPO has been completed, director fees are deducted from Adjusted EBITDA. Adjusted EBITDA is not an earnings measure recognized by US GAAP and does not have a standardized meaning prescribed by GAAP; accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other companies. We believe Adjusted EBITDA to be a meaningful indicator of our performance that provides useful information to investors regarding our financial condition and results of operations. The most comparable GAAP measure is operating income.

Adjusted EBITDA has important limitations as an analytical tool and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect the impact of stock-based compensation upon our results of operations;

- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our income tax (benefit) expense or the cash requirements to pay our income taxes; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to those eliminated in this presentation.

## Reconciliation of Historical GAAP Net Income as reported to Adjusted EBITDA

The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP measure, for the periods presented:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Net loss available to common stockholders, as reported	\$ (1,957,882)	\$ 21,081,283
Preferred dividends	1,112,910	-
Gain on bargain purchase	-	(24,321,747)
Provision for (benefit from) income taxes	874,000	(182,000)
Interest expense, net of interest income <sup>(a)</sup>	348,978	1,179,204
Film library amortization, included in cost of revenue (non-cash)	6,459,431	1,378,869
Share-based compensation expense <sup>(b)</sup>	953,688	638,258
Acquisition-related costs and other one-time consulting fees	396,793	2,226,480
Screen Media platform launch costs	270,000	-
Reserve for video returns	316,745	-
Reserve for bad debt	329,544	-
Amortization	326,988	9,819
Organization costs and directors costs, prior to IPO <sup>(c)</sup>	-	290,124
All other nonrecurring costs	589,679	-
<b>Adjusted EBITDA</b>	<b>\$ 10,020,874</b>	<b>\$ 2,300,290</b>

To comply with US GAAP requirements around transactions with common controlled entities the current year financial statements include the results of operations for the combined entities of CSSE and recently acquired subsidiary A Plus. The acquisition was finalized on December 28, 2018. To provide a more representative view of CSSE's operating results for the 2018 year we've reconciled the results of the operation of the CSSE consolidated business net income to Adjusted EBITDA excluding the effects of the A Plus acquisition as follows,

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Net loss available to common stockholders, as reported	\$ (692,015)	\$ 22,789,498
Preferred dividends	1,112,910	-
Gain on bargain purchase	-	(24,321,747)
Provision for income taxes	874,000	(182,000)
Interest expense, net of interest income <sup>(a)</sup>	349,041	1,179,223
Film library amortization, included in cost of revenue (non-cash)	6,459,431	1,378,869
Share-based compensation expense <sup>(b)</sup>	953,688	638,258
Acquisition-related costs and other one-time consulting fees	396,793	2,226,480
Screen Media platform launch costs	270,000	-
Reserve for video returns	316,745	-
Reserve for bad debt	329,544	-
Amortization	290,174	9,819
Organization costs and directors costs, prior to IPO <sup>(c)</sup>	-	290,124
All other nonrecurring costs	589,679	-
<b>Adjusted EBITDA</b>	<b>\$ 11,249,992</b>	<b>\$ 4,008,524</b>

(a) Includes non-cash amortization of debt discounts and amortization of deferred financing costs of \$57,161 and \$909,580 for the years ended December 31, 2018 and 2017, respectively.

(b) Represents expense related to common stock equivalents issued to certain employees and officers under the Long-Term Incentive Plan. In addition to common stock grants issued to non-employee directors and non-employee executive producers.

(c) Includes the costs incurred to form our company and to prepare for the initial offering of our common stock to the public. In addition, this includes the cost of maintaining a board of directors and utilizing invest relations firms prior to being a publicly traded company.

## Liquidity and Capital Resources

### *Commercial Loan*

On April 27, 2018, the Company entered into a senior secured term loan and revolving line of credit agreement (the “Commercial Loan”) with Patriot Bank, N.A. totaling \$7.5 million, comprised of a \$5.0 million term loan (“Term Loan”) and \$2.5 million revolving line of credit (“Revolver”). On December 27, 2018, the company increased the Revolver from \$2.5 million to \$3.5 million.

The Term Loan was advanced in full on April 27, 2018 and matures on May 1, 2023. Borrowings under the Term Loan bear interest at a fixed rate of 5.75% per annum interest is payable monthly over a five-year period and was subject to a one-time commitment fee payment of \$75,000. Principal is payable in equal monthly installments of \$83,333 over a five-year period payable, approximately \$0.5 million in 2018, \$1.0 million each in years 2019 through 2022 and \$0.5 million in 2023.

The Revolver matures on April 26, 2021 and bears interest at the prime rate plus 1.5%, interest only is payable monthly over a three-year period, until such time as the loan is renewed or becomes due and was subject to a one-time commitment fee payment of \$37,500. The Revolver is subject to adjustment based upon eligible accounts receivable supporting such borrowing. Advances made under the Revolver are used for general working capital purposes.

Part of the proceeds of the Commercial Loan was used to fully repay \$1.7 million of senior secured notes payable under the revolving line of credit to a related party and all associated accrued interest outstanding at the time. As of December 31, 2018, the total principal balance outstanding under the Term Loan and Revolver is \$4.4 million and \$3.5 million, respectively.

### *Preferred Stock Offering*

As of December 31, 2018, the Company completed the sale of 918,497 shares of its Series A Preferred Stock at an offering price of \$25.00 per share. Holders of the Series A Preferred Stock will receive cumulative cash dividends at a rate of 9.75% per annum, as and when declared by the board of directors. The Series A Preferred Stock is not convertible into common stock of the Company.

We believe we have sufficient liquidity from cash on hand, accounts receivable due to us in the near term, and availability under our Commercial Loan.

### *Cash Requirements*

We believe our cash and cash equivalents on hand should be sufficient to meet our cash requirements for at least the next twelve months (see “Anticipated Cash Requirements” below further discussions). However, any projections of future cash needs and cash flows are subject to substantial uncertainty. It is possible that we could incur unexpected costs and expenses in the future, fail to collect significant amounts that may be owed to us, or experience unexpected cash requirements that would force us to seek additional financing. In this event, additional financing would only be required if net advances available under the Commercial Loan were insufficient to meet unexpected cash requirements. If we seek additional financing, we would likely issue additional equity or debt securities, and as a result, stockholders may experience additional dilution, or the new debt or equity securities may have rights, preferences or privileges more favorable than those of existing holders of our debt or equity. In this event, if additional financing is not available or is not available on acceptable terms, we may be required to delay or reduce the scope of our video content production plans.

## Cash Flows

Our cash and cash equivalents balance was \$7,201,758 (including restricted cash of \$750,000) and \$2,172,985 as of December 31, 2018 and 2017, respectively.

Cash flow information for the years ended December 31, 2018 and 2017 is as follows:

	December 31, 2018		Change in	
	2018	2017	Dollars	Percentage
Cash provided by (used in):				
Operating activities	\$ (7,760,712)	\$ (10,797,536)	\$ 3,036,824	28%
Investing activities	(4,149,871)	(8,876,735)	4,726,864	53%
Financing activities	16,939,356	21,334,943	(4,395,586)	-21%
Net increase in cash and cash equivalents	<u>\$ 5,028,773</u>	<u>\$ 1,660,672</u>	<u>\$ 3,368,101</u>	<u>203%</u>

### *Operating Activities*

For 2018, our operating activities required a net use of cash totaling \$7.2 million. This net use of cash from operating activities resulted primarily from our investment in production and development programming costs and our investment in film libraries totaling \$16.2 million and a decrease in accounts receivable of \$6.0 million, due to increased cash collections. This use from operating activities was offset in part, by amortization of programming costs and amortization of film library for the year totaling \$8.9 million, increased payables of \$3.4 million and an increase in deferred income taxes of \$1.4 million.

For 2017, our operating activities required a net use of cash totaling \$10.8 million. This net use of cash from operating activities resulted primarily from our investment in production and development programming costs and our investment in film libraries totaling \$7.8 million and an increase in accounts receivable of \$5.6 million, primarily due to the inclusion of Screen Media's trade receivables and an increase in receivables due from sponsors of television series. This use from operating activities was offset in part, by amortization of programming costs and amortization of film library for the year totaling \$4.4 million. Additionally, our net income for the year of \$22.8 million included, and was offset by a gain on the bargain purchase of Screen Media of \$24.3 million.

### *Investing Activities*

For 2018, our investing activities required a net use of cash totaling \$4.1 million, primarily due to A Plus and Pivotshare acquisitions which resulted in a net decrease to cash of \$3.7 million.

For 2017, our investing activities required a net use of cash primarily resulting from the acquisition of Screen Media which required a cash payment of \$9.4 million, net of Screen Media's cash balance on the acquisition date. In addition, our due from affiliated companies increased by \$4.8 million during the year.

### *Financing Activities*

For 2018, our financing activities provided net cash totaling \$16.8 million. This resulted primarily from proceeds from the sale of our preferred stock of \$19.3 million and net proceeds received from our Commercial Loan of \$8.5 million, offset in part by dividend payments to common stockholders of \$5.2 million, the full repayment of our Credit Facility of \$1.7 million, and \$1.0 million of dividends to preferred stockholders. Financing activities were also decreased by the payment of stock issuance costs of \$1.6 million and the repurchase of our Class A common stock in the open market for \$0.6 million, pursuant to our Stock Repurchase Program.

For 2017, our financing activities provided net cash totaling \$21.3 million. The source of cash from our financing activities resulted primarily from the net proceeds from our initial public offering of \$24.6 million. The additional cash provided from our financing activities resulted primarily from \$3.4 million raised in private placements prior to our initial public offering whereby we sold our common stock and Term Notes. The total cash provided by these financing activities were offset, in part, by the full repayment of the Term Notes totaling \$4.1 million from the proceeds of the initial public offering, and the repayment of the net advances under the Credit Facility of \$2.0 million.

#### **Anticipated Cash Requirements**

Our cash requirements are shifting as the percentage of our recurring revenue increases and the amount of our project-based revenue decreases.

With respect to projects, most producers of television series incur significant initial expenditures to produce, acquire, distribute and market episodic television programs and online video content, while revenue from these television programs and online video content may be earned over an extended period of time after their completion, per the requirements of GAAP.

However, our financing strategy is to fund our investment in television programs through payments we receive from sponsors. Our cash on hand and amounts due to us near term under contractual obligations allows us to be more flexible as to payment timing from sponsors and to use our cash on hand to fund production in advance of such sponsor payments. Nevertheless, we do not begin production until we have payment commitments from sponsors in excess of our production costs. As a result, we expect our production activity to be cash flow positive for each series. We may acquire businesses or assets, including individual video content libraries that are complementary to our business. Any such transaction could be financed through cash on hand, our cash flow from operations, our Credit Facility when available, or new equity or debt financing.

#### **Critical Accounting Policies and Significant Judgments and Estimates**

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in more detail in the notes to our consolidated financial statements appearing elsewhere in this Report and should be read in conjunction with the audited consolidated financial statements and accompanying notes included herein. There have been no significant changes in our critical accounting policies, judgments and estimates since December 31, 2018.

#### **Recent Accounting Pronouncements**

See Item 8, Financial Statements and Supplementary Data - Note 3 "*Recent Accounting Pronouncements*".

#### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

## ITEM 8. Financial Statements and Supplementary Data

The consolidated financial statements and accompanying notes are presented within Part IV of this Report.

	<b>Page Number</b>
<a href="#">Index to Consolidated Financial Statements</a>	
<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">F-2</a>
<a href="#">Consolidated Balance Sheets – December 31, 2018 and 2017</a>	<a href="#">F-3</a>
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2018 and 2017</a>	<a href="#">F-4</a>
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017</a>	<a href="#">F-5</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017</a>	<a href="#">F-6</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">F-8 to F-27</a>

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of  
Chicken Soup for the Soul Entertainment, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Chicken Soup for the Soul Entertainment, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders’ equity, and cash flows for the each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Rosenfield and Company, PLLC

We have served as Chicken Soup for the Soul Entertainment, Inc.’s auditor since 2017.

New York, NY  
March 28, 2019

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**Chicken Soup for the Soul Entertainment, Inc.**  
**Consolidated Balance Sheets**

	<b>December 31, 2018</b>	<b>December 31, 2017*</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,451,758	\$ 2,172,985
Restricted cash	750,000	-
Accounts receivable, net	12,841,099	8,058,352
Prepaid expenses	218,736	228,145
Inventory, net	262,068	368,964
Goodwill	2,537,079	1,236,760
Indefinite lived intangible assets	12,163,943	12,163,943
Intangible assets, net	2,971,637	198,495
Film library, net	25,338,502	22,655,645
Due from affiliated companies	1,213,436	-
Programming costs, net	12,790,489	7,651,145
Deferred tax asset	452,000	825,000
Other assets, net	356,221	503,622
<b>Total assets</b>	<b>\$ 78,346,968</b>	<b>\$ 56,063,056</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current maturities of senior secured term loan	\$ 1,000,000	\$ -
Senior secured notes payable under revolving line of credit to related party	-	1,500,000
Senior secured term loan and revolving line of credit, net of unamortized deferred finance cost of \$334,554 and \$0, respectively	6,582,113	-
Accounts payable and accrued expenses	5,078,805	1,109,534
Accrued programming costs	-	375,761
Film library acquisition obligations	2,715,600	663,400
Accrued participation costs	1,539,139	2,620,417
Due to affiliated companies	-	3,127,021
Other liabilities	414,506	144,534
Deferred revenue	6,469	515,000
<b>Total liabilities</b>	<b>17,336,632</b>	<b>10,055,667</b>
<b>Commitments and contingencies (Note 15)</b>		
<b>Stockholders' equity</b>		
Series A cumulative redeemable perpetual preferred stock, \$.0001 par value, liquidation preference of \$25.00 per share, 10,000,000 shares authorized; 918,497 and 0 shares issued and outstanding, respectively, redemption value of \$22,962,425 and \$0, respectively	92	-
Class A common stock, \$.0001 par value, 70,000,000 shares authorized; 4,227,740 and 4,096,353 shares issued, 4,153,505 and 4,096,353 outstanding, respectively	421	409
Class B common stock, \$.0001 par value, 20,000,000 shares authorized; 7,817,238 and 7,863,938 shares issued and outstanding, respectively	782	786
Additional paid-in capital	59,360,583	36,584,575
Retained earnings	2,281,187	9,421,619
Class A common stock held in treasury, at cost (74,235 shares)	(632,729)	-
<b>Total stockholders' equity</b>	<b>61,010,336</b>	<b>46,007,389</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 78,346,968</b>	<b>\$ 56,063,056</b>

\* In accordance with ASC Subtopic 805-50 "Transactions between entities under common control", the prior year 2017 balance sheet presented has been retrospectively adjusted for the acquisition of A Plus on December 28, 2018 to furnish comparative information as required. The effects of intra-entity transactions have been eliminated as a part of the consolidation, where applicable.

See accompanying notes to consolidated financial statements.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Consolidated Statements of Operations**

	<b>Year Ended December 31,</b>	
	<b>2018*</b>	<b>2017*</b>
<b>Revenue:</b>		
Online networks	\$ 4,411,427	\$ 796,664
Television and film distribution	13,188,560	2,937,678
Television and short-form video production	10,152,020	7,245,148
<b>Total revenue</b>	<b>27,752,007</b>	<b>10,979,490</b>
Less: Television & film distribution returns and allowances	(892,488)	(322,339)
<b>Net revenue</b>	<b>26,859,519</b>	<b>10,657,151</b>
<b>Cost of revenue</b>	<b>12,345,590</b>	<b>4,237,171</b>
<b>Gross profit</b>	<b>14,513,929</b>	<b>6,419,980</b>
<b>Operating expenses:</b>		
Selling, general and administrative	10,745,235	5,937,574
Amortization	326,988	9,819
Management and license fees	2,666,907	1,065,700
<b>Total operating expenses</b>	<b>13,739,130</b>	<b>7,013,093</b>
<b>Operating income</b>	<b>774,799</b>	<b>(593,113)</b>
Interest income	39,058	10,907
Interest expense	(388,036)	(1,190,111)
Acquisition-related costs	(396,793)	(2,193,147)
Gain on bargain purchase	-	24,321,747
<b>Income before preferred dividends and income taxes</b>	<b>29,028</b>	<b>20,356,283</b>
Provision for (benefit from) income taxes	874,000	(725,000)
<b>Net (loss) income before preferred dividends</b>	<b>(844,972)</b>	<b>21,081,283</b>
Preferred dividends	1,112,910	-
<b>Net (loss) income available to common Stockholders</b>	<b>\$ (1,957,882)</b>	<b>\$ 21,081,283</b>
<b>Net (loss) income per common share:</b>		
Basic	\$ (0.16)	\$ 2.02
Diluted	(0.16)	1.99

\* In accordance with ASC Subtopic 805-50 "Transactions between entities under common control", results of operations for the 2018 and 2017 years have been retrospectively adjusted for the acquisition of A Plus on December 28, 2018 to furnish comparative information as required. The effects of intra-entity transactions have been eliminated as a part of the consolidation, where applicable.

See accompanying notes to consolidated financial statements.

**Chicken Soup for the Soul Entertainment, Inc**  
**Consolidated Statements of Stockholders' Equity**

	Preferred Stock		Common Stock				Additional Paid-In Capital	Retained (Deficit) Earnings	Treasury Stock	Total
	Shares	Par Value	Class A		Class B					
	Shares	Par Value	Shares	Par Value	Shares	Par Value				
<b>Balance, December 31, 2016 as reported</b>	-	\$ -	893,369	\$ 89	8,071,955	\$ 807	\$ 4,074,646	\$ (450,996)	\$ -	\$ 3,624,546
Opening Equity Adjustment: A-Plus Acquisition			350,299	35	-	-	4,260,075	(11,208,668)	-	(6,948,558)
<b>Balance, December 31, 2016 as adjusted</b>	-	-	1,243,668	124	8,071,955	807	8,334,721	(11,659,664)	-	(3,324,012)
Sale of Class A Common Stock in initial public offering net of stock issuance fees of \$3,101,493	-	-	2,241,983	224	-	-	23,801,854	-	-	23,802,078
Sale of Class A Common Stock in private placement net of stock issuance fees of \$13,008	-	-	247,412	25	-	-	2,025,630	-	-	2,025,655
Fair value of warrants issued with Term Notes	-	-	-	-	-	-	333,783	-	-	333,783
Fair value of warrants issued with Credit Facility	-	-	-	-	-	-	77,193	-	-	77,193
Shares issued to directors and others for services rendered	-	-	18,213	2	-	-	95,952	-	-	95,954
Shares issued as part purchase consideration paid for Screen Media acquisition	-	-	35,000	3	-	-	281,047	-	-	281,050
Warrants issued as part purchase consideration paid for Screen Media acquisition	-	-	-	-	-	-	143,500	-	-	143,500
Conversion of Class B shares to Class A shares upon sale by minority stockholder	-	-	208,017	21	(208,017)	(21)	-	-	-	-
Conversion of Term Notes to equity	-	-	102,060	10	-	-	917,990	-	-	918,000
Share based compensation - stock	-	-	-	-	-	-	572,905	-	-	572,905
Net income	-	-	-	-	-	-	-	21,081,283	-	21,081,283
<b>Balance, December 31, 2017</b>	-	-	4,096,353	\$ 409	7,863,938	\$ 786	\$ 36,584,575	\$ 9,421,619	\$ -	\$ 46,007,389
Conversion of Class B shares to Class A shares upon sale by minority stockholder			46,700	4	(46,700)	(4)	-	-	-	-
Shares issued to directors and others for services rendered			10,452	1			96,614			96,615
Share based compensation - stock options							857,073			857,073
Issuance of preferred stock	784,497	79					19,612,346			19,612,425
Preferred Stock Issuance Costs							(1,894,792)			(1,894,792)
Dividends								(6,295,460)		(6,295,460)
Preferred shares issued as part purchase consideration paid for Pivotshare acquisition	134,000	13					3,434,407			3,434,420
Shares issued as part purchase consideration Class A shares paid for Pivotshare acquisition			74,235	7			731,949			731,956
Common Stock Issuance Costs							(61,589)			(61,589)
Purchase of treasury stock									(632,729)	(632,729)
Net loss								(844,972)		(844,972)
<b>Balance, December 31, 2018</b>	<u>918,497</u>	<u>\$ 92</u>	<u>4,227,740</u>	<u>\$ 421</u>	<u>7,817,238</u>	<u>\$ 782</u>	<u>\$ 59,360,583</u>	<u>\$ 2,281,187</u>	<u>\$ (632,729)</u>	<u>\$ 61,010,336</u>

\* In accordance with ASC Subtopic 805-50 "Transactions between entities under common control", equity transactions presented have been retrospectively adjusted for the acquisition of A Plus on December 28, 2018 to furnish comparative information as required.

See accompanying notes to consolidated financial statements

**Chicken Soup for the Soul Entertainment, Inc**  
**Consolidated Statements of Cash Flows**

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017*</b>
<b>Cash flows from Operating Activities:</b>		
Net (loss) income	\$ (844,972)	\$ 21,081,283
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	953,688	638,258
Amortization of programming costs	2,752,446	2,973,399
Amortization of deferred financing costs	57,161	43,747
Amortization of debt discount	-	865,833
Amortization of fixed assets and acquired intangibles	326,986	9,819
Amortization of film library	6,459,431	1,378,869
Reserve for bad debts and returns	1,222,032	112,568
Impairment of programming costs	-	21,121
Loss on debt extinguishment	-	24,803
Gain on bargain purchase	-	(24,321,747)
Deferred income taxes	373,000	(725,000)
Changes in operating assets and liabilities:		
Trade accounts receivable	(5,989,864)	(4,864,303)
Prepaid expenses and other current assets	38,546	163,972
Inventory	106,896	(25,656)
Programming costs	(8,267,551)	(6,732,930)
Film library	(9,142,288)	(1,094,363)
Other assets	95,269	(463,822)
Accounts payable and accrued expenses	3,366,143	(682,879)
Film library acquisition obligations	2,052,200	(60,200)
Accrued participation costs	(1,081,278)	482,435
Other liabilities	269,974	(66,314)
Deferred revenue	(508,531)	443,571
<b>Net cash used in operating activities</b>	<b>(7,760,712)</b>	<b>(10,797,536)</b>
<b>Cash flows from Investing Activities:</b>		
Payment for business acquisition, net of cash acquired	190,587	(4,683,814)
Increase in due from affiliated companies	(4,340,458)	(4,192,921)
<b>Net cash used in investing activities</b>	<b>(4,149,871)</b>	<b>(8,876,735)</b>

(continued on next page)

**Chicken Soup for the Soul Entertainment, Inc**  
**Consolidated Statements of Cash Flows**  
**Cont'd**

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from Financing Activities:</b>		
Proceeds from revolving credit facility from related party	200,000	4,825,000
Repayments of revolving credit facility from related party	(1,700,000)	(6,805,000)
Proceeds from notes payable from private placement	8,500,000	2,030,000
Repayments of notes payable	-	(4,082,000)
Repayments of senior secured term loan and revolving line of credit from third party	(583,334)	-
Payment of stock issuance costs	(1,956,393)	(2,949,805)
Payment of deferred financing costs	(391,714)	-
Proceeds from issuance of Series A preferred stock	19,612,438	-
Proceeds from issuance of common stock in IPO	-	26,903,348
Purchase of treasury stock	(632,729)	-
Dividends paid to common stockholders	(5,182,549)	-
Dividends paid to preferred stockholders	(926,363)	-
Proceeds from issuance of common stock in private placements	-	1,413,400
<b>Net cash provided by financing activities</b>	<b>16,939,356</b>	<b>21,334,943</b>
Net increase in cash and cash equivalents	5,028,773	1,660,672
Cash and cash equivalents at beginning of period	2,172,985	512,313
Cash and cash equivalents at end of the period	<u>\$ 7,201,758</u>	<u>\$ 2,172,985</u>
<b>Supplemental data:</b>		
Interest paid	<u>\$ 267,064</u>	<u>\$ 298,048</u>
Income taxes paid	<u>-</u>	<u>52,000</u>
<b>Non-cash operating activities</b>		
Fair value of shares issued to executive producer	<u>\$ -</u>	<u>\$ 625,500</u>
<b>Non-cash investing Activities</b>		
Affiliated balances settled as a part of the A Sharp acquisition consideration	\$ 8,711,109	\$ 8,711,109
Fair value of warrants issued with revolving credit facility and term notes	-	143,500
Fair value of Preferred shares issued as a part of business acquisition - Pivotshare	3,434,486	-
Fair value of Common A shares issued as a part of business acquisition - Pivotshare	732,028	-
Fair value of Common A shares issued as a part of business acquisition - A Plus	-	2,924,997
Conversion of senior secured notes payable to Class A common stock	<u>-</u>	<u>281,050</u>
<b>Non-cash financing activities</b>		
Fair value of warrants issued with revolving credit facility and term notes	<u>\$ -</u>	<u>\$ 410,976</u>
Conversion of senior secured notes payable to Class A common stock	<u>-</u>	<u>918,000</u>
<b>Reconciliation of cash and cash equivalents and restricted cash per consolidated balance sheets to statements of cash flows</b>		
Per consolidated balance sheets:		
Cash and cash equivalents	\$ 6,451,758	\$ 2,172,985
Restricted cash	750,000	-
Total cash, cash equivalents and restricted cash per statements of cash flows	<u>\$ 7,201,758</u>	<u>\$ 2,172,985</u>

\* In accordance with ASC Subtopic 805-50 "Transactions between entities under common control", the cash flows presented for the 2018 and 2017 years have been retrospectively adjusted for the acquisition of A Plus on December 28, 2018 to furnish comparative information as required. The effects of intra-entity transactions have been eliminated as a part of the consolidation, where applicable.

See accompanying notes to consolidated financial statements.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 1 – The Company, Description of Business, Acquisitions, Commercial Loan**

Chicken Soup for the Soul Entertainment, Inc. (the “Company”) is a Delaware corporation formed on May 4, 2016. CSS Productions, LLC (“CSS Productions”), the Company’s predecessor and immediate parent company, was formed in December 2014 by Chicken Soup for the Soul, LLC (“CSS”), a publishing and consumer products company, and initiated operations in January 2015. The Company was formed to create a discrete entity focused on video content opportunities using the *Chicken Soup for the Soul* brand (the “Brand”). The Brand is owned and licensed to the Company by CSS. Chicken Soup for the Soul Holdings, LLC (“CSS Holdings”), is the parent company of CSS and the Company’s ultimate parent company.

The Company creates and distributes video content under the Brand. The Company has an exclusive, perpetual and worldwide license from CSS to create and distribute video content under the Brand.

The Company is an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has irrevocably elected to avail itself of this exemption from new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

The Company operates in one reportable segment, the production and distribution of video content, and currently operates in the United States and internationally. With the acquisition of Screen Media Ventures in 2017, the Company now has a presence in over 56 countries and territories worldwide.

**Initial Public Offering**

Effective August 17, 2017, the Company completed its Initial Public Offering (“IPO”) of \$30.0 million consisting of 2,500,000 shares of Class A common stock (“Class A Shares”) at an offering price of \$12.00 per share. The Class A Shares offered and sold in the IPO were comprised of (a) an aggregate of 2,241,983 newly issued Class A Shares and (b) an aggregate of 258,017 issued and outstanding Class A Shares that were sold by certain non-management, non-affiliated existing stockholders (“Selling Stockholder Shares”). The Company did not receive any of the proceeds from the sale of Selling Stockholder Shares.

In connection with the consummation of the IPO, the Class A Shares were approved for listing on the Nasdaq Global Market under the symbol “CSSE”.

The IPO resulted in gross cash proceeds to the Company of approximately \$26.9 million and \$24.0 million of net cash proceeds, after deducting cash selling agent discounts, commissions and offering expenses. The net proceeds were used to fully repay \$4.1 million of senior secured notes payable and \$4.5 million of senior secured notes payable under the revolving line of credit outstanding at the time of the IPO (see Note 11). The remaining proceeds will be used for general corporate purposes including working capital, acquisition of video content and strategic transactions.

**Acquisition of Screen Media**

On November 3, 2017, the Company acquired all of the membership interests of Screen Media Ventures, LLC (“Screen Media”) for approximately \$4.9 million in cash and the issuance of 35,000 shares of the Company’s Class A common stock and Class Z warrants of the Company exercisable into 50,000 shares of the Company’s Class A common stock at \$12 per share. Screen Media operates Popcornflix®, an advertiser-supported direct-to-consumer online video service and distributes television series and films worldwide.

**Acquisition of Pivotshare**

On August 22, 2018, the Company acquired all the outstanding capital stock of Pivotshare, Inc. (“Pivotshare”) for approximately \$0.3 million in cash, the issuance of 134,000 shares of the Company’s 9.75% Series A Cumulative Redeemable Perpetual Preferred Stock (“Series A Preferred Stock”) valued at \$3.4 million and the issuance of 74,235 shares of the Company’s Class A common stock valued at \$0.7 million (the “Purchase Price”). A portion of the Series A Preferred Stock and the Class A common stock included in the Purchase Price are being held in escrow as security for noncompete and indemnification obligations of Pivotshare and its stockholders.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

Pivotshare is the developer and owner of a global subscription-based video on-demand service (“SVOD”) offering channels online across a variety of categories including music, sports, religion, arts and culture, lifestyle and family.

In accordance with ASC 805, “*Business Combinations*” (“ASC 805”), the acquisition was accounted for by applying the acquisition method of accounting, which requires, among other things, that the assets acquired, and the liabilities assumed in a business combination be measured at their fair values as of the closing date of the transaction. As a result of the acquisition, Pivotshare’s results of operations are consolidated with those of the Company from the date of the transaction. The acquisition of Pivotshare was not considered material.

**Acquisition of A Plus**

On December 28, 2018, we acquired all of the outstanding capital stock of A Plus, an affiliate of ours, for an aggregate purchase price of \$15 million, which was paid as follows: (a) an aggregate of 350,299 shares of Class A common stock, (b) an offset of \$8.7 million to amounts due pursuant to the intercompany cash management system and (c) reduction by approximately \$3.3 million of advances owed by A Plus to the Company.

This transaction was treated as an acquisition of entities under common control in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Section 805-50 “*Transactions between entities under common control*”. Accordingly, all prior financial statements have been restated to reflect this transaction as a “pooling of interest” as of the earliest period presented under common control.

A Plus is a digital media company that develops and distributes high-quality, empathetic short-form videos and articles to millions of people worldwide, with an emphasis on positive journalism and social change. A Plus had reach of nearly 3 billion content views in 2018 and increased its social media by 10% to over 3.2 million followers. A Plus was founded by and is chaired by renowned actor and investor, Ashton Kutcher.

**Commercial Loan**

On April 27, 2018, the Company entered into a senior secured term loan and revolving line of credit agreement (the “Commercial Loan”) with Patriot Bank, N.A. totaling \$7.5 million, comprised of a \$5.0 million term loan (“Term Loan”) and \$2.5 million revolving line of credit (“Revolver”). On December 27, 2018, the company increased the Revolver from \$2.5 million to \$3.5 million.

The Term Loan was advanced in full on April 27, 2018 and matures on May 1, 2023. Borrowings under the Term Loan bear interest at a fixed rate of 5.75% per annum interest is payable monthly over a five-year period and was subject to a one-time commitment fee payment of \$75,000. Principal is payable in equal monthly installments of \$83,333 over a five-year period payable, approximately \$0.6 million in 2018, \$1.0 million each in years 2019 through 2022 and \$0.4 million in 2023.

The Revolver matures on April 26, 2021 and bears interest at the prime rate plus 1.5%, interest only is payable monthly over a three-year period, until such time as the loan is renewed or becomes due and was subject to a one-time commitment fee payment of \$37,500. The Revolver is subject to adjustment based upon eligible accounts receivable supporting such borrowing. Advances made under the Revolver are used for general working capital purposes.

Part of the proceeds of the Commercial Loan was used to fully repay \$1.7 million of senior secured notes payable under the revolving line of credit to a related party and all associated accrued interest outstanding at the time. As of December 31, 2018, the total principal balance outstanding under the Term Loan and Revolver is \$4.4 million and \$3.5 million, respectively.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

**Note 2 – Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany balances and transactions have been eliminated in consolidation.

The acquisition of A Plus has been treated as an acquisition of entities under common control in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Section 805-50 *“Transactions between entities under common control”*. Accordingly, all prior financial statements and information has been restated to reflect this transaction as if the A Plus acquisition had occurred at the beginning of the earliest period presented (as if the combination occurred at the inception of common control).

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. The Company’s significant estimates include those related to revenue recognition, accounts receivable allowances, intangible assets, share-based compensation expense, income taxes and amortization of programming costs. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and consist primarily of money market funds. Such investments are stated at cost, which approximates fair value.

**Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions. These valuations require significant judgment and estimates.

At December 31, 2018 and 2017, the fair value of the Company’s financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, accrued participation costs, film library acquisition costs and accrued programming costs, approximated their carrying value due primarily to the relative short-term nature of these instruments.

**Accounts Receivable**

Accounts receivable are stated at the amounts management expects to collect and are subsequently stated net of allowance for uncollectible accounts and video returns. An allowance for doubtful accounts is recorded based on a combination of historical experience, aging analysis and information on specific accounts. Account balances are written off against the allowance after all means of collections have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. Estimated losses resulting from uncollectible accounts are reported as bad debt expense in the consolidated statements of income and comprehensive income. At December 31, 2018, accounts receivable is presented net of allowance for doubtful accounts and video returns of \$601,500. Bad debt expense of \$329,544 was recorded in the consolidated statement of income and comprehensive income for the year ended December 31, 2018. At December 31, 2017, an allowance for doubtful accounts was not considered necessary.

**Inventory**

Inventory consists of DVD films held for resale to wholesale and retail customers. Inventory is stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. Market value is based on net realizable value. When the net realizable value falls below its cost, a provision for write-downs is recorded.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

**Programming Costs**

Programming costs include the unamortized costs of completed, in-process, or in-development long-form and short-form video content. For video content, the Company's capitalized costs include all direct production and financing costs, capitalized interest when applicable, and production overhead.

The costs of producing video content are amortized using the individual-film-forecast method. These costs are amortized in the proportion that current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production.

For an episodic television series, the period over which ultimate revenue is estimated cannot exceed ten years following the date of delivery of the first episode, or, if still in production, five years from the date of delivery of the most recent episode, if later.

Programming costs are stated at the lower of amortized cost or estimated fair value. The valuation of programming costs is reviewed on a title-by-title basis, when an event or change in circumstances indicates that the fair value may be less than its unamortized cost and the valuation is based on a discounted cash flows ("DCF") methodology with assumptions for cash flows. Key inputs employed in the DCF methodology include estimates of a program's ultimate revenue and costs as well as a discount rate. The discount rate utilized in the DCF is based on the weighted average cost of capital of the Company plus a risk premium representing the risk associated with producing a particular program. The Company performs an annual impairment analysis for unamortized programming costs. An impairment charge is recorded in the amount by which the unamortized costs exceed the estimated fair value. Estimates of future revenue involve measurement uncertainties and it is therefore possible that reductions in the carrying value of programming costs may be required as a consequence of changes in management's future revenue estimates.

Included in cost of revenue in the consolidated statements of operations for 2018 and 2017, is amortization of programming costs totaling \$2,752,446 and \$2,474,836, respectively. For the years ended December 31, 2018 and 2017, there were no impairment charges recorded.

**Film Library**

The film library represents the cost of acquiring film distribution rights and related acquisition and accrued participation costs. The film library is amortized using the individual-film-forecast-computation method. Film library is stated at the lower of unamortized cost or fair value. Amortization is based upon management's best estimate of total future, or ultimate revenue. Amortization is adjusted when necessary to reflect increases or decreases in forecasted ultimate revenues. Ultimate revenue time frame is determined based on the term of the acquisition agreement, which in most cases is ten years or more. The company generally acquires distribution rights covering periods of ten or more years.

Film library costs are stated at the lower of amortized cost or estimated fair value. The valuation of film library costs is reviewed at the film acquisition year level ("vintage"), when an event or change in circumstances indicates that the fair value may be less than its unamortized cost and the valuation is based on a discounted cash flows ("DCF") methodology with assumptions for cash flows. Key inputs employed in the DCF methodology include estimates of a film vintage ultimate revenue and costs as well as a discount rate. The discount rate utilized in the DCF is based on the weighted average cost of capital of the Company plus a risk premium representing the risk associated with acquiring a particular film. The Company performs an annual impairment analysis for unamortized film library costs. An impairment charge is recorded in the amount by which the unamortized costs exceed the estimated fair value. Estimates of future revenue involve measurement uncertainties and it is therefore possible that reductions in the carrying value of film library costs may be required as a consequence of changes in management's future revenue estimates.

Included in cost of revenue in the consolidated statements of operations for the years ended December 31, 2018 and 2017 is amortization of film library totaling \$6,459,431 and \$1,378,869, respectively. For the year ended December 31, 2017, there was no material impairment charge recorded.

**Goodwill & Acquired Intangible Assets**

***Video Content License***

The Company has been granted a perpetual, exclusive license from CSS to utilize the Brand and related content, for visual exploitation on a worldwide basis ("Perpetual License"). In granting the Perpetual License, CSS required an initial purchase price of \$5,000,000, which approximated its costs to CSS, and was paid by the Company during 2016. The Company has recorded the initial purchase price of the Perpetual License at the estimated cost to CSS.

***Popcornflix Film Rights and Other Assets***

Popcornflix film rights and other assets represents the direct-to-consumer online video service and application platform comprised of five ad-supported networks with rights to over 3,000 films and approximately 60 television series. Popcornflix is an indefinite-lived intangible and is not subject to amortization but annual impairment analysis.

For our 2018 and 2017 annual impairment tests, we performed a qualitative impairment assessment of our assets. For the qualitative analysis we took into consideration all the relevant events and circumstances, including financial performance, macroeconomic conditions and entity-specific factors such as client wins and losses. Based on this assessment, we concluded that for each of our assets subject to the qualitative assessment, it is not "more likely than not" that its fair value was less than its carrying value; therefore, no additional testing was required.

***Pivotshare***

Acquired intangible assets of Pivotshare represent the fair value of its installed customer base, the non-compete obligation of the former chief executive officer and goodwill.

The installed customer base and the non-compete are stated at the lower of unamortized cost or fair value. Amortization is based upon management's best estimate of useful lives, which is five years for the installed customer base and three years for the non-compete, which is the period it is in effect.

We account for our business combinations using the acquisition accounting method, which requires us to determine the fair value of net assets acquired and the related goodwill and other intangible assets. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and involves the use of significant estimates, including projections of future cash inflows and outflows, discount rates, asset lives and market multiples. Considering the characteristics of AVOD and film distribution companies, our acquisitions usually do not have significant amounts of tangible assets, as the

principal asset we typically acquire is talent and customer intel. As a result, a substantial portion of the purchase price is allocated to goodwill and other intangible assets.

#### ***A Plus***

In accordance with ASC Subtopic 805-50, "Transactions between entities under common control", acquired intangible assets of A Plus represent the carrying value as of the date of transfer, December 28, 2018.

We review goodwill and other intangible assets with indefinite lives not subject to amortization as of December 31st each year and whenever events or significant changes in circumstances indicate that the carrying value may not be recoverable. Our annual impairment review did not result in an impairment charge at any of our reporting units.

In performing our annual impairment review, we would first assess qualitative factors to determine whether it is "more likely than not" that the goodwill or indefinite-lived intangible assets are impaired. Qualitative factors to consider may include macroeconomic conditions, industry and market considerations, cost factors that may have a negative effect on earnings, financial performance, and other relevant entity-specific events such as changes in management, key personnel, strategy or clients, as well as pending litigation. If, after assessing the totality of events or circumstances such as those described above, an entity determines that it is "more likely than not" that the goodwill or indefinite-lived intangible asset is impaired, then the entity is required to determine the fair value and perform the quantitative impairment test by comparing the fair value with the carrying value. Otherwise, no additional testing is required.

For our 2018 and 2017 annual impairment tests, we performed a qualitative impairment assessment for our assets. For the qualitative analysis we took into consideration all the relevant events and circumstances, including financial performance, macroeconomic conditions and entity-specific factors such as client wins and losses. Based on this assessment, we have concluded that for each of our assets subject to the qualitative assessment, it is not "more likely than not" that its fair value was less than its carrying value; therefore, no additional testing was required.

For the year ended December 31, 2018, there was no impairment charge recorded.

#### **Income Taxes**

The Company records income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

Deferred taxes are also recognized for operating losses that are available to offset future taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for uncertain tax positions in accordance with the authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740: *Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return, should be recorded in the financial statements. Pursuant to the authoritative guidance, the Company may recognize the tax benefit from an uncertain tax position only if it meets the “more likely than not” threshold that the position will be sustained on examination by the taxing authority, based on the technical merits of the position or expiration of statutes. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. In addition, the authoritative guidance addresses de-recognition, classification, interest and penalties on income taxes, accounting in interim periods, and also requires increased disclosures.

The Company includes interest and penalties related to its uncertain tax positions as part of income tax expense within its consolidated statements of operations. At December 31, 2018 and 2017, the Company did not have any unrecognized tax benefits or liabilities. See Note 13 for additional information.

**Long-Lived Assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the expected future cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

**Film Library Acquisition Obligations**

Film library acquisition obligations represent amounts due in connection with the Company acquiring film distribution rights. Pursuant to the film distribution rights agreements, the Company’s right to distribute films may revert to the licensor in the event that the Company is unable to satisfy its financial obligations with respect to the acquisition of the related distribution rights.

**Accrued Participation Costs**

The Company accrues for participation costs due to production companies and producers based on the respective agreements. Amounts due to production companies and producers are calculated based on gross revenue for each film after exceeding certain minimum targets. In addition, the Company must recoup its original investment in each film before such payments are due. Accrued participation costs are capitalized and amortized as part of the film library.

**Revenue Recognition**

Revenue from online digital distribution and VOD platforms are recorded when monthly activity is reported by advertisers. For theatrical releases, revenue is recorded after the theatrical release date and when box office proceeds reports are received. Revenue from all digital media distribution is included in online networks in the accompanying consolidated statements of operations.

The Company licenses and distributes multi-film packages to its customers. Revenue from multi-film sales is allocated on a per title basis and recognized upon initial availability for exploitation by customers. In addition, the Company distributes DVDs and similar media to its customers. The Company recognizes revenue upon shipment of DVD units or similar media units to its customers. Provision for future returns and other allowances are established based upon historical experience. Revenue from the distribution of multi-film packages and DVDs and similar media is included in television and film distribution in the accompanying consolidated statements of income and comprehensive income.

The Company recognizes revenue from the production and distribution of television programs and short-form video content in accordance with Accounting Standards Codification Topic 926: *Entertainment – Films* as amended (“ASC 926”). Revenue is recognized when persuasive evidence of an arrangement exists, the fee is fixed and determinable, delivery has occurred, and collection of the resulting receivable is deemed probable. For episodic television programs, revenue is recognized as each episode becomes available for delivery or becomes available for broadcast, and for short-form online videos, revenue is recognized when the videos are posted to a website for viewing. Revenue from the distribution of short-form online media content is included in television and short-form video production revenue in the accompanying consolidated statements of operations.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

Cash advances received by the Company are recorded as deferred revenue until all the conditions of revenue recognition have been met.

**Share-Based Payments**

The Company accounts for share-based payments in accordance with ASC 718: Share-based compensation, which establishes the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Under the provisions of the authoritative guidance, share-based compensation expense is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period, net of estimated forfeitures. Shares issued for services are based upon current selling prices of the Company's Class A common stock or independent third-party valuations.

The Company estimates the fair value of share-based instruments using the Black-Scholes option-pricing model. All share-based awards are fulfilled with new shares of Class A common stock. For the years ended December 31, 2018 and 2017, share-based awards were issued to non-employee directors and individuals for services rendered and were recorded at fair value.

**Advertising Costs**

Generally, advertising costs are expensed as incurred except for the advertising costs associated with the Company's theatrically released titles which the Company is obligated to make reimbursements for. The expense recorded in the consolidated statements of operations for the years ended December 31, 2018 and 2017 was \$1,281,278 and \$63,875, respectively. These costs are capitalized as part of the film library acquisition costs and are amortized as such. Advertising expenditures for DVD releases are expensed when incurred, which is typically upon the release of the title. The expense recorded in the consolidated statements of operations for the years ended December 31, 2018 and 2017 were \$14,394 and \$2,000.

**Earnings (loss) Per Share**

Basic net income per common share is computed based on the weighted average number of shares of all classes of common stock outstanding. Diluted net income per common share is computed based on the weighted average number of common shares outstanding increased, when applicable, by dilutive common stock equivalents, comprised of Class W warrants, Class Z warrants and stock options outstanding.

In computing the effect of dilutive common stock equivalents, the Company uses the treasury stock method to calculate the related incremental shares.

**Client Concentration**

For the year ended December 31, 2018, we had 1 customer, which accounted for 15% of our total revenue. As of December 31, 2018, the Company had 2 customers that accounted for 46% of accounts receivable (the largest of which accounted for 32%). For the year ended December 31, 2017, the Company had 4 customers that accounted for 77% of total revenue (the largest of which accounted for 28%). As of December 31, 2017, the Company had 1 customer that accounted for 58% of accounts receivable.

**Reclassification**

Certain prior year balances have been reclassified to conform to the current year presentation. In the consolidated statements of income and comprehensive income, prior year revenue has been presented in a manner more representative of the Company's current revenue streams. These reclassifications have no effect on previously reported net income.

**Chicken Soup for the Soul Entertainment, Inc.**  
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**Note 3 – Recent Accounting Pronouncements**

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule was effective on November 5, 2018. The Company adopted the rule in the fourth quarter of 2018 and the impact on its consolidated financial statements was not material.

In June 2018, the FASB issued Accounting Standards Update ("ASU") 2018-07, *Compensation – Stock Compensation Topic 718: Improvements to Nonemployee Share-Based Payment Accounting*, which is intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. Under the new guidance, equity-classified nonemployee awards are to be measured on the grant date, rather than on the earlier of (1) the performance commitment date or (2) the date at which the nonemployee's performance is complete. ASU 2018-07 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018 for public entities and after December 15, 2019 for all other entities. Early adoption is permitted but not before an entity adopts ASC 606. The Company will adopt ASU 2018-07 in the first quarter of 2019 and does not expect the impact on its consolidated financial statements to be material.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. The Company will adopt ASU 2016-02 in the first quarter of 2019 utilizing the modified retrospective transition method through a cumulative-effect adjustment at the beginning of the first quarter of 2019. The Company will adopt ASU 2016-02 in the first quarter of 2019 and does not expect the impact on its consolidated financial statements to be material.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. For public entities, this standard is effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). For all other entities, this standard is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). Being an emerging growth company, the Company will adopt ASU 2014-09 in the first quarter of 2019 and apply the modified retrospective approach. Because the Company's primary source of revenue is from episodic television shows when each episode becomes available for delivery and available for broadcast, and multi-film sales when available for initial exploitation by customers, the Company does not expect the impact on its consolidated financial statements to be material.

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**Note 4 – Business Combination**

*A Plus*

Effective December 28, 2018, we completed the acquisition of 100% of the outstanding capital stock of A Sharp Inc. (d/b/a “A Plus”). A Plus is a digital media company that develops and distributes high-quality, empathetic short-form videos and articles to millions of people worldwide, with an emphasis on positive journalism and social change. A Plus had reach of nearly 3 billion content views in 2018 and increased its social media by 10% to over 3.2 million followers. A Plus was founded by and is chaired by renowned actor and investor, Ashton Kutcher.

Prior to the acquisition, A Plus was majority owned by an affiliate of our parent company, Chicken Soup for the Soul, LLC (“CSS”). In September 2016, we entered into a distribution agreement with A Plus (the “A Plus Distribution Agreement”), pursuant to which we received the exclusive worldwide rights to distribute all video content (in any and all formats) and all editorial content (including articles, photos and still images) created, produced, edited or delivered by A Plus. Under the terms of the Distribution Agreement, we received a net distribution fee equal to 40% of gross revenue generated by the distribution of the A Plus video content.

As a result of the acquisition, A Plus is now a wholly owned subsidiary of our company, and the A Plus Distribution Agreement has been terminated, resulting in our retention of 100% of the revenues generated by A Plus and projected cost savings. The acquisition of A Plus is expected to have a material positive impact on the Company’s consolidated financial position, results of operations and cash flows.

The Purchase Price otherwise payable by the Company was reduced by approximately \$3.3 million of advances owed by A Plus to the Company. The balance of the cash portion of the purchase price was used to reduce all open amounts under the intercompany cash management account. Any excess amount that may be due to CSS will be deferred and will be carried in the intercompany cash management system until amortized in accordance with prior practice.

The Company accounted for its acquisition of A Plus in accordance with ASC Subtopic 805-50, “Transactions between entities under common control”. All net assets have been transferred at their carrying amounts at the date of transfer and financial statements of the have been restated to reflect the transaction from the date of common ownership. The consolidated financial statements have been restated as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Thus, the consolidated results of operations for the period comprise those of the previously separate entities combined from the beginning of the earliest period presented. Financial statements and financial information presented for prior years have been retrospectively adjusted to furnish comparative information as required. All comparative information in prior years have been adjusted for periods during which the entities were under common control.

The effects of intra-entity transactions on current assets, current liabilities, revenue, and cost of sales for periods presented and on retained earnings at the beginning of the periods presented have been eliminated where applicable.

*Pivotshare*

Effective August 22, 2018, the Company completed the acquisition of all the outstanding capital stock of Pivotshare for approximately \$258,000 in cash, the issuance of 134,000 shares of Series A preferred stock valued at \$3.4 million and the issuance of 74,235 shares of Class A common stock valued at \$731,957. A portion of the Series A preferred stock and the Class A common stock included in the Purchase Price are held in escrow for noncompete and indemnification obligations of Pivotshare and its stockholders.

Pivotshare is the developer and owner of a global subscription-based video on-demand service (“SVOD”) offering channels online across a variety of categories including music, sports, religion, arts and culture, lifestyle and family. Content on most of those channels is owned and provided by third-party content publishers in accordance with terms of the Pivotshare Publishers Agreements.

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The acquisition is accounted for as a purchase of a business under ASC 805, and the aggregate purchase price consideration of \$4.4 million has been allocated to the assets acquired and liabilities assumed, based on management's analysis and information received from an independent third-party appraisal. The preliminary results are as follows:

**Purchase price consideration allocated to fair value of net assets acquired:**

Accounts receivable, net	\$ 5,239
Other current assets	11,917
Property and equipment, net	7,771
Deferred tax asset	407,000
Other assets	29,138
Other intangible asset	
Intangibles	2,820,410
Goodwill	1,300,319
<b>Assets acquired</b>	<b>4,581,794</b>
Accounts payable and accrued expenses	(98,325)
Other current liabilities	(472,694)
<b>Liabilities assumed</b>	<b>(571,019)</b>
<b>Total purchase consideration, less cash acquired</b>	<b>\$ 4,010,776</b>

**Purchase Price Consideration Allocation:**

Cash consideration	\$ 257,758
Equity consideration - Class A common stock	731,957
Equity consideration - Series A Preferred Stock	3,350,000
<b>Purchase price consideration</b>	<b>4,339,715</b>
Less: cash acquired	(328,939)
<b>Total purchase consideration, less cash acquired</b>	<b>\$ 4,010,776</b>

The fair value of Pivotshare's installed customer base as well as its former chief executive officers non-compete agreement, were the most significant assets recorded from the acquisition of Pivotshare. In determining the fair value of the installed customer base, the independent third-party appraiser utilized a traditional Customer Life Value (CLV) model. This model took into account average revenue per customer, margins and customer churn rate. In determining the fair value of the former chief executive officers noncompete agreement, the appraiser calculated the value of the securities held in escrow to secure the non-compete.

Aggregate acquisition-related costs related to the Purchase, including legal fees, accounting fees and investment advisory fees were approximately \$267,305 and are recognized as an expense in the consolidated condensed statements of operations for the year ended December 31, 2018.

*Screen Media Ventures*

Effective November 3, 2017, the Company completed the acquisition of all of the membership interests of Screen Media for approximately \$4.9 million in cash and the issuance of 35,000 shares of the Company's Class A common stock and Class Z warrants of the Company exercisable into 50,000 shares of the Company's Class A common stock at \$12 per share (the "Purchase"). Screen Media operates Popcornflix®, an advertiser-supported direct-to-consumer online video service ("AVOD") and distributes television series and films worldwide.

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The acquisition is accounted for as a purchase of a business under ASC 805, and the aggregate purchase price consideration of \$5.3 million has been allocated to the assets acquired and liabilities assumed, based on management's analysis and information received from an independent third-party appraisal, as follows:

<b>Purchase Price Consideration Allocation:</b>	
Cash consideration	\$ 4,905,355
Equity consideration - Class A common stock	281,050
Equity consideration - Class Z warrants	143,500
<b>Purchase price consideration</b>	<b>5,329,905</b>
Less: cash acquired	(221,541)
<b>Total purchase consideration, less cash acquired</b>	<b>\$ 5,108,364</b>

**Purchase price consideration allocated to fair value of net assets acquired:**

Accounts receivable, net	\$ 2,405,654
Prepaid expenses	175,719
Video inventory	343,308
Property and equipment, net	123,115
Other intangible asset	125,000
Popcornflix film rights and other assets	7,163,943
Film library, net	22,940,151
<b>Assets acquired</b>	<b>33,276,890</b>
Accounts payable and accrued expenses	(774,350)
Customer deposits	(210,846)
Accrued participations payable	(2,137,983)
Film obligations	(723,600)
<b>Liabilities assumed</b>	<b>(3,846,779)</b>
Gain on bargain purchase	(24,321,747)
<b>Total purchase consideration, less cash acquired</b>	<b>\$ 5,108,364</b>

The fair value of the Screen Media film library, as well as the Popcornflix film rights and other assets, were the most significant assets recorded from the acquisition of Screen Media. In determining the fair value of these assets, the independent third-party appraiser utilized an income-based approach ("DCF"). Under the income-based approach, the third-party appraiser calculated the net present value ("NPV") of after-tax cash flows as expected from the film library and from Popcornflix. The NPV was added to a terminal or exit value for these assets to obtain estimates of fair value.

Based on the fair value of the net assets acquired, the acquisition of Screen Media resulted in a gain on bargain purchase of \$24.3 million. Screen Media, in recent years, had been heavily indebted and their lenders allowed it to seek an acquirer who would pay an agreed-upon amount to such lenders, who were willing to accept a significant reduction in the total indebtedness due. This allowed the Company to acquire Screen Media on a debt-free basis at a significant discount.

Aggregate acquisition-related costs related to the Purchase, including legal fees, accounting fees and investment advisory fees is approximately \$2.2 million, and is recognized as an expense in the consolidated statement of income and comprehensive income for the year ended December 31, 2017.

The Company's consolidated statement of income and comprehensive income include net revenue of \$3.0 million and gross pre-tax profit of \$0.6 million, from Screen Media's operations from the date of acquisition on November 3, 2017 through December 31, 2017.

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The following combined unaudited pro forma information assumes the acquisition of Screen Media occurred on January 1, 2017 (the “Unaudited Information”). The Unaudited Information presented below is for illustrative purposes only. The Unaudited Information is not necessarily indicative of results that would have been achieved had the Company controlled Screen Media’s operations during the periods presented or the results that the Company will experience going forward. The Unaudited Information does not include the gain on bargain purchase of \$24.3 million.

	<b>Year Ended December 31,</b>	
	<b>(Unaudited)</b>	
	<b>2017</b>	
Net revenue	\$	18,836,046
Cost of revenue		8,925,863
Gross profit		9,910,183
Operating expenses		12,312,030
Net loss		(3,269,071)
<b>Net loss per common share:</b>		
Basic net loss per common share		(0.32)
Diluted net loss per common share		(0.32)

**Note 5 – Episodic Television Programs**

(a) In September 2014, CSS and a charitable foundation (the “Foundation”), entered into an agreement under which the Foundation agreed to sponsor a Saturday morning family television show, *Chicken Soup for the Soul’s Hidden Heroes* (“*Hidden Heroes*”), a half-hour hidden-camera family friendly show that premiered on the CBS Television Network (“CBS”). The Foundation is a not-for-profit charity that promotes tolerance, compassion and respect. The Foundation has funded four seasons of *Hidden Heroes*.

(b) In September 2015, CSS Productions received corporate sponsorship funding from a company (the “Sponsor”), to develop the Company’s second episodic television series entitled *Project Dad*, a *Chicken Soup for the Soul Original* (“*Project Dad*”). *Project Dad* presents three busy celebrity dads as they put their careers on the “sidelines” and get to know their children like never before.

The *Project Dad* slate is comprised of eight, one-hour episodes that aired weekly on Discovery Communications, LLC’s Discovery Life network in November and December 2016. In addition, in January 2017, *Project Dad* began airing on Discovery Communications, LLC’s TLC network.

In 2017, the Sponsor funded a new parenting series called *Being Dad*, our third episodic television show, comprised of eight, one-hour episodes that were available for delivery and available for broadcast in the fourth quarter of 2017 and will begin airing in 2018.

(c) On June 20, 2017, the Company entered into an agreement with HomeAway.com and received corporate sponsorship funding for our fourth episodic television series entitled *Vacation Rental Potential*.

This series, comprised of eight, one-hour episodes began airing on the A&E Network in November and December 2017. The show gives viewers the information needed to obtain their dream vacation.

On March 28, 2018, HomeAway.com agreed to sponsor a second season of *Vacation Rental Potential*, which will be comprised of ten, half-hour episodes and fifty, one-minute short form videos. At HomeAway’s option, the second season may be expanded by an additional six, half-hour episodes.

(d) In July and August 2018, the Company signed agreements with Acorns Grow, Inc., Handy Technologies, Inc., Adobe Systems Inc., State Farm, and Chegg Inc. to sponsor the Company’s fifth episodic television series entitled *Going From Broke*.

The series will comprise ten, half-hour episodes to air on a major network or cable broadcast platform and thirty-two, one-minute short form videos. The essence of the show is to pair a financial expert with a twenty-something college graduate trying to make their way out of student and other debt and execute a plan that will lead to financial stability.

(e) In December 2018, the company signed agreements with Chicken Soup for the Soul Pet Food and American Humane, the country’s first national humane organization, to sponsor *Chicken Soup for the Soul’s Animal Tales* began airing on The CW in 2019.

*Chicken Soup for the Soul’s Animal Tales* will consist of 15 half-hour episodes. *Chicken Soup for the Soul Pet Food* makes a complete line of super premium dog and cat food, made from the finest natural ingredients for every stage of pet life. American Humane has sponsored content with CSS Entertainment in the past, telling the heroic and inspiring stories of the safety, welfare, and well-being of animals.

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**Note 6 – Share-Based Compensation**

Effective January 1, 2017, the Company adopted the 2017 Long Term Incentive Plan (the “Plan”) to attract and retain certain employees. The Plan provides for the issuance of up to one million common stock equivalents subject to the terms and conditions of the Plan. The Plan generally provides for quarterly and bi-annual vesting over terms ranging from two to three years. The Company accounts for the Plan as an equity plan.

The Company recognized these stock options at fair value determined by applying the Black Scholes options pricing model to the grant date market value of the underlying common shares of the Company.

The compensation expense associated with these stock options is amortized on a straight-line basis over their respective vesting periods. For the year ended December 31, 2018 and 2017, the Company recognized \$857,073 and \$572,905, respectively, of non-cash share-based compensation expense in selling, general and administrative expense in the consolidated statements of comprehensive income. There were 462,919 stock options vested at December 31, 2018.

Stock options activity as of December 31, 2018 is as follows:

	<u>As of December 31, 2018</u>		<b>Weighted Average Remaining Contract Term (Yrs.)</b>	<b>Aggregate Intrinsic Value</b>
	<b>Number of Stock Options</b>	<b>Weighted Average Exercise Price</b>		
Total outstanding at December 31, 2017	690,000	\$ 7.61	4.32	\$ 1,079,500
Granted	32,500	9.66	4.45	-
Forfeited	(60,000)	9.74	3.67	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at December 31, 2018	<u>662,500</u>	<u>\$ 7.52</u>	<u>3.34</u>	<u>\$ 332,100</u>
Vested and exercisable at December 31, 2018	<u>462,919</u>	<u>\$ 7.03</u>	<u>3.16</u>	<u>\$ 318,778</u>

As of December 31, 2018, the Company had unrecognized pre-tax compensation expense of \$787,235 related to non-vested stock options under the Plan of which \$449,0233, \$315,271 and \$22,941 will be recognized in 2019, 2020 and 2021, respectively.

We used the following weighted average assumptions to estimate the fair value of stock options granted for the periods presented as follows:

<b>Weighted Average Assumptions:</b>	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Expected dividend yield	0.0%	0.0%
Expected equity volatility	57.1%	57.0%
Expected term (years)	5.00	2.57
Risk-free interest rate	2.10%	2.05%
Exercise price per stock option	\$ 7.52	\$ 7.61
Market price per share	\$ 6.80	\$ 6.92
Weighted average fair value per stock option	\$ 3.26	\$ 3.33

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The risk-free rates are based on the implied yield available on US Treasury constant maturities with remaining terms equivalent to the respective expected terms of the options. The Company estimates expected terms for stock options awarded to employees using the simplified method in accordance with ASC 718, *Stock Compensation* because the Company does not have sufficient relevant information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for stock options using the contractual term. Expected volatility is calculated based on the Company's peer group because the Company does not have sufficient historical data and will continue to use peer group volatility information until historical volatility of the Company is available to measure expected volatility for future grants.

The Company also awards common stock grants to directors and non-employee executive producers that provide services to the Company.

The Company also awards common stock grants to directors and non-employee executive producers that provide services to the Company. For the year ended December 31, 2018 and 2017, the Company recognized in selling, general and administrative expense, non-cash share-based compensation expense relating to stock grants of \$96,615 and \$65,353, respectively.

Additionally, for the year ended December 31, 2017, the Company capitalized as programming costs, the fair value of Class A common stock and Class Z warrants totaling \$625,500 issued to a non-employee executive producer of two television shows to be produced, based on an independent valuation of such shares and warrants. The programming costs will be amortized to cost of revenue as the television shows become available for delivery in accordance with Company accounting policy.

In January 2018, the Company's board of directors approved an increase, subject to stockholder approval, to the number of shares available for grant pursuant to the Plan to 1,250,000 shares from 1,000,000 shares. The increase in the number of shares available for grant under the Plan was ratified by stockholders at the Company's annual meeting of stockholders on June 13, 2018.

**Note 7 – Earnings Per Share**

A reconciliation of shares used in calculating basic and diluted per share data is as follows:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Net (loss) income available to common stockholders	\$ (1,957,882)	\$ 21,081,283
Basic weighted-average shares outstanding	11,944,528	10,414,031
Effect of dilutive securities:		
Assumed issuance of shares from exercise of stock options*	-	50,274
Assumed issuance of shares from exercise of warrants*	-	118,156
Diluted weighted-average shares outstanding*	<u>11,944,528</u>	<u>10,582,461</u>
Earnings per share:		
Basic	\$ (0.16)	\$ 2.02
Diluted	(0.16)	1.99

\* In 2018 common stock equivalents totaling 239,702 were excluded from the calculation of diluted earnings per share because their effect is anti-dilutive.

**Note 8 – Programming Costs**

Programming costs, net of amortization, consists of the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Released, net of accumulated amortization of \$9,473,308 and \$6,725,362, respectively	\$ 11,418,244	\$ 6,218,499
In production	17,099	12,784
In development	1,355,146	1,419,862
	<u>\$ 12,790,489</u>	<u>\$ 7,651,145</u>

**Note 9 – Film Library**

Film library costs, net of amortization, consists of the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Acquisition costs	\$ 33,176,802	24,034,514
Accumulated amortization	(7,838,300)	(1,378,869)
Net film library costs	<u>\$ 25,338,502</u>	<u>22,655,645</u>

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**Note 10 – Goodwill and Intangible Assets**

Indefinite lived Intangible assets, consists of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Intangible asset - video content license	\$ 5,000,000	\$ 5,000,000
Popcomflix film rights and other assets	7,163,943	7,163,943
	<u>\$ 12,163,943</u>	<u>\$ 12,163,943</u>

Intangible assets, consists of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Acquired customer base, net	\$ 2,118,473	\$ -
Non-compete agreement, net	463,898	-
Website Development, net	389,266	198,495
	<u>\$ 2,971,637</u>	<u>\$ 198,495</u>

Amortization expense was \$326,986 and \$9,819 for the years ended December 31, 2018 and 2017, respectively.

Goodwill consists of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Goodwill: Pivotshare	\$ 1,300,319	\$ -
Goodwill: A-Plus	1,236,760	1,236,760
	<u>\$ 2,537,079</u>	<u>\$ 1,236,760</u>

There was no impairment related to goodwill and intangible assets for any period presented.

**Note 11 – Long-term Debt**

**Commercial Loan**

On December 27, 2018, the company increased the Commercial Loan Revolver from \$2.5 million to \$3.5 million.

On April 27, 2018, the Company entered into the Commercial Loan totaling \$7.5 million, comprised of a \$5.0 million Term Loan and a \$2.5 million Revolver.

The Term Loan was advanced in full on April 27, 2018 and matures on May 1, 2023. Borrowings under the Term Loan bear interest at a fixed rate of 5.75% per annum with interest is payable monthly over a five-year period and was subject to a one-time commitment fee payment of \$75,000. Principal is payable in equal monthly installments of \$83,333 over a five-year period payable, approximately \$0.6 million in 2018, \$1.0 million each in years 2019 through 2022 and \$0.4 million in 2023. Part of the proceeds of the Commercial Loan were used to fully repay \$1.7 million of existing debt (see below) and for general working capital purposes. The Revolver matures on April 26, 2021 and bears interest at the prime rate plus 1.5%, interest only is payable monthly over a three-year period, until such time as the loan is renewed or becomes due and was subject to a one-time commitment fee payment of \$37,500. The Revolver is subject to adjustment based upon eligible accounts receivable supporting such borrowing. Advances made under the Revolver are used for general working capital purposes.

As of December 31, 2018, the principal balance outstanding on the Term Loan is \$4,416,667 and the Revolver balance is \$3,500,000. The Term Loan and the Revolver are presented on the condensed consolidated balance sheets net of unamortized debt issuance costs of \$334,554. For the twelve months ended December 31, 2018, the Company incurred \$330,875 of interest expense on the Term Loan and Revolver. Part of the Commercial Loan advance was used to fully repay \$1.7 million of senior secured notes payable under the revolving line of credit to a related party and all associated accrued interest, as discussed below.

The Commercial Loan includes customary financial covenants and restrictions including maintaining an account at Patriot Bank, N.A. with an average balance of \$750,000 in any trailing 90-day period or the interest rate will increase by 0.50%.

**Senior Secured Revolving Line of Credit**

On May 12, 2016, the Company entered into a revolving credit line (the "Credit Facility") with an entity controlled by its chief executive officer (the "Lender"). Under the amended terms of the Credit Facility, the Company was able to borrow up to an aggregate of \$4,500,000 until the maturity date of January 2, 2019. Advances made under the Credit Facility were used for working capital and general corporate purposes.

Borrowings under the Credit Facility bore interest at 5% per annum and an annual fee equal to 0.75% of the unused portion of the Credit Facility, payable monthly in arrears in cash.

The balance outstanding under the Credit Facility prior to the IPO was \$4.5 million which was repaid in full on August 23, 2017 from the proceeds of the IPO. As of December 31, 2018, and 2017, advances under the Credit Facility totaled \$0 and \$1,500,000, respectively.

On April 27, 2018, the Company repaid the Credit Facility in full from the proceeds of the Commercial Loan and the Credit Facility was terminated by the Company and the Lender.

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In connection with the Credit Facility, the Company issued Class W warrants to the Lender to purchase 157,500 shares of the Company's Class A common stock at an exercise price of \$7.50 per share. All Warrants issued to the Lender expire on May 12, 2021

The Credit Facility and the related warrants were accounted for in accordance with ASC 470, which provides, among other things, that the fair value is allocated between the debt and the related warrants.

The fair value of the warrants issued was determined to be \$424,025 using the Black-Scholes option-pricing model and the relative fair value of the warrants was recorded as a discount to the Credit Facility with a corresponding credit to additional paid-in capital.

As of December 31, 2018, the debt discount and deferred financing costs related to the Credit Facility were fully amortized.

For the year ended December 31, 2018 and 2017, cash interest expense paid on the Credit Facility was \$30,267 and \$144,005, respectively.

**Senior Secured Notes Payable**

From July 2016 through May 2017, the Company sold in a private placement ("Debt Private Placement") \$5,000,000 aggregate principal amount of 5% senior secured term notes (the "Term Notes") and Class W warrants to purchase an aggregate of 460,000 shares of Class A common stock at \$7.50 per share (the "Warrants").

In June 2017, at the election of certain Noteholders, the Company converted \$918,000 of Term Notes into 102,060 Class A common shares at a conversion price per share of \$9 and issued Class Z warrants to purchase an aggregate of 30,618 shares of Class A common stock at \$12 per share, to those Noteholders that elected to convert.

The Term Notes ranked pari passu with the Credit Facility and senior to any existing or future indebtedness of the Company. The Term Notes were secured by a first priority security interest and lien on all tangible and intangible assets of the Company and were subject to an intercreditor agreement with respect to the Credit Facility.

The Term Notes were repaid in full on August 18, 2017 from the proceeds of the IPO. The Term Notes and the Warrants were accounted for in accordance with ASC 470: Debt which provides, among other things, that the fair value is allocated between the debt and the related warrants. The Warrants are exercisable at any time prior to June 30, 2021 and are callable under certain circumstances, but in no event prior to January 31, 2018.

The fair value of the Warrants was determined to be \$1,079,360 using the Black-Scholes option-pricing model and the relative fair value of the warrants was recorded as a discount to the Term Notes with a corresponding credit to additional paid-in capital.

For the year ended December 31, 2017, amortization of the debt discount of \$627,973, amortization of deferred financing costs of \$40,902, and interest expense paid or accrued for on the Term Notes of \$136,526, is included in interest expense in the accompanying condensed consolidated statement of operations.

Officers of the Company and of CSS, and their family members, participated in the Debt Private Placements on the same terms and conditions as other investors (Note 15).

As of December 31, 2018, the expected aggregate maturities of long-term debt for each of the next five years are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2019	\$ 1,000,000
2020	1,000,000
2021	4,500,000
2022	1,000,000
2023	416,667
	<u>\$ 7,916,667</u>

**Note 12 – Stockholders' Equity**

**Equity Structure**

The Company is authorized to issue 70,000,000 shares of Class A common stock, par value \$0.0001 ("Class A Stock"), 20,000,000 shares of Class B common stock, par value \$0.0001 ("Class B Stock"), and 10,000,000 shares of preferred stock, par value \$0.0001, of which 1,500,000 shares are designated Series A preferred stock.

Effective June 29, 2018, the Company completed the sale of 600,000 shares of its 9.75% Series A Cumulative Redeemable Perpetual Preferred Stock ("Series A Preferred Stock") at an offering price of \$25.00 per share.

Holders of the Series A Preferred Stock will receive cumulative cash dividends at a rate of 9.75% per annum, as and when declared by the board of directors. Holders of Series A Preferred Stock generally have no voting rights except for the right to add two members to the board of directors if dividends payable on the outstanding Series A Preferred Stock are in arrears for eighteen or more consecutive or non-consecutive monthly dividend periods. The Series A Preferred Stock is not convertible into common stock of the Company.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

If the Company liquidates, dissolves or winds up, holders of the Series A Preferred stock will have the right to receive \$25.00 per share, plus any accumulated and unpaid dividends before any payment is made to the holders of the Company's Class A and Class B common stock.

The Series A Preferred Stock is not redeemable by the Company prior to June 27, 2023 except upon the occurrence of a change in control which the Company, at its option, may redeem the Series A Preferred Stock, in whole or in part, within 120 days after the change in control, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the redemption date.

After June 27, 2023, the Company may, at its option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the redemption date.

On July 10, 2018, the underwriters for the sale of the Company's Series A Preferred Stock exercised a portion of their option and purchased 46,497 additional shares of Series A Preferred Stock to cover over-allotments. The Company received approximately \$1.1 million, net of underwriting discounts and commissions of \$0.1 million, as a result of the exercise of the option.

On August 22, 2018, in connection with the acquisition of Pivotshare, Inc., the company issued 134,000 shares of the Company's 9.75% Series A Preferred Stock.

On November 19, 2018, the company completed the offering and sale of 138,000 shares of its 9.75% Series A Preferred Stock.

On December 28, 2018, the company completed the acquisition of A Plus, issuing 350,299 of its Class A Common Stock.

As of December 31, 2018, and 2017, the Company had 4,153,505 and 3,746,054 shares of Class A Stock outstanding, respectively and 7,817,238 and 7,863,938 shares of Class B Stock outstanding, respectively. Each holder of Class A Stock is entitled to one vote per share while holders of Class B Stock are entitled to ten votes per share. At December 31, 2018 and 2017, the company had 918,497 and nil shares of Series A Preferred Stock outstanding, respectively.

The Company declared a special one-time dividend of \$0.45 per share on shares of Class A and Class B common stock to holders of record of such stock as of August 6, 2018. The special one-time dividend totaling approximately \$5.2 million was paid on August 10, 2018. As a result of the special one-time dividend, a payment of approximately \$3.4 million was made to CSS as a holder of Class B common stock.

On March 27, 2018, the board of directors of the Company approved a stock repurchase program (the "Repurchase Program") that enables the Company to repurchase up to \$5.0 million of its Class A common stock prior to April 30, 2020. As of December 31, 2018, the Company has repurchased 74,235 shares of its Class A common stock pursuant to the Repurchase Program at a cost of approximately \$633,000.

**Recapitalization**

As described in Note 1, in May 2016, pursuant to the terms of the CSS Contribution Agreement, the Company issued 8,600,568 shares of the Company's Class B common stock as consideration paid for all video content assets owned by CSS, CSS Productions and their CSS subsidiaries. CSS Productions transferred certain of these shares of Class B common stock to third parties.

Concurrently with the consummation of the CSS Contribution Agreement, certain rights to receive payments under certain agreements comprising part of the Subject Assets owned by Trema, LLC ("Trema"), a company principally owned and controlled by William J. Rouhana, Jr., the Company's chairman and chief executive officer, were assigned to the Company under a contribution agreement (the "Trema Contribution Agreement") in consideration for the Company's issuance to Trema of 159,432 shares of our Class B common stock. The Company recorded \$16 par value of common stock and \$792,000 of additional paid-in capital as of June 30, 2016.

**Equity Private Placements**

Between June 2016 and May 2017, the Company sold Class A common stock in two private placements. From June 2016 through November 2016, the Company sold in a private placement (the "2016 Equity Private Placement") a total of 17,096 units with aggregate proceeds of \$1,025,760, consisting of an aggregate of 170,960 shares of Class A common stock and Warrants to purchase an aggregate of 51,288 shares of Class A common stock.

The purchase price of each unit was \$60 and each unit consisted of 10 shares of Class A common stock and 3 Warrants exercisable at \$7.50 each. The Warrants are exercisable at any time prior to June 30, 2021 and are accounted for as equity warrants. The Warrants are callable under certain circumstances, but in no event prior to January 31, 2018.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

From November 2016 and through May 2017, the Company sold in a private placement (the “2017 Equity Private Placement”) a total of 15,011 units with aggregate proceeds of \$975,710 consisting of an aggregate of 150,112 shares of Class A common stock and Warrants to purchase an aggregate of 45,034 shares of Class A common stock.

The purchase price of each unit was \$65 and each unit consisted of 10 shares of Class A common stock and 3 Warrants exercisable at \$7.50 each. The Warrants are exercisable at any time prior to June 30, 2021 and are accounted for as equity warrants. The Warrants are callable under certain circumstances, but in no event prior to January 31, 2018. Family members of officers of the Company and of CSS participated in the 2016 Equity Private Placement and the 2017 Equity Private Placement on the same terms and conditions as other investors (see Note 14).

In two separate transactions, other parties purchased a total of 55,000 shares of Class A common stock and Warrants to purchase an aggregate of 50,000 shares of Class A common stock. Total proceeds to the Company were \$487,500.

**Executive Producer Shares**

As described in Note 6, in June 2017 the Company issued 50,000 shares of Class A common stock and a Class Z warrant to purchase 50,000 shares of Class A common stock at \$12 per share to a non-employee executive producer of two television shows to be produced by the Company. Based on an independent third-party valuation of such shares and warrants, the fair value of this award using observable market input for the Class A common stock issuance and a Black Scholes model for the warrant totaled \$625,500.

**Note 13 – Income Taxes**

The Company’s current and deferred income tax (benefit) provision are as follows:

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Current provision (benefit):</b>		
Federal	\$ 4,000	\$ -
States	90,000	33,000
<b>Total current provision</b>	<b>\$ 94,000</b>	<b>\$ 33,000</b>
<b>Deferred provision (benefit):</b>		
Federal	\$ 575,000	\$ (559,000)
States	205,000	(199,000)
<b>Total deferred provision (benefit)</b>	<b>780,000</b>	<b>(758,000)</b>
<b>Total provision (benefit) for income taxes</b>	<b>\$ 874,000</b>	<b>\$ (725,000)</b>

**Chicken Soup for the Soul Entertainment, Inc.**  
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The (benefit) provision for income taxes is different from amounts computed by applying U.S. statutory rates to consolidated earnings before taxes. The significant reason for these differences is as follows:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Expected tax provision -- Income taxes computed at Federal statutory rate (21% for 2018; 35% for 2017)	\$ 6,000	\$ 7,125,000
<i>Increase (decrease) in tax expense resulting from:</i>		
Gain on bargain purchase	-	(8,512,000)
Amortization of debt discount	-	303,000
State and local taxes	276,000	43,000
Tax on pre-incorporation income of predecessor	-	-
Programming costs	(1,384,000)	(178,000)
Net operating losses	-	129,000
Acquisition-related costs	116,000	204,000
Share-based compensation - long-term incentive plan	237,000	201,000
Film library	1,620,000	-
Other	3,000	(40,000)
<b>Actual tax provision</b>	<b>\$ 874,000</b>	<b>\$ (725,000)</b>

Deferred income taxes reflect the “temporary differences” between the financial statement carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, adjusted by the relevant tax rate. The components of the deferred tax assets and liabilities are as follows:

	<b>December 31, 2018</b>	<b>(1) December 31, 2017</b>
<b>Deferred Tax Assets:</b>		
Net operating loss carry-forwards	\$ 3,022,000	\$ 1,772,000
Acquisition-related costs	663,000	584,000
Film library	427,000	-
Deferred state taxes	157,000	115,000
Less: valuation allowance	(719,000)	(110,000)
<b>Total Deferred Tax Assets</b>	<b>\$ 3,550,000</b>	<b>\$ 2,361,000</b>
<b>Deferred Tax Liabilities:</b>		
Programming costs	2,779,000	1,395,000
Other assets	319,000	141,000
<b>Total Deferred Tax Liabilities</b>	<b>\$ 3,098,000</b>	<b>\$ 1,536,000</b>
<b>Net deferred tax asset</b>	<b>\$ 452,000</b>	<b>\$ 825,000</b>

(1) We adjusted our federal deferred income tax assets and liabilities as of December 31, 2017 to reflect the reduction in the U.S. statutory federal corporate income tax rate from 35% to 21% resulting from the Tax Act.

The Company has net operating losses of approximately \$9,492,000 which expire between 2013 and 2037 and \$1,731,000 which, as a result of changes enacted in the Tax Act, does not expire but the annual deduction for which is limited to 80% of taxable income. The ultimate realization of the net operating losses is dependent upon future taxable income, if any, of the Company and may be limited in any one period by alternative minimum tax rules.

Internal Revenue Code Section 382 imposes limitations on the use of net operating loss carryovers when the stock ownership of one or more 5% stockholders (stockholders owning 5% or more of the Company’s outstanding capital stock) has increased by more than 50 percentage points. Management has determined that the net operating loss carryovers from the acquisitions of A Plus and Pivotshare (representing the entire balance of \$11,223,000) will be limited to approximately \$8,552,000 and, accordingly, has recorded a deferred tax asset valuation allowance of \$719,000. Public trading of company stock poses a risk of an ownership change beyond the control of the Company that could trigger a limitation of the use of the loss carryover.

The deferred tax asset valuation allowance has increased by \$609,000 in 2018.

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**Notes to Consolidated Financial Statements**

**Note 14 – Related Party Transactions**

**(a) Affiliate Resources and Obligations**

In May 2016, the Company entered into agreements with CSS and affiliated companies that provide the Company with access to important assets and resources as described below (the “2016 Agreements”). The 2016 Agreements include a management services agreement and a license agreement. A summary of the 2016 Agreements is as follows:

***Management Services Agreement***

The Company is a party to a Management Services Agreement with CSS (the “Management Agreement”). Under the terms of the Management Agreement, the Company is provided with the operational expertise of the CSS companies’ personnel, including its chief executive officer.

Pursuant to the Management Agreement, the Company also receives other services, including accounting, legal, marketing, management, data access and back office systems, and requires CSS to provide office space and equipment usage.

Under the terms of the Management Agreement, commencing with the fiscal quarter ended March 31, 2016, the Company pays a quarterly fee to CSS equal to 5% of the gross revenue as reported under GAAP for each fiscal quarter.

Since the completion of the IPO, the Company reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the quarterly fee is based on gross revenue as reported in the applicable public filing under the Exchange Act for each fiscal quarter. For the years ended December 31, 2018 and 2017, the Company recorded management fee expense of \$532,850 and \$405,932, respectively, payable to CSS.

Each quarterly amount due shall be paid on or prior to the later of the 45th day after the end of such quarter, or the 10th day after the filing of the applicable Exchange Act report for such quarter. On August 21, 2017, the Company paid to CSS \$739,422 in management fees that were owed for the years 2015 and 2016 and for the six months ended June 30, 2017.

In addition, for any sponsorship that is arranged by CSS for the Company’s video content or that contains a multi-element transaction for which the Company receives a portion of such revenue and CSS receives the remaining revenue (for example, a transaction that relates to both video content and CSS’s printed products), the Company shall pay a sales commission to CSS equal to 20% of the portion of such revenue earned. Each sales commission shall be paid within 30 days of the end of the month in which received. If CSS actually collects the Company’s portion of such fee, CSS will remit the revenue due to the Company after deducting the sales commission. There were no sales commissions earned or paid to CSS during the years ended December 31, 2018 and 2017.

The term of the Management Agreement is five years, with automatic one-year renewals thereafter unless either party elects to terminate by delivering written notice at least 90 days prior to the end of the then current term. The Management Agreement is terminable earlier by either party by reason of certain prescribed and uncured defaults by the other party. The Management Agreement will automatically terminate in the event of the Company’s bankruptcy or a bankruptcy of CSS or if the Company no longer has licensed rights from CSS under the License Agreement described below.

***License Agreement***

The Company is a party to a trademark and intellectual property license agreement with CSS (the “License Agreement”). Under the terms of the License Agreement, the Company has been granted a perpetual, exclusive license to utilize the Brand and related content, such as stories published in the Chicken Soup for the Soul books, for visual exploitation worldwide.

In consideration of the License Agreement, in May 2016 the Company paid to CSS a one-time license fee of \$5,000,000. Under the terms of the License Agreement, commencing with the fiscal quarter ended March 31, 2016, the Company also pays an incremental recurring license fee to CSS equal to 4% of gross revenue as reported under GAAP for each fiscal quarter.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

Since the completion of the IPO, the Company reports under the Exchange Act and the quarterly fee is based on gross revenue as reported in the applicable public filing under the Exchange Act for each fiscal quarter. Each quarterly amount shall be paid on or prior to the later of the 45th day after the end of such quarter, or the 10<sup>th</sup> day after the filing of the applicable Exchange Act report for such quarter. On August 21, 2017, the Company paid to CSS \$572,172 in license fees that were owed for the years 2015 and 2016 and for the six months ended June 30, 2017.

In addition, CSS provides marketing support for the Company's productions through its email distribution, blogs and other marketing and public relations resources. Commencing with the fiscal quarter ended March 31, 2016, the Company shall pay a quarterly fee to CSS equal to 1% of gross revenue as reported under GAAP for each fiscal quarter for such support. For years ended December 31, 2018 and 2017, the Company recorded license fee expense of \$1.3 million and \$0.4 million, respectively, payable to CSS.

***Due from Affiliated Companies***

As of December 31, 2018, the Company is owed \$1.2 million from affiliated companies, primarily CSS which includes the amounts due from Chicken Soup for the Soul Pet Food for the production of *Chicken Soup for the Soul's Animal Tales*. The Company is part of CSS's central cash management system whereby payroll and benefits are administered by CSS and the related expenses are charged to its subsidiaries, and funds are transferred between affiliates as needed. During 2017, the Company advanced CSS and its subsidiaries a net amount of approximately \$4.7 million.

As noted above, advances and repayments occur periodically. In the first quarter of 2018, CSS repaid \$1.0 million of such net advances it owed to the Company. In the fourth quarter, the balance was significantly reduced as a result of the common control transaction in A Plus. The Company and CSS do not charge interest on the net advances or the net repayments.

***(a) Debt Private Placement and Equity Private Placements***

Officers of the Company and of CSS, and their family members ("Related Parties"), made purchases under the Debt Private Placement, the 2016 Equity Private Placement, and the 2017 Equity Private Placement on the same terms and conditions as offered to other investors.

Prior to the IPO, Related Parties purchased \$1,413,140 under the 2017 Equity Private Placement and \$2,030,000 under the Debt Private Placement. As of December 31, 2016, Related Parties purchased \$1,340,000 under the Debt Private Placement and \$200,040 under the 2016 Equity Private Placement. A portion of the net proceeds received from the IPO were used to fully repay the Term Notes sold in the Debt Private Placement.

**Chicken Soup for the Soul Entertainment, Inc.**  
**Notes to Consolidated Financial Statements**

**(b) Promotions License Agreement**

During 2016, the Company entered into a Promotions License Agreement with One Last Thing (“OLT”) under which the Company paid \$100,000 for the right to integrate certain products into a feature film produced by OLT, such amount being recoupable from the gross revenue of such film. OLT is controlled by the son of the Company’s chairman and chief executive officer. The payment of \$100,000 is included in programming costs in the accompanying consolidated balance sheet as of December 31, 2018.

**Note 15 – Commitments and Contingencies**

In the normal course of business, from time-to-time, the Company may become subject to claims in legal proceedings.

Legal proceedings are subject to inherent uncertainties, and an unfavorable outcome could include monetary damages, and in such event, could result in a material adverse impact on the Company's business, financial position, results of operations, or cash flows.

The Company is not currently, and has not been since inception, subject to any legal claims or actions. Further, the Company has no knowledge of any pending legal actions and does not believe it is currently a party to any pending legal claims or actions.

The Company is contingently liable for a standby letter of credit in connection with its office lease agreement in the amount of \$129,986 as of December 31, 2018.

In connection with the Commercial Loan, the Company must maintain an account at Patriot Bank, N.A. with an average balance of \$750,000 in any trailing 90-day period or the interest rate will increase by 0.50%.

The Company leases its office facilities under the terms of a non-cancelable operating lease agreement that expires on February 28, 2020. Minimum annual rental commitments under the lease are as follows:

Year Ended December 31,	Amount
2019	417,206
2020	71,043
	\$ 488,249

Rent expense recorded in the consolidated statements of operations for the years ended December 31, 2018 and 2017 was \$425,688 and \$67,951, respectively. The Company does not record rent expense for its Connecticut office as it is included under the Management Agreement with CSS.

**Note 16 – Segment and Geographic Information**

The Company’s reportable segments have been determined based on the distinct nature of its operations, the Company's internal management structure, and the financial information that is evaluated regularly by the Company's chief operating decision maker. The Company operates in one reportable segment, the production and distribution of video content, and currently operates in the United States and internationally.

Net revenue generated in the United States accounted for approximately 99% and 99% of total net revenue for the years ended December 31, 2018 and 2017, respectively. Remaining net revenue was generated in the rest of the world. 100% of total consolidated long-lived assets are based in the United States.

**Note 17 – Client Concentration**

The list of our customers changes periodically. Our largest customers accounted for the following percentages of total net revenue:

	Year Ended December 31,	
	2018	2017
Customer A	15%	28%
Customer B	0%	24%

Our largest customers accounted for the following percentages of total gross accounts receivable:

Accounts Receivable	Year Ended December 31,	
	2018	2017
Customer A	32%	58%
Customer B	14%	0%

**Note 18 – Subsequent Events**

*Crackle Plus Joint Venture*

On March 27, 2019 a contribution agreement was signed with Crackle, Inc., currently a business of SPT, one of the television industry’s leading content providers, to be branded “Crackle Plus”. If the transaction is consummated, Crackle will contribute certain of the assets of its free AVOD network and we will plan to contribute our VOD assets to make Crackle Plus highly competitive in the surging VOD space. The addition of Crackle Plus is expected to more than

double our overall annual revenue and will add meaningful EBITDA.

*Public Offering of Series A Preferred Stock*

On February 13, February 22, and March, 11, 2019, we offered and sold an aggregate of 140,000 shares of Series A preferred stock in public offerings. The shares were sold at a price to the public of \$25.00 per share, and generated net proceeds to us of \$2.1 million.

*Series A Preferred Stock Dividends*

We have declared monthly cash dividends of \$0.2031 per share on our Series A preferred stock to holders of record as of January 30, 2019, February 28, 2019, and March 31, 2019. The monthly dividend for January was paid on February 15, 2019, the monthly dividend for February was paid on March 15, 2019, and the monthly dividend for March is expected to be paid on April 15, 2019. The total dividends declared and paid through March 2019 was approximately \$575,888.

## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **ITEM 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### **Management's Report on Internal Control over Financial Reporting**

This Report does not include a report of management's assessment regarding internal control over financial reporting due to a transition period established by the SEC for newly public companies. In addition, because we are an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting for so long as we are an emerging growth company.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. Other Information**

Effective as of January 1, 2019, Daniel M. Pess retired as Chief Financial Officer of Chicken Soup for the Soul Entertainment, Inc. Mr. Pess shall continue to provide advice to CSSE on certain matters from time to time in his role as consultant to Chicken Soup for the Soul, LLC ("CSS") and its subsidiaries, including CSSE.

Effective as of January 1, 2019, Christopher Mitchell was appointed Chief Financial Officer and Daniel Sanchez was appointed Principal Accounting Officer of CSSE.

## **PART III**

### **ITEM 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item 10 is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2018.

We have adopted a code of ethics which applies to all of our directors, officers, and employees, including our chief executive officer, chief financial officer, and principal accounting officer. The code of ethics is designed to deter wrongdoing and promote honest and ethical conduct, full, fair, accurate, timely, and understandable disclosure in reports that we file or furnish to the SEC and in our other public communications, compliance with applicable government laws, rules, and regulations, and prompt internal reporting of violations of the code. A copy of the code of ethics may be found on our website at [ir.cssentertainment.com](http://ir.cssentertainment.com)

### **ITEM 11. Executive Compensation**

The information required by this Item 11 is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2018.

### **ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item 12 is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2018.

### ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2018.

### ITEM 14. Principle Accounting Fees and Services

The information required by this Item 14 is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days of the fiscal year ended December 31, 2018.

## PART IV

### ITEM 15. Exhibits, Financial Statement Schedules

The information required by subsections (a)(1) and (a)(2) of this item are included in the response to Item 8 of Part II of this annual report on Form 10-K.

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">3.1</a>	<a href="#">Certificate of Incorporation of CSS Entertainment (1)</a>
<a href="#">3.2</a>	<a href="#">By-laws of CSS Entertainment (1)</a>
<a href="#">4.1</a>	<a href="#">Specimen CSS Entertainment Class A common stock Certificate (1)</a>
<a href="#">4.2</a>	<a href="#">Certificate of Designations, Rights and Preferences of 9.75% Series A Cumulative Redeemable Perpetual Preferred Stock (2)</a>
<a href="#">4.3</a>	<a href="#">Certificate of Amendment to the Certificate of Designations, Rights and Preferences of 9.75% Series A Cumulative Redeemable Perpetual Preferred Stock (3)</a>
<a href="#">10.1</a>	<a href="#">Trademark and Intellectual Property License Agreement between CSS Entertainment and CSS Entertainment for the Soul, LLC (1)</a>
<a href="#">10.2</a>	<a href="#">Management Services Agreement between CSS Entertainment and Chicken Soup for the Soul, LLC (1)</a>
<a href="#">10.3</a>	<a href="#">Contribution Agreement between CSS Entertainment and Chicken Soup for the Soul, LLC and Chicken Soup for the Soul Productions, LLC (1)</a>
<a href="#">10.4</a>	<a href="#">Contribution Agreement between CSS Entertainment and Trema, LLC (1)</a>
<a href="#">10.5</a>	<a href="#">Form of Indemnification Agreement (1)</a>
<a href="#">10.6</a>	<a href="#">2017 Equity Plan (1)</a>
<a href="#">10.7</a>	<a href="#">Form of Lock-up Agreement between Insiders and our Company (1)</a>
<a href="#">10.8</a>	<a href="#">Form of Lock-up Agreement between Insiders and Joint Bookrunning Managers (1)</a>
<a href="#">10.9</a>	<a href="#">Form of Lock-up Agreement between Non-Insiders and our Company (1)</a>
<a href="#">10.10</a>	<a href="#">Form of Lock-up Agreement between Non-Insiders and Joint Bookrunning Managers (1)</a>
<a href="#">10.11</a>	<a href="#">Credit Facility from Trema, LLC to our Company, as amended (1)</a>
<a href="#">10.12</a>	<a href="#">Loan and Security Agreement between CSS Entertainment, Screen Media Ventures, and the Guarantors and Lenders named therein (4)</a>
<a href="#">10.13</a>	<a href="#">Form of Term Promissory Note by each of CSS Entertainment and Screen Media Ventures in favor of Lender (4)</a>
<a href="#">10.14</a>	<a href="#">Form of Commercial Revolving Line of Credit Promissory Note by each of CSS Entertainment and Screen Media Ventures in favor of Lender (4)</a>
<a href="#">23.1</a>	<a href="#">Consent of Rosenfield &amp; Company, PLLC *</a>
<a href="#">31.1</a>	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
<a href="#">31.2</a>	<a href="#">Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
<a href="#">32.1</a>	<a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</a>
<a href="#">32.2</a>	<a href="#">Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</a>
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

\* Included herewith.

- (1) Incorporated by reference to the Registrant's Form 1-A (SEC No. 024-10704)
- (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed June 29, 2018.
- (3) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (SEC File No. 333-227596).
- (4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 3, 2018

**ITEM 16. Form 10-K Summary**

Not applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 28, 2019.

**CHICKEN SOUP FOR THE SOUL ENTERTAINMENT, INC.  
(Registrant)**

/s/ William J. Rouhana, Jr.  
William J. Rouhana, Jr.  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ Christopher Mitchell  
Christopher Mitchell  
Chief Financial Officer  
(Principal Financial Officer)

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

By:

/s/ William J. Rouhana, Jr. March 28, 2019  
William J. Rouhana, Jr., Chairman and Chief Executive Officer

/s/ Scott W. Seaton March 28, 2019  
Scott W. Seaton, Vice Chairman and Director

/s/ Christopher Mitchell March 28, 2019  
Christopher Mitchell, Chief Financial Officer (Principal Financial Officer)

/s/ Daniel Sanchez March 28, 2019  
Daniel Sanchez, Chief Accounting Officer (Principal Accounting Officer)

/s/ Amy L. Newmark March 28, 2019  
Amy L. Newmark, Director

/s/ Peter Dekom March 28, 2019  
Peter Dekom, Director

/s/ Fred M. Cohen March 28, 2019  
Fred M. Cohen, Director

/s/ Christina Weiss Lurie March 28, 2019  
Christina Weiss Lurie, Director

/s/ Diana Wilkin March 28, 2019  
Diana Wilkin, Director

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-223780) and on Form S-3 (Registration No. 333-227596) of Chicken Soup for the Soul Entertainment, Inc. of our report dated March 28, 2019, relating to the financial statements of Chicken Soup for the Soul Entertainment, Inc. as of December 31, 2018 and 2017 and for each of the years in the two-year period ended December 31, 2018, and appearing in the Registration Statements and to the reference to us under the heading "Experts" in the Registration Statements.

/s/ Rosenfield and Company, PLLC

Orlando, Florida  
March 28, 2019

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William J. Rouhana, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Chicken Soup for the Soul Entertainment, 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 my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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: March 28, 2019

/s/ William J. Rouhana, Jr.

William J. Rouhana, Jr.

Chief Executive Officer and Principal Executive Officer

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chris Mitchell, certify that:

1. I have reviewed this annual report on Form 10-K of Chicken Soup for the Soul Entertainment, 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 my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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: March 28, 2019

/s/ Chris Mitchell  
Chris Mitchell  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Chicken Soup for the Soul Entertainment, Inc. (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 28, 2019

/s/ William J. Rouhana, Jr.  
William J. Rouhana, Jr.  
Chief Executive Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Chicken Soup for the Soul Entertainment, Inc. (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: March 28, 2019

/s/ Chris Mitchell  
Chris Mitchell  
Chief Financial Officer

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