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

(Mark One)

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

For the quarterly period ended September 30, 2018

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	**81-2560811**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
132 East Putman Avenue – Floor 2W, Cos Cob, CT	**06807**
(Address of Principal Executive Offices)	(Zip Code)

855-398-0443
(Registrant’s Telephone Number, including Area Code)

Not Applicable
Former Name or Former Address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive 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 **x** No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company **x**
	Emerging growth company **x**

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

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

The number of shares of Common Stock outstanding as of November 12, 2018 totaled 11,689,927 as follows:

Title of Each Class	
Class A Common Stock, $.0001 par value per share	3,872,689
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.

Chicken Soup for the Soul Entertainment, Inc.
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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

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

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 11,511,534	$ 2,172,046
Restricted cash	750,000	-
Accounts receivable, net	8,783,079	8,058,352
Prepaid expenses	425,267	228,145
Inventory, net	291,667	368,964
Intangible asset - video content license	5,000,000	5,000,000
Prepaid distribution fees	1,728,425	1,892,806
Acquired intangible assets - Pivotshare, net	4,373,139	-
Popcornflix film rights and other assets	7,174,548	7,163,943
Film library, net	25,120,465	22,655,645
Due from affiliated companies	6,713,467	6,128,629
Programming costs, net	9,767,574	7,651,145
Other assets, net	410,105	423,133
Total assets	$ 82,049,270	$ 61,742,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
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 $282,741 and $0, respectively	6,883,926	-
Accounts payable and accrued expenses	2,273,970	1,002,536
Accrued programming costs	-	375,761
Film library acquisition obligations	2,501,100	663,400
Accrued participation costs	1,961,384	2,620,417
Other liabilities	449,451	144,533
Deferred tax liability, net	1,112,000	257,000
Deferred revenue	634,800	515,000
Total liabilities	15,816,631	7,078,647
Commitments and contingencies		
Stockholders' equity		
Series A 9.75% cumulative redeemable perpetual preferred stock, $.0001 par value, liquidation preference of $25.00 per share, 10,000,000 shares authorized; 780,497 and 0 shares issued and outstanding, respectively, redemption value of $16,162,425 and $0, respectively	78	-
Class A common stock, $.0001 par value, 70,000,000 shares authorized; 3,872,689 and 3,746,054 shares issued, 3,798,454 and 3,746,054 outstanding, respectively	385	374
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	46,196,504	32,324,500
Retained earnings	20,667,619	22,338,501
Class A common stock held in treasury, at cost (74,235 shares)	(632,729)	-
Total stockholders' equity	66,232,639	54,664,161
Total liabilities and stockholders' equity	$ 82,049,270	$ 61,742,808

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue:				
Online networks	$ 1,788,937	$ 48,466	$ 3,175,520	$ 398,745
Television and film distribution	2,510,462	-	7,785,427	-
Television and short-form video production	2,283,933	-	4,719,214	1,859,536
Total revenue	6,583,332	48,466	15,680,161	2,258,281
Less: returns and allowances	(107,300)	-	(553,294)	-
Net revenue	6,476,032	48,466	15,126,867	2,258,281
Cost of revenue (including $1,033,983 and $0 of non-cash amortization of film library for the three months ended September 30, 2018 and 2017, respectively, and $3,656,515 and $0 for the nine months ended September 30, 2018 and 2017, respectively)	2,471,135	-	7,362,613	794,923
Gross profit	4,004,897	48,466	7,764,254	1,463,358
Operating expenses:				
Selling, general and administrative (including $243,592 and $182,581 of non-cash share-based compensation expense for the three months ended September 30, 2018 and 2017, respectively, and $736,792 and $474,772) for the nine months ended September 30, 2018 and 2017, respectively)	2,082,794	690,676	6,371,237	1,505,589
Amortization	138,551	-	164,619	-
Management and license fees	647,602	4,846	1,512,687	225,828
Total operating expenses	2,868,947	695,522	8,048,543	1,731,417
Operating income (loss)	1,135,950	(647,056)	(284,289)	(268,059)
Interest income	16,856	2,559	20,477	2,568
Interest expense	(133,121)	(124,142)	(251,939)	(1,176,580)
Acquisition-related costs	(182,832)	-	(228,132)	-
Income (loss) before preferred dividends and income taxes	836,853	(768,639)	(743,883)	(1,442,071)
Provision for (benefit from) income taxes	512,000	(246,000)	927,000	(87,000)
Net income (loss) before preferred dividends	324,853	(522,639)	(1,670,883)	(1,355,071)
Preferred dividends	422,779	-	422,779	-
Net loss available to common stockholders	$ (97,926)	$ (522,639)	$ (2,093,662)	$ (1,355,071)
Net loss per common share:				
Basic and diluted net loss per common share	$ (0.01)	$ (0.05)	$ (0.18)	$ (0.14)
Weighted average basic and diluted shares outstanding	11,574,088	10,411,142	11,586,212	9,549,413

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc
Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from Operating Activities:		
Net loss before preferred dividends	$ (1,670,883)	$ (1,355,071)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	736,792	474,772
Amortization of programming costs	1,509,217	794,923
Amortization of deferred financing costs	35,725	43,747
Amortization of debt discount	-	865,833
Amortization of leasehold improvements	39,100	-
Amortization of film library	3,656,515	-
Amortization of acquired assets	125,452	-
Loss on debt extinguishment	-	24,803
Reserve for bad debts and returns	714,506	-
Deferred income taxes	855,000	(238,000)
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,424,318)	(1,028,755)
Prepaid expenses and other current assets	(167,984)	(1,193,960)
Inventory	77,298	-
Programming costs	(4,001,407)	(4,294,511)
Film library	(6,121,335)	-
Popcornflix film rights and other assets	(10,605)	-
Prepaid distribution fees	164,382	(1,470,066)
Other assets	6,220	-
Accounts payable and accrued expenses	598,075	(297,948)
Film library acquisition obligations	1,837,700	-
Accrued participation costs	(659,034)	-
Other liabilities	304,918	-
Income tax payable	-	99,000
Deferred revenue	119,800	981,072
Net cash used in operating activities	(3,274,867)	(6,594,161)
Cash flows from Investing Activities:		
Payment for business acquisition, net of cash acquired	40,310	-
Increase in due from affiliated companies	(584,838)	(3,671,456)
Net cash used in investing activities	(544,528)	(3,671,456)

(continued on next page)

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

	Nine Months Ended September 30,	
	2018	**2017**
Cash flows from Financing Activities:		
Proceeds from revolving credit facility from related party	200,000	3,325,000
Repayments of revolving credit facility from related party	(1,700,000)	(6,805,000)
Proceeds from notes payable	7,500,000	2,030,000
Repayments of notes payable	-	(4,082,000)
Repayments of senior secured term loan and revolving line of credit from third party	(333,334)	-
Payment of stock issuance costs	(1,261,648)	(2,949,805)
Payment of deferred financing costs	(350,758)	-
Proceeds from issuance of Series A preferred stock	16,092,680	-
Proceeds from issuance of common stock in IPO	-	26,903,348
Common stock repurchases, held in treasury	(632,729)	-
Dividends paid to common stockholders	(5,182,549)	-
Dividends paid to preferred stockholders	(422,779)	
Proceeds from issuance of common stock in private placements	-	1,413,400
Net cash provided by financing activities	13,908,883	19,834,943
Net increase in cash and cash equivalents	10,089,488	9,569,326
Cash and cash equivalents at beginning of period	2,172,046	507,247
Cash and cash equivalents at end of the period	$ 12,261,534	$ 10,076,573
Supplemental data:		
Interest paid	$ 111,410	$ 289,634
Income taxes paid	-	52,000
Non-cash operating activities		
Fair value of shares issued to executive producer	$ -	$ 625,500
Non-cash investing activities		
Fair value of 134,000 shares of 9.75% Series A cumulative preferred stock for acquisition	$ 3,434,420	$ 0
Fair value of 74,235 shares of Class A common stock for acquisition	$ 731,957	$ 0
Non-cash financing activities		
Fair value of warrants issued with revolving credit facility and term notes	$ -	$ 415,476
Conversion of senior secured notes payable to Class A common stock	-	918,000
Reconciliation of cash and cash equivalents and restricted cash per consolidated balance sheets to statements of cash flows		
Per consolidated balance sheets:		
Cash and cash equivalents	$ 11,511,534	$ 10,076,573
Restricted cash	750,000	-
Total cash, cash equivalents and restricted cash per statements of cash flows	$ 12,261,534	$ 10,076,573

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – The Company, Description of Business, Acquisition of Pivotshare, Preferred Stock Offering, Commercial Loan, Acquisition of Screen Media and Initial Public Offering

Chicken Soup for the Soul Entertainment, Inc. (the "Company") is a Delaware corporation formed on May 4, 2016. Chicken Soup for the Soul Productions, LLC, 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. The Company currently operates in the United States and internationally and derives its revenue primarily in the United States. With the acquisition of Screen Media, the Company now has presence in over 56 countries worldwide.

Acquisition of Pivotshare

As described more fully in Note 4, on August 22, 2018, the Company acquired all the outstanding capital stock of Pivotshare, Inc. ("Pivotshare") for approximately $258,000 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 $3,434,420 and the issuance of 74,235 shares of the Company's Class A common stock valued at $731,957(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.

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.

Preferred Stock Offering

Effective June 29, 2018, the Company completed the sale of 646,497 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.

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 (Note 12).

In connection with the sale, the Series A Preferred Stock was approved for listing on the Nasdaq Global Market under the symbol "CSSEP".

The sale resulted in net cash proceeds to the Company of approximately $15.2 million, net of underwriting discounts and commissions. The proceeds are being used for general corporate purposes including working capital, acquisition of video content and strategic transactions as well as to pay monthly dividends on the Series A Preferred Stock and a special one-time dividend on the Company's Class A and Class B common stock.

The Company declared and paid monthly dividends of $0.2031 per share on its Series A Preferred Stock to holders of record as of each month end June through September 2018 of $422,779. The monthly dividends for each month were paid on approximately the fifteenth day subsequent to each respective month-end.

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").

The Revolver is subject to adjustment based upon eligible accounts receivable supporting such borrowing. 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 (Note 11). As of September 30, 2018, the total principal balance outstanding under the Term Loan and Revolver is $4.6 million and $2.5 million, respectively.

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 (the "Acquisition"). Screen Media operates Popcornflix®, an advertiser-supported direct-to-consumer online video service and distributes television series and films worldwide.

In accordance with 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, Screen Media's results of operations are consolidated with those of the Company from the date of the transaction.

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 are being used for general corporate purposes including working capital, acquisition of video content and strategic transactions.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting.

Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's report on Form 10-K for the year ended December 31, 2017.

The condensed consolidated balance sheet as of December 31, 2017 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

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

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company at September 30, 2018 and the results of its operations for the three and nine months ended September 30, 2018 and 2017.

The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year.

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 and film library 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 September 30, 2018 and December 31, 2017, the fair value of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, accrued programming costs, film library acquisition costs and accrued participation costs, approximated their carrying value due to the 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 operations. At September 30, 2018, and December 31, 2017, accounts receivable is presented net of allowance for doubtful accounts and video returns of $446,230, and $597,665, respectively. Bad debt expense of $21,061 and $161,212 was recorded in the condensed consolidated statements of operations for the three and nine months ended September 30, 2018, respectively, and $0 for the three and nine months ended September 30, 2017. Provision for returns and allowances of $107,330 and $553,294 was recorded in the condensed consolidated statements of operations for the three and nine months ended September 30,2018, respectively, and $0 for the three and nine months ended September 30, 2017.

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.

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 condensed consolidated statements of operations for the three months ended September 30, 2018 and 2017 is amortization of programming costs totaling $658,716 and $0, respectively, and for the nine months ended September 30, 2018 and 2017, amortization of programming costs totaled $1,509,217 and $794,923, respectively. There was no impairment charge recorded in the three and nine month periods ended September 30, 2018 and 2017.

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.

The 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 related acquisition agreement. The Company generally acquires distribution rights covering periods of ten or more years.

Included in cost of revenue in the condensed consolidated statements of operations for the three months ended September 30, 2018 and 2017, is amortization of film library totaling $1,033,983 and $0, respectively, and for the nine months ended September 30, 2018 and 2017, amortization expense totaled $3,656,515 and $0, respectively. For the three and nine months ended September 30, 2018 and 2017, there was no impairment charge recorded.

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 the three and nine months ended September 30, 2018 and 2017, there was no impairment charge recorded.

Acquired Intangible Assets of 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 is 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.

Income Taxes

The Company was formed on May 4, 2016 as a Sub-Chapter C corporation for federal and state tax purposes. As such, the Company filed its first tax return for the year ended December 31, 2016. The Company has not been audited by the taxing authorities since its formation.

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.

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 condensed consolidated statements of operations. At September 30, 2018 and 2017, the Company did not have any unrecognized tax benefits or liabilities.

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 earned on the distribution of third parties' streaming content under the Pivotshare Publishers Agreement is reported on a net basis because the Company's performance obligation is to facilitate a transaction between third party content producers ("Publishers") and end customers, for which we earn a commission based on revenue share (see Note 4). Revenue from digital online media distribution is included in online networks in the accompanying condensed 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 condensed consolidated statements of operations.

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 generated under the distribution agreement with A Sharp, Inc., d/b/a A Plus ("A Plus") is reported on a net basis as the Company earns a commission on the distribution of A Plus' content (see Note 14). Revenue from the distribution of short-form online media content is included in television and short-form video production revenue in the accompanying condensed consolidated statements of operations.

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 three and nine months ended September 30, 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.

Total costs for the three months ended September 30, 2018 and 2017 was $395,895 and $204,868, respectively, and for the nine months ended September 30, 2018 and 2017 was $671,036 and $593,552, 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 condensed consolidated statements of operations for the three months ended September 30, 2018 and 2017 was $2,718 and $800, respectively, and for the nine months ended September 30, 2018 and 2017 was $5,342 and $3,034, respectively.

Earnings (Loss) Per Share

Basic net loss per common share is computed based on the weighted average number of shares of all classes of common stock outstanding. Diluted earnings 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. When the Company has a net loss, dilutive common stock equivalents are not included as they would be anti-dilutive.

In computing the effect of dilutive common stock equivalents, the Company uses the treasury stock method to calculate the related incremental shares. In applying the treasury stock method prior to its IPO, the Company used a share price of $12 per share based on the price of its Class A common stock in its public offering. Subsequent to the Company's IPO, the actual share price was used. See Note 6.

Concentration of Credit Risk

The Company maintains cash balances at its bank. Accounts for each entity are insured by the Federal Deposit Insurance Corporation subject to certain limitations. At various times the Company's cash in bank balances exceed the federally insured limits. The uninsured balance at September 30, 2018 was $10,625,359.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash in bank and accounts receivable.

For the nine months ended September 30, 2018, the Company had three customers, which accounted for 33% of total revenue (the largest of which accounted for 12%) and five customers that accounted for 51% of accounts receivable (the largest of which accounted for 24%).

For the nine months ended September 30, 2017, the Company had three customers that accounted for 90% of revenue (the largest of which accounted for 73%). As of December 31, 2017, the Company had four customers that accounted for 73% of accounts receivable (the largest of which accounted for 58%).

Reclassification

Certain prior period balances have been reclassified to conform to the current period presentation. In the condensed consolidated statements of operations, 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 loss.

Note 3 – Recent Accounting Pronouncements

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 May 2017, the FASB issued Accounting Standards Update ("ASU") 2017-09, *Compensation – Stock Compensation Topic 718: Scope of Modification Accounting*, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification.

ASU 2017-09 is intended to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. Under this guidance, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and balance sheet classification remain the same before and after the change.
ASU 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for all entities. Early adoption is permitted. The Company has adopted ASU 2017-09 in the last quarter of 2017 on a prospective basis and the impact on its consolidated financial statements was not material.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which amends the guidance of FASB ASC Topic 805, Business Combinations (ASC 805) adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (disposals) of assets or businesses. The objective of ASU 2017-01 is to narrow the definition of what qualifies as a business under Topic 805 and to provide guidance for streamlining the analysis required to assess whether a transaction involves the acquisition (disposal) of a business.

ASU 2017-01 provides a screen to assess when a set of assets and processes do not qualify as a business under Topic 805, reducing the number of transactions that need to be considered as possible business acquisitions. ASU 2017-01 also narrows the definition of output under Topic 805 to make it consistent with the description of outputs under Topic 606. The guidance of ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted under certain circumstances. The Company has adopted ASU 2017-01 on a prospective basis and the impact on its consolidated financial statements was not 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 or 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.

Note 4 – Business Combination

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 the Company's 9.75% Series A Preferred Stock valued at $3,434,420 and the issuance of 74,235 shares of the Company's 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.

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 independent third-party appraisal is not final as of this date. The preliminary results are as follows:

Purchase Price Consideration Allocation:		
Cash consideration	$	257,758
Equity consideration - Class A common stock		731,957
Equity consideration - Series A preferred stock		3,434,420
Purchase price consideration		**4,424,135**
Less: cash acquired		(298,068)
Total purchase consideration, less cash acquired	**$**	**4,126,067**

Purchase price consideration allocated to fair value of net assets acquired:		
Accounts receivable, net	$	9,160
Prepaid expenses		5,755
Other Assets		29,137
Acquired customer base		3,719,386
Non-compete agreement		779,206
Assets acquired		**4,542,644**
Accounts payable and accrued expenses		(114,514)
Other liabilities		(302,063)
Liabilities assumed		**(416,577)**
Total purchase consideration, less cash acquired	**$**	**4,126,067**

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, 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 non-compete 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 are approximately $182,832, and are recognized as an expense in the consolidated condensed statements of operations for the three and nine months ended September 30, 2018.

The Company's consolidated statement of operations for the three and nine month periods ended September 30, 2018 include Pivotshare's net revenue of $0.1 million and gross pre-tax loss of $0.2 million, from its operations from the date of acquisition on August 22, 2018 through September 30, 2018.

The following combined unaudited pro forma information assumes the acquisition of Pivotshare occurred on January 1, 2017 (the “Unaudited Information”). The Unaudited Information presented below is for illustrative purposes only and does not reflect future events that may occur after September 30, 2018 or any operating efficiencies or inefficiencies that may result from the acquisition of Pivotshare’s operations. The Unaudited Information is not necessarily indicative of results that would have been achieved had the Company controlled Pivotshare’s operations during the periods presented or the results that the Company will experience going forward. Pro forma net income (loss) for the nine months ended September 30, 2017, includes $0.2 million of non-recurring acquisition costs. The Unaudited Information includes amortization of intangible assets acquired from Pivotshare assuming the acquisition occurred on January 1, 2017. The Unaudited Information excludes any remaining future integration costs or savings and any additional transaction costs should they arise.

	Nine Months Ended September 30, (Unaudited)	
	2018	**2017**
Net revenue	$ 18,836,046	$ 2,873,315
Cost of revenue	8,925,863	1,116,560
Gross profit	9,910,183	1,756,755
Operating expenses	8,722,350	3,292,446
Amortization of acquired intangible assets	752,709	752,709
Net income (loss) before taxes and preferred dividends	$ 435,124	$ (2,288,400)
Net loss per common share:		
Basic and diluted net loss per common share	$ (0.18)	$ (0.14)

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 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 the first three seasons of *Hidden Heroes* and has agreed to fund the series for a fourth season.

(b) In September 2015, The Company 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* aired 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 began airing on Netflix in the third quarter of 2018.

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

This series comprised of ten, half-hour episodes, aired on the A&E Network in November and December 2017. The show gives viewers the information needed to obtain their dream vacation home.

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., 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.

In accordance with ASC 926 as amended, the Company has recognized revenue for *Hidden Heroes*, *Project Dad*, *Being Dad* and *Vacation Rental Potential and Going From Broke* as the episodes became available for delivery or available for broadcast.

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 three months ended September 30, 2018 and 2017, the Company recognized $218,599 and $142,043, respectively, and for the nine months ended September 30, 2018 and 2017, the Company recognized $661,805 and $394,238, respectively, of non-cash share-based compensation expense relating to stock options in selling, general and administrative expense in the condensed consolidated statements of operations. There were 393,855 and 145,001 stock options vested at September 30, 2018 and 2017, respectively.

Stock options activity as of September 30, 2018 is as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Yrs.)	Aggregate Intrinsic Value
Total outstanding at December 31, 2017	690,000	$ 7.61	4.32	$ 1,079,500
Options granted	32,500	9.66	4.70	-
Options exercised	-	-	-	-
Options forfeited	(60,000)	9.74	3.92	-
Options expired	-	-	-	-
Total outstanding at September 30, 2018	662,500	$ 7.52	3.59	$ 1,778,200
Total exercisable at September 30, 2018	392,917	$ 6.97	3.36	$ 1,270,124
Total unvested at September 30, 2018	269,583	$ 8.32	3.90	$ 507,206
Total vested or expected to vest - September 30, 2018	663,125	$ 7.52	3.59	$ 1,777,330

As at September 30, 2018 the Company had unrecognized pre-tax compensation expense of $1,286,005 related to non-vested stock options under the Plan of which $423,174, $449,023, $315,271 and $22,941 will be recognized in 2018, 2019, 2020 and 2021, respectively. The actual forfeiture rate as of September 30, 2018 and December 31, 2017 was 8.3% and 0%, respectively.

The following table summarized unvested stock options as of September 30, 2018:

	Number of Stock Options	Weighted Average Exercise Price
Total unvested - December 31, 2017	490,415	$ 7.96
Granted	32,500	9.66
Vested	(193,332)	7.21
Cancellations	(60,000)	9.74
Total unvested - September 30, 2018	269,583	8.32

Assumptions used in calculating the fair value of the stock options granted during 2018 and 2017 using the Black-Scholes valuation model are summarized below:

	Nine Months Ended September 30,	
Weighted Average Assumptions:	**2018**	**2017**
Expected dividend yield	0.0%	0.0%
Expected equity volatility	57.1%	57.0%
Expected term (years)	5	5
Risk-free interest rate	2.10%	1.92%
Exercise price per stock option	$ 7.52	$ 7.17
Market price per share	$ 6.46	$ 6.24
Weighted average fair value per stock option	$ 3.10	$ 2.90

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. For the three months ended September 30, 2018 and 2017, the Company recognized in selling, general and administrative expense, non-cash share-based compensation expense relating to stock grants of $25,000 and $40,539, respectively, and for the nine months ended September 30, 2018 and 2017, the Company recognized $75,000 and $80,534, respectively.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Basic weighted-average shares outstanding	11,574,088	10,411,142	11,586,212	9,549,413
Effect of dilutive securities:				
Assumed issuance of shares from exercise of stock options (a)	-	-	-	-
Assumed issuance of shares from exercise of warrants (a)	-	-	-	-
Diluted weighted-average shares outstanding	11,574,088	10,411,142	11,586,212	9,549,413

(a) The additional shares from the exercise of stock options for the three and nine months ended September 30, 2018 and 2017 are anti-dilutive in nature, and as a result are excluded from the determination of diluted weighted-average shares outstanding.

Note 8 – Programming Costs

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

	September 30, 2018	December 31, 2017
Released, net of accumulated amortization of $8,230,079 and $6,725,362, respectively	$ 8,074,657	$ 6,218,499
In production	15,817	12,784
In development	1,677,100	1,419,862
	$ 9,767,574	$ 7,651,145

Note 9 – Film Library

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

	September 30, 2018	December 31, 2017
Acquisition costs	$ 30,155,849	24,034,514
Accumulated amortization	(5,035,384)	(1,378,869)
Net film library costs	$ 25,120,465	22,655,645

Film library amortization expense recorded in the condensed consolidated statements of operations for the three months ended September 30, 2018 and 2017 was $1,033,983 and $0, respectively, and $3,656,515 and $0 for the nine months ended September 30, 2018 and 2017, respectively.

Note 10 - Intangible Asset - 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 purchase price of the Perpetual License at the estimated cost to CSS in its consolidated balance sheets.

Note 11 – Senior Secured Notes Payable and Revolving Line of Credit

Commercial Loan
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 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. 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 September 30, 2018, the principal balance outstanding on the Term Loan is $4,666,667 and the Revolver balance is $2,500,000. The Term Loan and the Revolver are presented on the condensed consolidated balance sheets net of unamortized debt issuance costs of $282,741. The unamortized debt issuance costs of $32,292 attributed to commitment fees paid on the Revolver is presented in other assets in the condensed consolidated balance sheets. For the three and nine months ended September 30, 2018, the Company incurred $111,686 and $216,214 of interest expense on the Term Loan and Revolver, respectively. 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. On December 27, 2017, the Company drew an advance of $1,500,000 under the Credit Facility. As of March 31, 2018, advances under the Credit Facility totaled $1,700,000.

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.

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 and are accounted for as equity warrants.

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 September 30, 2018, the debt discount and deferred financing costs related to the Credit Facility were fully amortized.

For the three and nine months ended September 30, 2018, cash interest expense paid on the Credit Facility was $0 and $30,267, respectively and is included in interest expense in the accompanying condensed consolidated statement of operations.

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 nine months ended September 30, 2017, amortization of the debt discount of $627,973, amortization of deferred financing costs of $40,902, and cash 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).

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 $.0001 ("Class B Stock"), and 10,000,000 shares of preferred stock ("Series A Preferred Stock"), par value $.0001.

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.

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.

At September 30, 2018 and December 31, 2017, the Company had 3,872,369 and 3,746,054 shares of Class A Stock outstanding, respectively. At September 30, 2018 and December 31, 2017, the Company had 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 September 30, 2018 and December 31, 2017, the Company had 780,497 and nil shares of Series A Preferred Stock outstanding, respectively.

The Company has 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 September 30, 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.

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.

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

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 provision are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Current provision (benefit):				
Federal	$ -	$ (191,000)	$ -	$ 122,000
States	25,000	(46,000)	72,000	29,000
Total current provision	25,000	(237,000)	72,000	151,000
Deferred provision (benefit):				
Federal	361,000	(12,000)	630,000	(197,000)
States	126,000	3,000	225,000	(41,000)
Total deferred provision (benefit)	487,000	(9,000)	855,000	(232,000)
Total provision (benefit) for income taxes	$ 512,000	$ (246,000)	$ 927,000	$ (87,000)

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 deferred tax assets and liabilities are as follows:

	September 30, 2018	December 31, 2017
Deferred Tax Assets:		
Net operating loss carry-forwards	$ 137,000	$ 318,000
Acquisition-related costs	652,000	584,000
Film library	371,000	371,000
Total Deferred Tax Assets	1,160,000	1,273,000
Deferred Tax Liabilities:		
Programming costs	2,037,000	1,389,000
Other assets	235,000	141,000
Total Deferred Tax Liabilities	2,272,000	1,530,000
Net deferred tax liability	$ (1,112,000)	$ (257,000)

The Company adjusted its federal deferred income tax assets and liabilities as of September 30, 2018 and December 31, 2017 to reflect the reduction in the U.S. statutory federal corporate income tax rate from 35% to 21% resulting from the provisions of the 2017 Tax Cut and Jobs Act.

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 paid 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 in August 2017, 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 three months ended September 30, 2018 and 2017, the Company recorded management fee expense of $323,802 and $2,423, respectively, payable to CSS, and for the nine months ended September 30, 2018 and 2017, the Company recorded $756,343 and $112,914, 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.

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 in 2018 or 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. 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 10th day after the filing of the applicable Exchange Act report for such quarter.

In addition, under the terms of the License Agreement, 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 pays a quarterly fee to CSS equal to 1% of gross revenue as reported under GAAP for each fiscal quarter for such support. For the three months ended September 30, 2018 and 2017, the Company recorded total license fee expense (including for marketing support) of $323,802 and $2,423, respectively, payable to CSS, and for the nine months ended September 30, 2018 and 2017, the Company recorded total license fee expense (including for marketing support) of $756,343 and $112,914, respectively, payable to CSS.

Due from Affiliated Companies

At September 30, 2018 and December 31, 2017, the Company is owed $6,713,467 and $6,128,629, respectively, from affiliated companies - primarily CSS. 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.

As noted above, advances and repayments occur periodically. The Company and CSS expect the net balance to be reduced substantially during the last quarter of 2018. The Company and CSS do not charge interest on the net advances.

***(b)* Distribution Agreement with A Plus**

In September 2016, a wholly-owned subsidiary of CSS acquired a majority of the issued and outstanding common stock of A Plus. A Plus develops and distributes high quality, empathetic short-form videos and articles to millions of people worldwide. A Plus is a digital media company founded, chaired, and partially owned by actor and investor Ashton Kutcher. Mr. Kutcher owns 23%, third parties own 2%, and the CSS subsidiary owns 75% of A Plus.

In September 2016, the Company entered into a distribution agreement with A Plus (the "A Plus Distribution Agreement"). The A Plus Distribution Agreement has an initial term ending in September 2023.

Under the terms of the A Plus Distribution Agreement, the Company has 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 A Plus Distribution Agreement, the Company paid A Plus an advance of $3,000,000 (the "A Plus Advance") which was recorded as prepaid distribution fees in the consolidated balance sheet.

The Company is entitled to retain a net distribution fee of 30% (40% while any portion of the A Plus Advance remains outstanding) of gross revenue generated by the distribution of A Plus video content and 5% (15% while any portion of the A Plus Advance remains outstanding) of gross revenue generated by the distribution of A Plus editorial content. The Company recoups the A Plus Advance by retaining the portion of gross revenue otherwise payable by the Company to A Plus under the A Plus Distribution Agreement and applying same to the recoupment of the A Plus Advance.

The Company will not pay A Plus its portion of gross revenue until such time as the A Plus Advance has been recouped in full. At September 30, 2018 and December 31, 2017, prepaid distribution fees were $1,728,425 and $1,892,806, respectively.

Online revenue in the Company's condensed consolidated statement of operations for the three months ended September 30, 2018 and 2017 includes $20,753 and $48,462, respectively, of net distribution fees earned by the Company under the A Plus Distribution Agreement and $164,382 and $398,741, respectively, of net distribution fees earned by the Company for the nine months ended September 30, 2018 and 2017.

***(c)* 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. A portion of the net proceeds received from the IPO were used to fully repay the Term Notes sold in the Debt Private Placement.

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.

Screen Media is contingently liable for a standby letter of credit in connection with an office lease agreement in the amount of $129,986 as of September 30, 2018 and December 31, 2017.

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%.

Screen Media 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
Remainder of 2018	$ 97,650
2019	417,206
2020	71,043
	$ 585,899

Rent expense recorded in the condensed consolidated statements of operations for the three and nine months ended September 30, 2018 was $102,987 and $310,375, 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 Reporting

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. The Company operates in the United States and internationally. The Company has entered into distribution agreements that provide for the distribution of episodic television series in Europe. With the acquisition of Screen Media, the Company now has presence in over 56 countries worldwide. Gross revenue by geographic location, based on the location of the customers for the three and nine months ended September 30, 2018 and 2017, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
United States	$ 6,401,765	$ 48,466	$ 14,953,392	$ 2,258,281
Canada	4,788	-	11,185	-
Europe	18,307	-	42,761	-
Other foreign	51,172	-	119,529	-
	$ 6,476,032	$ 48,466	$ 15,126,867	$ 2,258,281

One customer represented 16% and 75%, or $1.5 million and $1.7 million, respectively, of consolidated revenue for the nine months ended September 30, 2018 and 2017. A second customer represented 13% or $1.2 million of consolidated revenue for the nine months ended September 30, 2018. No other customer represented greater than 10% of consolidated revenue for the six months ended June 30, 2018 and 2017.

Accounts receivable due from one customer was approximately 36% and 58% or $2.8 million and $4.8 million of consolidated gross accounts receivable at June 30, 2018 and December 31, 2017, respectively. A second customer represented 18% or $1.4 million of consolidated gross accounts receivable at September 30, 2018. No other customer represented greater than 10% of consolidated gross accounts receivable at September 30, 2018 and December 31, 2017.

Note 17 - Subsequent Events

<u>Series A Preferred Stock Dividends</u>

The Company has declared and paid monthly dividends of $0.2031 per share on its Series A Preferred Stock to holders of record as of September 30, 2018 and October 31, 2018. The monthly dividend for September was paid on October 15, 2018 and the monthly dividend for October is expected to be paid on November 15, 2018. The total dividends declared and paid in October and November was approximately $317,000.

<u>Shelf Registration Filing</u>

In September 2018, the Company filed a registration statement on Form S-3 with the SEC. The purpose of which is to offer and sell, from time to time, shares of common stock, shares of preferred stock, warrants, debt securities and/or units comprised of one or more of the other classes of securities offered hereby, at a maximum aggregate offering size not to exceed $13.0 million. The Form S-3 was declared effective by the SEC On October 9, 2018. No sales have been made as the date of this Quarterly Report.

Item 2. 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 in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's report on Form 10-K as submitted to the Securities and Exchange Commission ("SEC") on March 29, 2018 ("Form 10-K"). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, includes forward-looking statements involving risks and uncertainties and should be read together with the "Risk Factors" section of our report on Form 10-K for a discussion of important factors which 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.

Forward-Looking Statements

This Quarterly 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. These forward-looking statements involve many risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Important factors that may affect our actual results include:

- our limited operating history;
- our financial performance, including our ability to generate revenue;
- 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;
- 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;
- 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.

You should refer to the "Risk Factors" section of the report on Form 10-K, for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. 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 Quarterly Report on Form 10-Q and the documents we have filed as exhibits to this Quarterly Report on Form 10-Q and the report on Form 10-K for the year ended December 31, 2017, 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.

Overview

We are a growing media company developing and operating 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 affiliate, 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, and four additional AVOD networks, which collectively have rights to exhibit thousands of movies and television episodes. Effective August 22, 2018, we acquired Pivotshare, Inc. ("Pivotshare"), a leader in the Over the Top ("OTT") Subscription Video on Demand ("SVOD") market segment. OTT services are those that are provided digitally and directly from the publisher to the consumer. Our AVOD and SVOD networks interface with viewers via multiple digital delivery methods, including responsive web and smart TV (e.g. Roku, ChromeCast, AppleTV).

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 from our 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 video on-demand 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. We also distribute third party owned content to end users across various digital platforms through our owned and operated network Pivotshare. Popcornflix delivers millions of advertisements every month and Pivotshare has approximately 25,000 active subscriptions. Our VOD content library includes over 35,000 hours of programming.

- Television and Film Distribution. In this business area, we distribute television series and movies worldwide to consumers through license agreements across all media, including theatrical, home video, pay-per-view, free, cable and pay television, VOD and new digital media platforms worldwide. We own the copyright or hold long-term distribution rights to approximately 1,200 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.

Since our inception in January 2015, our business has grown rapidly. As described below in "Use of Non-GAAP Financial Measure", we use Adjusted EBITDA as an important metric for management. Summary data is as follows:

For the three months ended September 30, 2018 and 2017, our gross revenue was approximately $6.6 million and $0.0 million, respectively. For the nine months ended September 30, 2018 and 2017, our gross revenue was approximately $15.7 million and $2.3 million, respectively. These increases in gross revenue were primarily due to the acquisition of Screen Media in November 2017 and growth in our television and short-form production business. In the first three quarters of this year, we have exceeded all of last year's gross revenue by approximately 50%.

Our Adjusted EBITDA for the three months ended September 30, 2018 and 2017 was $3.1 million and $(0.3) million, respectively. Our Adjusted EBITDA for the nine months ended September 30, 2018 and 2017 was $5.2 million and $0.5 million, respectively.

For the years ended December 31, 2017, 2016 and 2015, our summary data is as follows:

	Year Ended December 31,		
	2017	2016	2015
Gross revenue	$ 10,979,340	$ 8,118,632	$ 1,506,818
Net income (loss)	22,607,498	781,133	(753,463)
Adjusted EBITDA	4,008,524	3,776,673	38,524

Our plan is to use our solid core of television and short-form video production and television and film distribution activities to support the development and growth of a powerful portfolio of online VOD networks. Our production and distribution businesses generate current revenue and Adjusted EBITDA that we can use to fund our rapidly growing online VOD networks. We will seek to opportunistically acquire assets such as content libraries, digital publishers with content related to our own, and other VOD networks. We are also growing and acquiring multiple brands to support our online VOD networks (e.g. Popcornflix, Truli, and Chicken Soup for the Soul).

One of our fundamental objectives is to continue to grow our online VOD networks to create a "network of networks". Our strategy is to build our library of video content through a combination of Chicken Soup for the Soul original video content and the opportunistic acquisitions of third-party video content libraries that we seek to make, such as our transformative acquisitions of Screen Media and Pivotshare. We will also seek to acquire other VOD networks to accelerate this growth. When we acquire video content libraries, we will seek to rapidly monetize these libraries through our traditional television and film distribution activity while retaining the right to use these libraries on our VOD networks thereby lowering our cost of content acquisition for these VOD networks.

Recent Developments

Acquisition of Pivotshare

Effective August 22, 2018, we acquired Pivotshare for approximately $258,000 in cash, the issuance of 134,000 shares of the Company's 9.75% Series A Preferred Stock valued at $3,434,420 and the issuance of 74,235 shares of the Company's 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 being held in escrow for noncompete and nonsolicit obligations of Pivotshare and its stockholders.

Pivotshare started operations in 2010 and is a leader in the SVOD market segment. Pivotshare is comprised of a series of subscription-based VOD channels with 28,000 hours of programming across a variety of categories including music, sports, religion, arts and culture, lifestyle and family. The network generates approximately $2.5 million in annual gross billings and has approximately 25,000 paid subscriptions with average monthly billings of $9 per subscription.

Pivotshare interfaces with viewers via multiple digital delivery methods, including responsive web and smart TV (Roku, ChromeCast, AppleTV). Pivotshare provides an open, frictionless platform that enables content creators of any size to create their own branded VOD channels worldwide, while retaining ownership of their own content.

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 fair value of assets acquired and liabilities assumed, based on management's analysis and information received from a preliminary independent third-party appraisal. The majority of the assets acquired were attributed to Pivotshare's installed customer base as well as the non-compete agreement with its former chief executive officer.

Dividends

Series A Preferred Stock Dividends

We declared monthly dividends of $0.2031 per share on its Series A Preferred Stock to holders of record as of each month end for June through September 2018. 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 through October 2018 was approximately $713,000.

Class A and Class B Common Stock Dividends

We 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.

Commercial Loan

On April 27, 2018, we 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 interest is payable monthly over a five-year period and required a one-time commitment fee of $75,000. Principal is payable in equal monthly installments of $83,333 over a five-year period payable as $0.5 million in 2018, $1.0 million each in years 2019 through 2022 and $0.5 million in 2023. Part of the proceeds of the Commercial Loan was 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 required a one-time commitment fee 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.

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%.

Preferred Stock Offering

Effective June 29, 2018, the Company completed the sale of 600,000 shares of its 9.75% Series A Preferred Stock at an offering price of $25.00 per share. Holders of the Series A Preferred Stock will be entitled to 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 certain limited voting rights in circumstances where 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. 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 will cause the Company to 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 their option to purchase 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.

Vacation Rental Potential Television Series

On March 28, 2018, we entered into an agreement with HomeAway.com relating to funding for a second season of the episodic television series entitled *Vacation Rental Potential*, which will be comprised of ten, half-hour episodes and fifty, one-minute short form videos. At HomeAway's option, this second season may be expanded by an additional six, half-hour episodes.

This series will continue to provide viewers the information and inspiration needed to realize their dreams by showing them how to use of using real estate entrepreneurship to obtain a vacation home that transforms their family life. The Vacation Rental Potential slate was comprised 10, half-hour episodes in its first season.

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 Securities Exchange Act of 1934, as amended (the "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 November 12, 2018, we have repurchased 74,235 shares of our Class A common stock pursuant to the Repurchase Program.

Going From Broke Television Series

In July and August 2018, we signed agreements with Acorns Grow, Inc., Handy Technologies, Inc., Adobe Systems Inc., and Chegg Inc. to sponsor our fifth episodic television series entitled *Going From Broke*.

This series is comprised of 10, half-hour episodes to air on a broadcast or cable network. The series pairs a financial expert with a twenty-something trying to make their way out of debt; the host helps them examine their life and find ways to achieve financial security. The series is executive produced by Ashton Kutcher and is hosted by Chegg Inc.'s chief executive officer Dan Rosensweig.

Hidden Heroes Season 4

In September 2018, CSS entered into an agreement with a charitable foundation (the "Foundation") under which the Foundation agreed to sponsor our sixth episodic television series, the fourth season of *Chicken Soup for the Soul's Hidden Heroes* ("*Hidden Heroes*"). This family friendly show highlights the heroes in our midst, focusing on those that help others overcome obstacles in their life. The Foundation has funded all four seasons of *Hidden Heroes*.

Business

Online Networks

Our acquisition of Screen Media accelerated our entry into the direct-to-consumer online VOD market through Popcornflix. Popcornflix has an extensive footprint with apps that have been downloaded more than 24 million times. Popcornflix currently has a monthly average of two million active users.

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, including the United States, United Kingdom, Canada, Australia, Scandinavia, Germany, France, Hong Kong, and Singapore, with additional territories to be added.

In addition to Popcornflix, through our acquisition of Pivotshare, we derive online networks revenue from a number of aggregated and curated subscription-based VOD channels. We measure the gross billings of Pivotshare but only include our share of the gross billings in revenues in accordance with GAAP, which is 30% if with independent producers and 100% if owned by us.

Television and Film Distribution

We distribute television series and films worldwide through Screen Media. We own the copyright or hold long-term distribution rights to approximately 1,000 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 license agreements 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 also allows us in many cases, to distribute our produced television series directly and eliminate certain distribution fees (as much as 30% of revenue) that we otherwise 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, Cablevision (Altice USA), Verizon and In Demand (owned by Comcast, Charter and Time Warner Cable). 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 iTunes, Sony PlayStation, 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. We work 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 series. 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 have worked include HomeAway, Hilton Grand Vacations, American Humane, BISSELL Homecare, Inc., the Boniuk Foundation, Michelson Found Animals Foundation, the Morgridge Family Foundation, Chegg, Inc., Adobe Systems Inc., Handy Inc., Acorns Grow Inc. and State Farm. We are currently in discussions with numerous others. We generally retain meaningful back-end rights to our video content in these relationships, which provides opportunities for improved profitability and enhances our library value. 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* is hosted by Brooke Burke-Charvet and has been renewed for its fourth season. A segment of *Hidden Heroes* can be seen at *https://cssentertainment.com/hiddenheroes*.

- ***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. All the fathers are different ages, races, and religions; however, they are all bound by the singular belief that raising their children is life's greatest gift. In March 2018, the Company signed a licensing agreement with Netflix for the worldwide distribution of *Being Dad*. The series began to air on Netflix in August 2018.

- ***Vacation Rental Potential.*** This series gives viewers the information and inspiration needed to realize their dreams of using real estate entrepreneurship to obtain a vacation home that transforms their family life. Hosted by Holly Baker, *Vacation Rental Potential* offers people insight on how to make the dream of vacation homeownership possible. The show premiered on A&E Network in December 2017. In March 2018, *Vacation Rental Potential* was renewed for a second season by HomeAway.

- ***Going From Broke.*** In July and August 2018, we signed agreements with Acorns Grow, Inc.; Handy Technologies, Inc.; Adobe Systems Inc., and Chegg Inc. to provide funding for an episodic television series entitled *Going From Broke.* With an alarming increase of twenty-something year-olds with mounting student debt, this series will pair a financial expert with a college graduate trying to make their way out of the student and other debt, this series pairs a financial expert with a twenty-something trying to develop a plan that will lead to financial stability. The series is will comprised of 10, half-hour episodes. The show is being executive produced by Ashton Kutcher.

Our short-form video content, including our branded short-form video content known as *Sips*, and is typically exhibited through online video content distribution and social media platforms, such as YouTube, Facebook, MSN, and Yahoo, among others, as well as on the social media of *Chicken Soup for the Soul* and our sponsors.

Additionally, we derive video production revenue from our exclusive distribution relationship with A Plus, our affiliate, which develops and distributes high-quality, empathetic short-form videos to millions of people worldwide. Our distribution relationship with A Plus allows us to accelerate the growth of our offering by providing us with content developed and distributed by A Plus that is complementary to the Brand.

Corporate Information

We are a Delaware corporation formed on May 4, 2016. We were formed to create video content opportunities using the Brand.

JOBS Act Accounting Election

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.

Use of Non-GAAP Financial Measure

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). We use a non-GAAP financial measure to evaluate our results of operations and as a supplemental indicator of our operating performance. The non-GAAP financial measure that we use is Adjusted EBITDA. Adjusted EBITDA (as defined below) is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. Due to the significance of non-cash and non-recurring expenses recognized for the three and nine months ended September 30, 2018 and 2017, and the likelihood of material non-cash and non-recurring expenses to occur in future periods, we believe that this non-GAAP financial measure enhances the understanding of our historical and current financial results. Further, we believe that Adjusted EBITDA enables our board of directors and management to analyze and evaluate financial and strategic planning decisions that will directly effect operating decisions and investments. The presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items or by non-cash items. This non-GAAP financial measure should be considered in addition to, rather than as a substitute for, our actual operating results included in our condensed consolidated financial statements. See “*Use of non-GAAP Financial Measure*” below for further discussion.

Reporting Segment

We operate in one reportable segment, the production and distribution of video content. We operate in the United States and internationally. We have entered into distribution agreements with a company that provides for the distribution of episodic television series in Europe. With the acquisition of Screen Media, we now have a presence in over 56 countries worldwide. We intend to continue to sell our video content internationally.

Seasonality and Cyclicality

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 have begun to sign some sponsorship contracts, and to begin production of some series, earlier in the year than in recent years, as we did in our recent renewal with HomeAway, and agreements with several sponsors for *Going From Broke,* which should result in more balanced revenue across the third and fourth quarters of the year. Additionally, revenue from both our online networks and television and film distribution business areas 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 online streaming of Screen Media's films and television programs on our owned and operated YouTube and Popcornflix networks as well as from online streaming of curated third- party content on niche-channels on our Pivotshare platform. Our television and film distribution revenue is 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. Our television and short-form video production revenue is derived primarily from corporate and charitable sponsors that pay us for the production of short-form video content, half-hour or one-hour episodic television programs as well as short-form video content revenue derived from our exclusive distribution relationship with A Plus, our affiliate. Importantly, the inclusion of Screen Media's results of operations beginning on the date of the acquisition has resulted in significant and material increases in our revenue and Adjusted EBITDA.

Cost of Revenue

Our cost of revenue is derived from the amortization of capitalized programming costs relating to both television and short-form online videos as well as amortization of capitalized 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. Since the acquisition of Screen Media, cost of revenue includes distribution costs for its 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

For the three and nine month periods ended September 30, 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 three and nine month ended September 30, 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 Term Notes and Credit Facility.

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 is 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. The Company's effective tax rates for 2018 were reduced as a result of the provisions of the 2017 Tax Cut and Jobs Act.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED WITH THE THREE MONTHS ENDED SEPTEMBER 30, 2017

As noted above under "*Seasonality and Cyclicality*", to date the vast majority of our revenue, and therefore our earnings, was recognized in the fourth quarter of the year. We recognize television revenue as each episode or short-form video becomes available for delivery or becomes available for broadcast, and for short-form online videos produced under the A Plus distribution agreement, as the videos are posted to a website for viewing. For 2018 and beyond, we will seek to sign sponsorship contracts, and to begin production of series, throughout the year as we did recently with HomeAway for season 2 of *Vacation Rental Potential*, and several sponsors for *Going From Broke*, which should result in more balanced revenue across all quarters of each year over time. Additionally, Screen Media's operating results are not generally seasonal and therefore are approximately evenly distributed each quarter. As a result, in 2018 and thereafter, we expect our revenue and profits to be more evenly distributed among our fiscal quarters, with our fourth quarter revenue and Adjusted EBITDA accounting for the majority of the annual total.

Revenue

The following table presents revenue line items for the three months ended September 30, 2018 and 2017 and for the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,					
	2018	% of revenue	2017	% of revenue	Change Period over Period	
Revenue:						
Online networks	$ 1,788,937	28%	$ 48,466	100%	$ 1,740,471	*
Television and film distribution	2,510,462	39%	-	0%	2,510,462	*
Television and short-form video production	2,283,933	35%		0%	2,283,933	*
Total revenue	6,583,332	102%	48,466	100%	6,534,866	*
Less: returns and allowances	(107,300)	-2%	-	0%	(107,300)	*
Net revenue	$ 6,476,032	100%	$ 48,466	100%	$ 6,427,566	*

* Not Meaningful

Certain reclassifications were made within the components of 2017 revenue to conform to our 2018 presentation.

Our net revenue increased by $6.4 million for the three months ended September 30, 2018 compared to 2017. This increase in net revenue was primarily due to the inclusion of Screen Media's results of operations, which resulted in significant and material increases in our television and film distribution revenue and online networks revenue. In addition, no television and short-form video production revenue was recognized in 2017 as no episodes were available for delivery or broadcast in that quarter. In the three months ended September 30, 2017, all of our revenue recognized is attributed to our distribution agreement with A Plus (the "A Plus Distribution Agreement") and included in online network revenue.

Our online networks revenue increased by $1.7 million for the three months ended September 30, 2018 compared to 2017, primarily due to Screen Media's online streaming on Popcornflix and YouTube. 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. Revenue under the A Plus Distribution Agreement is recognized when videos are first posted to a website for viewing and when revenue is reported by the respective platforms and as advertisements are viewed in connection with those videos.

Our television and film distribution revenue was derived from 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 $2.3 million for the three months ended September 30, 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.

Online network revenue

Our online network revenue was 28% and 100% of net revenue for the three months ended September 30, 2018 and 2017, respectively. Our online revenue includes revenue generated from the subscription-based VOD third-party niche channels operating our Pivotshare platform and our online advertising-supported video on demand content on our owned and operated networks, Popcornflix and YouTube.

The results of operations of Pivotshare are combined with ours from the date of acquisition on August 22, 2018. Payments that Pivotshare is required to make to the content producers are reported as a reduction of our recorded amount of revenue.

Television and film distribution revenue

Television and film distribution revenue derived from Screen Media, consists 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

We have now created 113 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 the three months ended September 30, 2018, the majority of our revenue was recognized relating to:

- Original short-form video production of *Going From Broke;* and
- Original episodic and short-form video production of *Vacation Rental Potential* season two.

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.

Cost of Revenue

The following table presents cost of revenue line items for the three months ended September 30, 2018 and 2017 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,				Change	
	2018	% of revenue	2017	% of revenue	Period over Period	
Cost of revenue:						
Programming costs amortization	$ 707,750	11%	$ -	0%	$ 707,750	*
Film library amortization (non-cash)	1,033,983	16%	-	0%	1,033,983	*
Distribution costs	729,402	11%	-	0%	729,402	*
Total cost of revenue	$ 2,471,135	38%	$ -	0%	$ 2,471,135	*
Gross profit	$ 4,004,898		$ 48,466		$ 3,956,430	*
Gross profit margin	*62%*		*100%*		*-38%*	

* Not Meaningful

Our cost of revenue increased by $2.5 million for the three months ended September 30, 2018 compared to 2017. This increase resulted primarily from distribution costs of $0.7 million and non-cash film library amortization of $1.0 million, both attributable to Screen Media. As noted above, in the three months ended September 30, 2017, all of our revenue recognized was attributed to the A Plus Distribution Agreement, which is recorded on a net basis, and as a result, has no cost of revenue associated with it.

As a result of the above, gross profit margin for three months ended September 30, 2018 decreased to 62% from 100% in same period in 2017. If non-cash film library amortization is excluded, the gross profit margin for the three months ended September 30, 2018 would have been 78%.

Cost of revenue consists primarily of amortization of programming costs for our television and short-form videos and non-cash amortization of our film library. The amortization is recognized in the proportion that the current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production or film. It also includes direct expenses to distribute film and video on our owned and operated Popcornflix and other VOD platforms.

We initially capitalize our programming costs incurred to produce and develop our long-form and short-form video content. We capitalize all direct production and financing costs, capitalized interest, when applicable, and production overhead. We also capitalize the cost of acquiring film distribution rights, related film acquisition costs and accrued participation costs.

The costs of producing our long-form and short-form video content, and the costs of acquiring film distribution rights, are amortized using the individual-film-forecast method. As noted above, this method provides that costs are amortized to cost of revenue in the proportion that the current period's revenue compares to our estimate of the ultimate revenue expected to be recognized, which spans several years.

For the three months ended September 30, 2018, the cost of revenue included amortization of programming cost related to *Going From Broke* and *Vacation Rental Potential* season two, to the extent the episodes generated revenue that was recognized in the period. For the three months ended September 30, 2017, there is no cost of revenue as noted above.

Operating Expenses

The following table presents operating expense line items for the three months ended September 30, 2018 and 2017 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,				Change	
	2018	% of revenue	2017	% of revenue	Period over Period	
Operating expenses:						
Selling, general and administrative	$ 2,082,794	32%	$ 690,676	1425%	$ 1,392,118	202%
Amortization	138,551	5%	-	0%	138,551	*
Management and license fees	647,602	10%	4,846	10%	642,756	*
Total operating expenses	$ 2,868,947	47%	$ 695,522	1435%	$ 2,173,425	312%

* Not Meaningful

Including amortization and non-cash share-based compensation, our total operating expenses were 47% of net revenue for the three months ended September 30, 2018 compared to 1,435% in the same period in 2017, and increased in absolute dollars by $2.2 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 three months ended September 30, 2018 and 2017 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,		Change	
	2018	2017	Period over Period	
Payroll, benefits and commissions	$ 550,930	$ 16,067	$ 534,863	*
Share-based compensation	243,592	182,581	61,011	33%
Outside professional services	295,024	289,916	5,108	2%
Public company costs and expenses	113,460	146,368	(32,908)	-22%
Bad debt expense	21,061	-	21,061	*
Other costs and expenses	858,727	55,744	802,983	*
	$ 2,082,794	$ 690,676	$ 1,392,118	202%

* Not Meaningful

Our selling, general and administrative expenses increased by $1.4 million for the three months ended September 30, 2018 compared to 2017. This increase resulted primarily from the 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 $0.5 million for the three months ended September 30, 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.

Bad debt expense of $21,061 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 $0.8 million in the three months ended September 30, 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 2017 and 2018, 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 $243,592 and $182,581 of non-cash share-based compensation expense for the three months ended September 30, 2018 and 2017, respectively. We also recognized $25,000 and $40,538 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 total net revenue reported for the three month periods ended September 30, 2018 and 2017. See "*Affiliate Resources and Obligations*" below 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

The following table presents cash based and non-cash based interest expense for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30,	
	2018	**2017**
Cash Based:		
Commercial Loan	$ 111,686	$ -
Term Notes	-	27,400
Revolving line of credit - related party	-	36,802
	111,686	64,202
Non-Cash Based:		
Amortization of debt discount	-	59,940
Amortization of deferred financing costs	21,435	-
	21,435	59,940
	$ 133,121	$ 124,142

We incurred interest expense on advances under our Commercial Loan for the three months ended September 30, 2018. In 2017, we incurred interest expense on our outstanding Term Notes and advances under the Credit Facility. We also recorded non-cash based interest discount equal to the amortization of the fair value of the Class W warrants that were issued with the Term Notes and the Credit Facility in the three months ended September 30, 2017. Financing costs incurred to establish the Commercial Loan are also amortized to interest over its term for the three months ended September 30, 2018.

Advances under the Commercial Loan bears interest at 5.75% for the Term Loan and at a rate of prime plus 1.5% for the Revolver. Prior to their repayment, the Term Notes bore interest at 5% per annum. Any advances we received under the Credit Facility bore interest at 5% per annum, plus an annual fee equal to 0.75% of the unused portion of the Credit Facility. See "*Liquidity and Capital Resources*" below, for a full description of the Term Notes and the Credit Facility.

The sale of Term Notes first occurred in July 2016. The aggregate principal balance sold by March 31, 2017 was approximately $2.5 million. The aggregate principal balance sold by May 2017 totaled $5.0 million. In June 2017, at the option of certain holders of the Term Notes, the Company converted approximately $0.9 million of Term Notes into 102,060 Class A common shares. Immediately after our IPO, the aggregate principal balance outstanding on the Term Notes of approximately $4.1 million was paid in full.

Advances under the Credit Facility first occurred in May 2016. The net advances outstanding were $4.5 million just prior to our IPO. Immediately after our IPO, the net advance balance of $4.5 million was paid in full. As of June 30, 2018, the net advance of $1.7 million under the Credit Facility was fully repaid from the Commercial Loan advance.

Provision for Income Taxes

The Company's 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.

Our effective rate is impacted by permanent differences which consist primarily of amortization of debt discounts included in interest expense for the three months ended September 30, 2017, and the impact of incentive stock options issued under the Company's Long-Term Incentive Plan for both September 30, 2018 and 2017.

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.

We are obligated to 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.

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. Pess.

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 are obligated to pay CSS a management fee equal to 5% of our gross revenue for each calendar quarter.

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. There were no sales commissions earned or paid to CSS during the three months ended September 31, 2018 and 2017.

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.

A Plus Distribution Agreement

In September 2016, we entered into the A Plus Distribution Agreement. A Plus develops and distributes high quality, empathetic short-form videos and articles to millions of people worldwide. The A Plus Distribution Agreement has an initial term ending in September 2023. Under the terms of the A Plus Distribution Agreement, we have 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 A Plus Distribution Agreement, we paid A Plus an advance of $3.0 million (the "A Plus Advance"). We recoup the A Plus Advance by retaining the portion of gross revenue otherwise payable by the Company to A Plus and applying such A Plus Revenue to the recoupment of the A Plus Advance. We will not pay A Plus its portion of gross revenue until such time as the A Plus Advance has been recouped in full. A Plus is a digital media company founded, chaired, and partially owned by actor and investor Ashton Kutcher. Mr. Kutcher owns 23%, third parties own 2%, and our affiliate, Chicken Soup for the Soul Digital, LLC, owns 75%, of A Plus.

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 and non-cash share-based compensation expense, non-cash film amortization expense and adjustments for other identified charges such as costs incurred to form our company and to prepare for the offering of our Class A common stock to the public, prior to our IPO. Identified charges also include nonrecurring expenses and the cost of maintaining a board of directors prior to being a publicly traded company. As our IPO has been completed, director fees are deducted from Adjusted EBITDA. Adjusted EBITDA is not an earnings measure recognized by 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.

Reconciliation of Unaudited Historical Results to Adjusted EBITDA

A reconciliation of net loss to Adjusted EBITDA is as follows:

	Three Months Ended September 30,	
	2018	**2017**
Net loss available to common stockholders, as reported	$ (97,925)	$ (522,639)
Preferred dividends	422,779	-
Provision for (benefit from) income taxes	512,000	(246,000)
Interest expense, net of interest income	116,265	121,583
Film library amortization, included in cost of revenue (non-cash)	1,033,983	-
Share-based compensation expense	243,592	182,581
Acquisition-related costs and other one-time consulting fees	257,832	-
Screen Media platform launch costs	270,000	-
Reserve for bad debt	21,061	-
Amortization	138,551	-
Organization costs and directors costs, prior to IPO	-	123,887
All other nonrecurring costs	198,973	-
Adjusted EBITDA	$ 3,117,110	$ (340,588)

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED WITH THE NINE MONTHS ENDED SEPTEMBER 30, 2017

As noted above under "*Seasonality and Cyclicality*", to date the vast majority of our revenue, and therefore our earnings, was recognized in the fourth quarter of the year. We recognize television revenue as each episode becomes available for delivery or becomes available for broadcast, and for short-form online videos, as the videos are posted to a website for viewing. For 2018 and beyond, we will seek to sign sponsorship contracts, and to begin production of series, throughout the year as we did recently with HomeAway for season 2 of *Vacation Rental Potential*, and with several sponsors for *Going From Broke*, which should result in more balanced revenue across all quarters of each year over time. Additionally, Screen Media's operating results are not generally seasonal and therefore are approximately evenly distributed over its fiscal quarters. As a result, in 2018 and thereafter, we expect our revenue and profits to be more evenly distributed among our fiscal quarters, with our fourth quarter revenue and Adjusted EBITDA accounting for majority of the annual total.

Revenue

The following table presents revenue line items for the nine months ended September 30, 2018 and 2017 and for the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,						
	2018	% of revenue		2017	% of revenue	Change Period over Period	
Revenue:							
Online networks	$ 3,175,520	21%	$	398,745	18%	$ 2,776,775	696%
Television and film distribution	7,785,427	52%		-	0%	7,785,427	*
Television and short-form video production	4,719,214	31%		1,859,536	82%	2,859,678	154%
Total revenue	15,680,161	104%		2,258,281	100%	13,421,880	594%
Less: returns and allowances	(553,294)	-4%		-	0%	(553,294)	*
Net revenue	$ 15,126,867	100%	$	2,258,281	100%	$ 12,868,586	570%

* Not Meaningful

Certain reclassifications were made within the components of 2017 revenue to conform to our 2018 presentation.

Our net revenue increased by $12.9 million, or 570%, for the nine months ended September 30, 2018 compared to 2017. This over six-fold increase in net revenue was primarily due to the inclusion of Screen Media’s results of operations, which resulted in significant and material increases in our television and film distribution revenue and online networks revenue.

Our online networks revenue increased by $2.8 million for the nine months ended September 30, 2018 compared to 2017, primarily due to Screen Media’s online streaming on Popcornflix and YouTube. 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. Revenue under the A Plus Distribution Agreement is recognized when videos are first posted to a website for viewing and when revenue is reported by the respective platforms and as advertisements are viewed in connection with those videos.

Our television and film distribution revenue was derived from 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 154%, for the nine months ended September 30, 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.

Online network revenue

Online network revenue was 21% and 18% of net revenue for the nine months ended September 30, 2018 and 2017, respectively. Our online revenue includes revenue generated from the subscription-based VOD third-party niche channels operating on our Pivotshare platform and our online advertising-supported video on demand content on our owned and operated networks, Popcornflix and YouTube.

The results of operations of Pivotshare are combined with ours from the date of acquisition on August 22, 2018. Payments that Pivotshare is required to make to the content producers are reported as a reduction of our recorded amount of revenue.

Television and film distribution revenue

Television and film distribution revenue derived from Screen Media, consists 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

We have now created 113 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 the nine months ended September 30, 2018, the majority of our revenue was recognized relating to:

- *Chicken Soup for the Soul's Hidden Heroes* season three airing on The CW Network and revenue relating to international distribution for seasons one, two and three,
- *Vacation Rental Potential* season one airing on A&E and FYI networks as well as revenue relating to international distribution,
- *Vacation Rental Potential* season two original episodic and short-form video production, and
- *Going From Broke* original short-form video production.

In the nine months ended September 30, 2017, revenue was primarily recognized relating to the *Chicken Soup for the Soul* original production of *Chicken Soup for the Soul's Hidden Heroes* season 2 on the CBS Network and international distribution of *Project Dad*.

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. Revenue is also generated from advertising from these series and from our short-form video content, including our *Sips.*

Cost of Revenue

The following table presents cost of revenue line items for the nine months ended September 30, 2018 and 2017 and the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,				Change	
	2018	% of revenue	2017	% of revenue	Period over Period	
Cost of revenue:						
Programming costs amortization	$ 1,558,251	10%	$ 794,923	35%	$ 763,328	96%
Film library amortization (non-cash)	3,656,515	24%	-	0%	3,656,515	*
Distribution costs	2,147,846	14%	-	0%	2,147,846	*
Total cost of revenue	$ 7,362,612	49%	$ 794,923	35%	$ 6,567,689	826%
Gross profit	$ 7,764,255		$ 1,463,358		$ 6,300,896	431%
Gross profit margin	*51%*		*65%*		*-13%*	

* Not Meaningful

Our cost of revenue increased by $6.6 million for the nine months ended September 30, 2018 compared to 2017. This increase resulted primarily from distribution costs of $2.1 million and non-cash film library amortization of $3.7 million attributable to Screen Media. As a result of the above, gross profit margin for the nine months ended September 30, 2018 decreased to 51% from 65% in same period in 2017, although if non-cash deductions are excluded, the gross profit margin would have been 76%.

As a result of the above, gross profit margin for nine months ended September 30, 2018 decreased to 51% from 65% in same period in 2017. If non-cash film library amortization is excluded, the gross profit margin for the three months ended September 30, 2018 would have been 76%.

Cost of revenue consists primarily of amortization of programming costs for our television and short-form videos and non-cash amortization of our film library. The amortization is recognized in the proportion that the current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production and film and to the extent that episodes were recognized as revenue by us. It also represents direct expenses to distribute film and video on our owned and operated Popcornflix and other VOD platforms.

We initially capitalize our programming costs incurred to produce and develop our long-form and short-form video content. We capitalize all direct production and financing costs, capitalized interest, when applicable, and production overhead. We also capitalize the cost of acquiring film distribution rights, related film acquisition costs and accrued participation costs.

The costs of producing our long-form and short-form video content, and the costs of acquiring film distribution rights, are amortized using the individual-film-forecast method. As noted above, this method provides that costs are amortized to cost of revenue in the proportion that the current period's revenue bares to our estimate of the ultimate revenue expected to be recognized, which spans several years.

For the nine months ended September 30, 2018, total cost of revenue consisted primarily of amortization of programming cost for *Chicken Soup for the Soul's Hidden Heroes* season three, *Vacation Rental Potential* season one and two, and *Going From Broke*, to the extent the episodes generated revenue that was recognized in the period. For the nine months ended September 30, 2017, total cost of revenue consisted primarily of amortization of programming costs for *Chicken Soup for the Soul's Hidden Heroes* season two, to the extent the episodes generated revenue that was recognized in the period.

Operating Expenses

The following table presents operating expense line items for the nine months ended September 30, 2018 and 2017 and the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,				Change Period over Period	
	2018	% of revenue	2017	% of revenue		
Operating expenses:						
Selling, general and administrative	$ 6,371,237	42%	$ 1,505,589	67%	$ 4,865,648	323%
Amortization	164,619	1%	-	0%	164,619	*
Management and license fees	1,512,687	10%	225,828	10%	1,286,859	570%
Total operating expenses	$ 8,048,543	53%	$ 1,731,417	77%	$ 6,317,126	365%

* Not Meaningful

Including amortization and non-cash share-based compensation, our total operating expenses were 53% of net revenue for the nine months ended September 30, 2018 and 77% of net revenue for the same period in 2017, and increased in absolute dollars by $6.3 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 nine months ended September 30, 2018 and 2017 and the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,		Change	
	2018	2017	Period over Period	
Payroll, benefits and commissions	$ 2,508,343	$ 149,285	$ 2,359,058	*
Share-based compensation	736,792	474,772	262,020	55%
Outside professional services	1,173,004	564,934	608,070	108%
Public company costs and expenses	267,173	148,185	118,988	80%
Bad debt expense	161,212	-	161,212	*
Other costs and expenses	1,524,713	168,413	1,356,300	*
	$ 6,371,237	$ 1,505,589	$ 4,865,648	323%

* Not Meaningful

Our selling, general and administrative expenses increased by $4.9 million for the nine months ended September 30, 2018 compared to 2017. As noted above, this increase resulted primarily from the 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*," above for further discussion relating to selling, general and administrative expense.

Our payroll, benefits and commission expense increased by $2.4 million for the nine months ended September 30, 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 increased by $0.6 million in the nine months ended September 30, 2018 compared to the prior year period. We regularly utilize public relations and investor relations firms now that we are a publicly traded company. Further, we occasionally use strategic advisors to advise us on possible acquisitions, mergers and joint ventures.

Public company costs and expenses include costs incurred to establish us as a public company and to maintain that designation. In the nine months ended September 31, 2018, we incurred $0.3 million of expense primarily from SEC related fees, directors' and officers' insurance coverage and NASDAQ fees, compared to $0.1 million of cash compensation paid to our board of directors in the same period of 2017.

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 $1.4 million in the nine months ended September 30, 2018 compared to 2017. This represents increases in costs for rent, office expenses and other 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 2017 and 2018, 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. For the nine months ended September 30, 2018 and 2017, we recognized $736,792 and $474,772, respectively of non-cash share-based compensation expense. We also recognized $75,000 and $80,534 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 revenue reported for each of the nine months ended September 30, 2018 and 2017. 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

The following table presents cash based and non-cash based interest expense for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30,	
	2018	**2017**
Cash Based:		
Commercial Loan	$ 185,947	$ -
Term Notes	-	136,526
Revolving line of credit - related party	30,267	130,474
	216,214	267,000
Non-Cash Based:		
Amortization of debt discount	-	865,833
Amortization of deferred financing costs	35,725	43,747
	35,725	909,580
	$ 251,939	$ 1,176,580

We incurred interest expense on advances under our Commercial Loan and advances under the Credit Facility (prior to it being paid in full) for the nine months ended September 30, 2018. In 2017, we incurred interest expense on our outstanding Term Notes and advances under the Credit Facility. We also recorded non-cash based interest discount equal to the amortization of the fair value of the Class W warrants that were issued with the Term Notes and the Credit Facility in the nine months ended September 30, 2017. Financing costs incurred to establish the Commercial Loan are also amortized to interest over its term for the nine months ended September 30, 2018.

Advances under the Commercial Loan bear interest at 5.75% for the Term Loan and at a rate of prime plus 1.5% for the Revolver. Prior to their repayment, the Term Notes bore interest at 5% per annum. Any advances we received under the Credit Facility bore interest at 5% per annum, plus an annual fee equal to 0.75% of the unused portion of the Credit Facility. See "*Liquidity and Capital Resources*" below, for a full description of the Term Notes and the Credit Facility.

The sale of Term Notes first occurred in July 2016. The aggregate principal balance sold by March 31, 2017 was approximately $2.5 million. The aggregate principal balance sold by May 2017 totaled $5.0 million. In June 2017, at the option of certain holders of the Term Notes, the Company converted approximately $0.9 million of Term Notes into 102,060 Class A common shares. Immediately after our IPO, the aggregate principal balance outstanding on the Term Notes of approximately $4.1 million was paid in full.

Provision for Income Taxes

The Company's 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.

Our effective rate is impacted by permanent differences which consist primarily of amortization of debt discounts included in interest expense for the nine months ended September 30, 2017, and the impact of incentive stock options issued under the Company's Long-Term Incentive Plan for both September 30, 2018 and 2017.

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.

Use of Non-GAAP Financial Measure

See "RESULTS OF OPERATIONS – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED WITH THE THREE MONTHS ENDED SEPTEMBER 30, 2017" above, for a description of:

- our affiliate resources and obligations.

- our use of non-GAAP financial measures, and

- our definition of Adjusted EBITDA.

Reconciliation of Unaudited Historical Results to Adjusted EBITDA

A reconciliation of net loss to Adjusted EBITDA is as follows:

	Nine Months Ended September 30,	
	2018	2017
Net loss available to common stockholders, as reported	$ (2,093,662)	$ (1,355,071)
Preferred dividends	422,779	-
Provision for (benefit from) income taxes	927,000	(87,000)
Interest expense, net of interest income	231,462	1,174,011
Film library amortization, included in cost of revenue (non-cash)	3,656,515	-
Share-based compensation expense	736,792	474,772
Acquisition-related costs and other one-time consulting fees	428,132	-
Screen Media platform launch costs	270,000	-
Reserve for bad debt	161,212	-
Amortization	164,619	-
Organization costs and directors costs, prior to IPO	-	290,124
All other nonrecurring costs	296,251	-
Adjusted EBITDA	$ 5,201,100	$ 496,836

LIQUIDITY AND CAPITAL RESOURCES

Preferred Stock Offering

As described above under "*Recent Developments*", effective June 29, 2018, we completed the sale of 600,000 shares of our 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 are entitled to receive cumulative cash dividends at a rate of 9.75% per annum, as and when declared by our board of directors. Holders of Series A Preferred Stock generally have no voting rights except for the right to add two directors 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 our common stock. If we were to liquidate, dissolve or wind 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 our Class A and Class B common stock.

The Series A Preferred Stock is not redeemable by us prior to June 27, 2023 except upon the occurrence of a change in control which we may, at our option, 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, we may, at our 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 our Series A Preferred Stock exercised a portion of their option to purchase 46,497 additional shares of Series A Preferred Stock to cover over-allotments. We received approximately $1.1 million, net of underwriting discounts and commissions of $0.1 million, as a result of the exercise of the option.

We have declared monthly dividends of $0.2031 per share on our Series A Preferred Stock to holders of record as of each month end June through October 2018. Total dividends paid from July through the date of this report were approximately $713,000.

Class A and Class B Common Stock Dividends

As described above under "*Recent Developments*", on July 27, 2018, we 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.

Commercial Loan
As described above under "*Recent Developments*", on April 27, 2018, we 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, is payable monthly together with principal and interest over a five-year period and was subject to a one-time commitment fee payment of $75,000. 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.

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%.

Initial Public Offering
On August 17, 2017 we completed our IPO. The IPO resulted in gross cash proceeds to the Company of approximately $26.9 million and $24.6 million of net cash proceeds, after deducting cash selling agent discounts and commissions and offering expenses. The net proceeds were used to fully repay $4.1 million of Term Notes and $4.5 million of senior secured notes payable under the Credit Facility. The remaining net proceeds of the IPO were used, in part, by us for general corporate purposes including working capital, the Screen Media acquisition and strategic transactions.

We believe we have sufficient liquidity provided from cash on hand and accounts receivable due to us in the near term. In addition, we expect positive cash flow from operations in 2018 and thereafter.

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. 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. 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.

Financing Plan Prior to IPO

Pursuant to our financing plan prior to the IPO, we utilized our Credit Facility, primarily for working capital, and we sold Term Notes and Class A common stock in private placements as follows:

Credit Facility
On May 12, 2016, we entered into the Credit Facility with the facility lender, an affiliate of Mr. Rouhana. Under the terms of the Credit Facility, as amended as of December 12, 2016, January 24, 2017 and March 27, 2017, we could borrow, repay and reborrow up to an aggregate of $4.5 million through January 2, 2019. Our payment obligations under the Credit Facility were senior obligations and secured by a first priority security interest in all of our assets, thus having the same priority as the security interest granted by us to the holders of the Term Notes, prior to their repayment. The proceeds of the loans made under the Credit Facility were used by us for working capital and general corporate purposes.

Loans under the Credit Facility bore interest at 5% per annum, payable monthly in arrears in cash. We were also obligated to pay the facility lender an annual fee equal to 0.75% of the unused portion of the Credit Facility.

As noted above under "*Recent Developments*", with the closing of the Commercial Loan, the Credit Facility was repaid in full and the Credit Facility was terminated by the Company and the Lender.

Debt Private Placement

Pursuant to our financing plan prior to our IPO, we sold a total of $5.0 million of Term Notes and Class W warrants in a private placement. Beginning in July 2016 and through December 31, 2016, we sold in a private placement ("Debt Private Placement") to accredited investors $3.0 million aggregate principal amount of Term Notes and Class W warrants to purchase an aggregate of 252,450 shares of Class A common stock. From January 1, 2017 through May 3, 2017, we sold an additional $2.0 million aggregate principal amount of Term Notes and Class W warrants to purchase an additional aggregate of 172,550 shares of Class A common stock in the Debt Private Placement.

The Term Notes required interest at 5% per annum, payable monthly in arrears in cash. The principal of the Term Notes (including all accrued, but unpaid interest thereon) were originally payable by us on the earlier of (a) June 30, 2017 and (b) the third business day following consummation of (i) an initial public offering (including this offering) and (ii) any future equity offering (other than as a result of the exercise of our Class W warrants) resulting in gross proceeds to us of at least $7.0 million (the "Term Notes Original Maturity Date").

The Term Notes were repaid in full from the proceeds of the IPO.

Equity Private Placements

Pursuant to our financing plan prior to our IPO, we sold a total of approximately $2.5 million of Class A common stock and warrants in private placements. Beginning in June 2016 and through November 2016, we sold in a separate private placement to accredited investors $1.0 million of units, consisting of an aggregate of 170,960 shares of Class A common stock and Class W warrants to purchase an aggregate of 51,288 shares of Class A common stock.

Beginning in December 2016 and through March 2017, we sold in a separate private placement to accredited investors approximately $1.0 million of units, consisting of an aggregate of 150,112 shares of Class A common stock and Class W warrants to purchase an aggregate of 45,034 shares of Class A common stock.

Cash Flows

To date, our principal source of liquidity has been from our financing activities. Our cash and cash equivalents balance was $12.3 million as of September 30, 2018 and $2.2 million as of December 31, 2017. Cash flow information for the nine months ended September 30, 2018 ("2018") and September 30, 2017 ("2017") is as follows:

	Nine Months Ended September 30,		**Change in**	
	2018	**2017**	**Dollars**	**Percentage**
Cash provided by (used in):				
Operating activities	$ (3,294,867)	$ (6,594,161)	$ 3,299,294	50.0%
Investing activities	(544,528)	(3,671,456)	3,126,928	85.2%
Financing activities	13,908,883	19,834,943	(5,926,059)	-29.9%
Net increase in cash and cash equivalents	$ 10,069,488	$ 9,569,326	$ 500,162	5.2%

Operating Activities

For the nine months ended in 2018, our operating activities required a net use of cash totaling $3.3 million as we adjusted to the operations of Screen Media. This net use of cash from operating activities resulted primarily from our investment in on-air and in-development programming and film library distribution rights totaling $10.1 million. This was offset in part by amortization of programming costs and our film library of $5.2 million and our non-cash share-based compensation and our reserve for bad debts and returns of $1.5 million.

For the nine months ended in 2017, our operating activities required a net use of cash of $6.6 million. This use of cash resulted primarily from our investment in on-air and in-development programming costs of $4.3 million and increased prepaid distribution fees related to APlus of $1.5 million. Additionally, the net use of cash was impacted by increased trade accounts receivable of $1.1 million due primarily to payments to be received for *Hidden Heroes*, increase in prepaid expenses of $1.2 million for costs incurred and deferred related to the IPO and decrease in accounts payable and deferred income taxes of $0.5 million. The above was offset in part, by non-cash share-based compensation and non-cash amortization of debt discounts and deferred financing costs of $1.4 million, as well as amortization of programming costs of $0.8 million.

Investing Activities

For the nine months ended in 2018 and 2017, our investing activities required a net use of cash totaling $0.5 million and $3.7 million, respectively. This resulted primarily from an increase in our due from affiliated companies' balance.

Financing Activities

For the nine months ended in 2018, our financing activities provided net cash totaling $13.9 million. This resulted primarily from proceeds from the sale of our preferred stock of $16.1 million and net proceeds received from our Commercial Loan of $7.5 million, offset in part by the full repayment of our Credit Facility of $1.7 million. Financing activities were also decreased by the payment of stock issuance costs of $1.3 million and the repurchase of our common stock in the open market for $0.6 million, pursuant to our Stock Repurchase Program.

For the nine months ended in 2017, our financing activities provided net cash of $19.8 million. This resulted primarily from the proceeds from IPO of $26.9 million, the proceeds from the sale of Class A common stock in a private placement of $1.4 million. Financing activities were also decreased by the net repayments of our Credit Facility of $3.5 million, net repayment of notes payable of $2.1 million and payment of stock issuance cost of $2.9 million.

Anticipated Cash Requirements

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 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. Additionally, 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, 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 condensed 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 condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q, and should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our report on Form 10-K for the year ended December 31, 2017. There have been no significant changes in our critical accounting policies, judgments and estimates, since December 31, 2017.

Recent Accounting Pronouncements

See Item 1 of Part 1, Condensed Consolidated Financial Statements – Note 3 "*Recent Accounting Pronouncements*".

JOBS Act

We are an emerging growth company (EGC), as defined in the JOBS Act and 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, including, but not limited to, only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy or information statements, and not being required to adopt certain new and revised accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to avail ourselves of the extended time for the adoption of 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.

Off-Balance Sheet Arrangements

As of September 30, 2018 and December 31, 2017, we had no off-balance sheet arrangements.

Effect of Inflation and Changes in Prices

We do not expect inflation and changes in prices will have a material effect on our operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on our evaluation, we believe our disclosure controls and procedures as of the date of our Quarterly Report on Form 10-Q have been designed and are functioning effectively to provide reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe a controls system, no matter how well designed and operated, cannot provide absolute assurance the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance all control issues and instances of fraud, if any, within a company have been detected.

Our independent registered public accounting firm has not performed an evaluation of our internal control over financial reporting during any period in accordance with the provisions of the Sarbanes-Oxley Act. As a result, it is possible, had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, material weaknesses and significant control deficiencies may have been identified. However, for as long as we remain an "emerging growth company" as defined in the JOBS Act, we intend to take advantage of the exemption permitting us not to comply with the requirement that our independent registered public accounting firm provide an attestation on the effectiveness of our internal control over financial reporting.

Changes in internal control over financial reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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.

Item 1A – Risk Factors

We are affected by risks specific to us as well as factors that could affect all businesses, including our desire to operate 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 in the "*Risk Factors"* section of our report on Form 10-K for the year ended December 31, 2017.

Unknown Factors

Additional risks and uncertainties of which we are unaware or which currently we deem immaterial also may become important factors that affect us.

Item 2 – Unregistered Sales of Equity Securities

Share Issuance and Warrants

In August 2018, we completed our acquisition of all the capital stock of Pivotshare for approximately $258,000 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") and the issuance of 74,235 shares of the Company's Class A common stock.

In November 2017, we completed our acquisition of all the membership interests of Screen Media for approximately $4.9 million in cash and the issuance of 35,000 shares of our Class A common stock and our Class Z warrants exercisable into 50,000 shares of our Class A common stock at $12 per share.

Between June 2016 and June 2017, the Company sold a total of an aggregate of approximately $2.5 million of Class A common stock and warrants in private placements.

Beginning in June 2016 and through November 2016, the Company sold in a separate private placement to accredited investors $1.0 million of units, consisting of an aggregate of 170,960 shares of Class A common stock and Class W warrants to purchase an aggregate of 51,288 shares of Class A common stock.

Beginning in December 2016 and through March 2017, the Company sold in a separate private placement to accredited investors approximately $1.0 million of units, consisting of an aggregate of 150,112 shares of Class A common stock and Class W warrants to purchase an aggregate of 45,034 shares of Class A common stock.

During May and June 2017, the Company sold in two separate equity private placements, a total of an aggregate of 55,000 shares of Class A common stock and Class Z warrants to purchase an aggregate of 50,000 shares of Class A common stock.

In June 2017, at the election of certain holders of the Company's notes payable ("Term Notes"), the Company converted approximately $0.9 million 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.

Stock Option Grants

During the nine months ended September 30, 2018, the Company granted a stock option to an employee to acquire 10,000 shares of its Class A common stock at $9.22 per share (the "Option") valued at $47,280. The Option was granted pursuant to the Company's 2017 Long Term Incentive Plan. The Option vests quarterly over the three-year period from the date of grant.

In August 2018, the Company granted stock options to two employees of Pivotshare to acquire 22,500 shares of its Class A common stock at $9.86 per share (the "Options") valued at $110,115. The Options were granted pursuant to the Company's 2017 Long Term Incentive Plan and vest annually over the three-year period from the date of grant.

Item 5 – Other Information

None

Item 6 – Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which is incorporated herein by reference.

Exhibit No.	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	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.*
32.2	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.*
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.

SIGNATURES

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

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

/s/ Daniel M. Pess
Daniel M. Pess
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

Date: November 13, 2018

Exhibit 31.1

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 quarterly report on Form 10-Q 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: November 13, 2018

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

Exhibit 31.2

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

I, Daniel M. Pess, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 13, 2018

/s/ Daniel M. Pess
Daniel M. Pess
Principal Financial Officer

Exhibit 32.1

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 Quarterly Report of Chicken Soup for the Soul Entertainment, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 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: November 13, 2018

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

Exhibit 32.2

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 Quarterly Report of Chicken Soup for the Soul Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 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: November 13, 2018

/s/ Daniel M. Pess
Daniel M. Pess
Principal Financial Officer