Mobiquity Technologies, Inc.
Form 10-Q
August 09, 2018

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

COMMISSION FILE NUMBER: 000-51160

MOBIQUITY TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

NEW YORK	**11-3427886**
(State of jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

35 Torrington Lane
SHOREHAM, NY 11786

(Address of principal executive offices)

(516) 246-9422

(Registrant's telephone number)

(Former name, address and fiscal year, 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 No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such file).

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 24, 2018, the registrant had a total of 377,975,600 shares of Common Stock outstanding.

MOBIQUITY TECHNOLOGIES, INC.

FORM 10-Q QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MOBIQUITY TECHNOLOGIES, INC.

Condensed Consolidated Balance Sheets

	June 30, 2018 Unaudited	December 31, 2017 Audited
Assets		
Current Assets:		
Cash and cash equivalents	**$121,034**	$56,470
Accounts receivable, net	**221,960**	18,576
Prepaid expenses and other current assets	**11,700**	17,638
Total Current Assets	**354,694**	92,684
Intangible assets, net	**160**	9,960
Other assets		
Security deposit	**9,900**	11,275
Investment in corporate stock	**7,560,000**	–
Total Other Assets	**7,569,900**	11,275
Total Assets	**$7,924,754**	$113,919
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	**$420,189**	$458,280
Accrued expenses	**1,320,911**	735,431
Derivative liability	**11,119,717**	666,123
Note payables-Bank	**–**	54,644
Convertible promissory notes, net	**4,390,010**	3,149,498

Total Current Liabilities	**17,250,827**	5,063,976
AAA Preferred Stock, $.0001 par value; 5,000,000 shares authorized 850,588 and 850,588 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	**11,552,513**	11,552,513
Stockholders' Deficit:		
Preferred Stock, $.0001 par value; 5,000,000 shares authorized, 240,000 and 240,000 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	**25**	25
Common stock, $.0001 par value; 900,000,000 and 900,000,000 shares authorized; 377,975,600 and 199,375,600 shares issued and outstanding at June 30, 2018, and December 31, 2017, respectively	**37,810**	19,850
Additional paid-in capital	**60,531,589**	44,776,029
Stock subscription	**(260,000)**	–
Accumulated deficit	**(81,188,010)**	(61,298,474)
Total Stockholders' Deficit	**(20,878,586)**	(16,502,570)
Total Liabilities and Stockholders' Deficit	**$7,924,754**	$113,919

See notes to condensed consolidated financial statements

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MOBIQUITY

TECHNOLOGIES, INC.

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, (Unaudited)		**Six Months Ended June 30, (Unaudited)**	
	2018	**2017**	**2018**	**2017**
Revenues	**$241,573**	$100,204	**$280,276**	$181,991
Cost of Revenues	**324,984**	309,739	**386,101**	406,031
Gross Profit	**(83,411)**	(209,535)	**(105,825)**	(224,040)
Operating Expenses:				
Selling, general and administrative	**782,410**	1,413,197	**1,673,414**	3,024,957
Total Operating Expenses	**782,410**	1,413,197	**1,673,414**	3,024,957
Loss from Operations	**(865,821)**	(1,622,732)	**(1,779,239)**	(3,248,997)
Other Income (Expense):				
Interest expense	**(928,121)**	(758,107)	**(1,474,133)**	(1,891,235)
Gain/(Loss) on Derivative Instrument	**(263,225)**	1,006,309	**(9,246,435)**	1,284,031
Initial derivative expense	**(314,822)**	(181,265)	**(559,728)**	(1,284,704)
Gain/(Loss) on Settlement of Debt	**–**	–	**–**	(2,706,197)
Impairment of intangible assets	**–**	–	**–**	(12,127)
Loss on sale of company stock	**(6,965,000)**	–	**(6,965,000)**	–
Total Other Income (Expense)	**(8,471,168)**	66,937	**(18,245,296)**	(4,610,232)
Loss from continuing operations	**(9,336,989)**	$(1,555,795)	**(20,024,535)**	$(7,859,229)
Other Comprehensive Income	**–**	–	**–**	13,047
Unrealized gain on securities:				
Unrealized holding gains arising during period	**135,000**	–	**135,000**	–
Discontinued operations				
Loss from operations of discontinued entity	**–**	(13,113)	**–**	(244,298)
Net Comprehensive Loss	**$(9,201,989)**	$(1,568,908)	**$(19,889,535)**	$(8,090,480)

Net Loss Per Common Share:				
Basic and Diluted	**$(0.04)**	$(0.01)	**$(0.09)**	$(0.05)
Weighted Average Common Shares Outstanding:				
Basic and Diluted	**226,733,752**	191,606,423	**227,203,861**	170,802,429

See notes to condensed consolidated financial statements

MOBIQUITY

TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows

Six Months Ended June 30,	2018	2017
Cash Flows from Operating Activities:		
Net loss	**$(20,024,535)**	$(7,859,229)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation Expense	**–**	6,451
Amortization - Intangible Assets	**9,800**	14,300
Amortization - Debt discount	**874,443**	1,363,013
Common stock issued for services	**189,740**	314,310
Common stock issued for interest	**406,375**	–
Loss on sale of company stock	**6,965,000**	–
Change in derivative instrument	**9,246,435**	(1,284,031)
Stock-based compensation	**327,405**	425,358
Initial derivative expense	**559,728**	1,284,704
Gain on settlement of debt	**–**	2,706,197
Loss on disposal of assets	**–**	12,241
Expenses paid from note	**–**	567,737
Changes in operating assets and liabilities:		
Accounts receivable	**(203,384)**	(84,676)
Inventory	**–**	13,149
Prepaid expenses and other assets	**7,313**	48,461
Investment in corporate stock	**(7,560,000)**	–
Accounts payable	**(38,092)**	(163,310)
Accrued expenses and other current liabilities	**137,872**	361,064
Accrued interest	**447,608**	–
Total adjustments	**11,370,243**	5,584,968
Net Cash Used in Operating Activities	**(8,654,292)**	(2,274,261)
Net Cash Used in Operating Activities-discontinued operations	**–**	(244,298)
Cash Flows from Financing Activities:		
Proceeds from the issuance of notes, net	**1,273,500**	1,735,000
Proceeds from issuance of common stock	**460,000**	311,250
Proceeds received from exercising warrants	**–**	95,834
Proceeds from the collection of stock subscription receivable	**200,000**	456,503
Stock subscription receivable	**(260,000)**	–
Cash received from bank loans	**143,077**	–
Cash paid on bank loans	**(197,721)**	–

Loss on sale of company stock	**6,965,000**	–
Net Cash Provided by Financing Activities	**8,583,856**	2,598,587
Net Increase (Decrease) in Cash and Cash Equivalents	**64,564**	80,028
Cash and Cash Equivalents, beginning of period	**56,470**	213,184
Change in foreign currency	**–**	13,047
Unrealized gain on securities	**135,000**	–
Cash and Cash Equivalents, end of period	**$121,034**	$306,259
Supplemental Disclosure Information:		
Cash paid for interest	**$5,000**	$3,140
Cash paid for taxes	**$–**	$–
Non-cash Financing and Investing Activities:		
Stock issued for interest	**$406,375**	$–
Original debt discount against derivative liabilities	**$–**	$1,600,000
Investment in corporate stock	**$7,425,000**	$–
Conversion of note and interest into AAA Preferred and Common Stock	**$–**	$12,791,476
Recognition of debt discount	**$1,123,931**	$294,939

See notes to condensed consolidated financial statements.

MOBIQUITY TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(UNAUDITED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS — On September 10, 2013, Mobiquity Technologies, Inc. changed its name from Ace Marketing & Promotions, Inc. “the Company” or “Mobiquity”). We operate through a wholly-owned U.S. subsidiary, named, Mobiquity Networks, Inc. Mobiquity Networks owns 100% of Mobiquity Wireless S.L.U, a company incorporated in Spain. This corporation had an office in Spain to support our U.S. operations, which office was closed in the fourth quarter of 2016. Ace Marketing, its legacy marketing and promotions business was successfully sold on October 1, 2017, allowing us to focus our full attention to Mobiquity Networks.

Mobiquity Technologies, Inc., a New York corporation (the “Company”), is the parent company of its operating subsidiary; Mobiquity Networks, Inc. (“Mobiquity Networks”). The Company’s wholly-owned subsidiary, Mobiquity Networks has evolved and grown from a mobile advertising technology company focused on driving Foot-traffic throughout its indoor network, into a next generation location data intelligence company. Mobiquity Networks provides precise unique, at-scale location data and insights on consumer’s real-world behavior and trends for use in marketing and research. With its combined first party location data via its advanced SDK and its various exclusive data sets; Mobiquity Networks provides one of the most accurate and scaled solution for mobile data collection and analysis, utilizing multiple geo-location technologies. Mobiquity Networks is seeking to implement several new revenue streams from its data collection and analysis, including, but not limited to; Advertising, Data Licensing, Footfall Reporting, Attribution Reporting, Real Estate Planning, Financial Forecasting and Custom Research.

GOING CONCERN - The accompanying condensed financial statements have been prepared assuming the Company will continue as a going concern. The Company's continued existence is dependent upon the Company's ability to obtain additional debt and/or equity financing to advance its new technology revenue stream. The Company has incurred losses from continued operations for the six months ended June 30, 2018 of $20,024,535. As of June 30, 2018, the Company has an accumulated deficit of $81,188,010. The Company has had negative cash flows from operating activities of $8,654,292, for the six months ended June 30, 2018. These factors raise substantial doubt about the ability of the Company to continue as a going concern.

Management has plans to address the Company’s financial situation as follows:

In the near term, management plans to continue to focus on raising the funds necessary to implement the Company's business plan related to technology. Management will continue to seek out equity and/or debt financing to obtain the capital required to meet the Company's financial obligations. There is no assurance, however, that lenders and investors will continue to advance capital to the Company or that the new business operations will be profitable. The possibility of failure in obtaining additional funding and the potential inability to achieve profitability raises doubts about the Company's ability to continue as a going concern.

In the long term, management believes that the Company's projects and initiatives will be successful and will provide cash flow to the Company that will be used to finance the Company's future growth. However, there can be no assurances that the Company's efforts to raise equity and debt at acceptable terms or that the planned activities will be successful, or that the Company will ultimately attain profitability. The Company's long-term viability depends on its ability to obtain adequate sources of debt or equity funding to meet current commitments and fund the continuation of its business operations, and the ability of the Company to achieve adequate profitability and cash flows from operations to sustain its operations.

PRINCIPLES OF CONSOLIDATION — The accompanying consolidated financial statements include the accounts, of Mobiquity Technologies, Inc., formerly known as Ace Marketing & Promotions, Inc., and its wholly owned subsidiary, Mobiquity Networks, Inc.

The Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, the Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2018 and 2017 and the Condensed Statements of Cash Flows for the six months ended June 30, 2018 and 2017 have been prepared by us without audit, and in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly in all material respects our financial position as of June 30, 2018, results of operations for the three months and six months ended June 30, 2018 and 2017 and cash flows for the six months ended June 30, 2018 and 2017. All such adjustments are of a normal recurring nature. The results of operations and cash flows for the three months and six months ended June 30, 2018 and 2017 are not necessarily indicative of the results to be expected for the full year. We have evaluated subsequent events through the filing of this Form 10-Q with the SEC and determined there have not been any events that have occurred that would require adjustments to our unaudited Condensed Financial Statements.

ESTIMATES — The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS — For certain of the Company’s financial instruments, including cash and equivalents, accounts receivable, accounts payable, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities.

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of financial instruments held by the Company. FASB ASC Topic 825, *Financial Instruments*, defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

The following are the hierarchical levels of inputs to measure fair value:

- Level 1 - Observable inputs that reflect quoted market prices in active markets for identical assets or liabilities.

- Level 2 - Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 - Unobservable inputs reflecting the Company's assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The carrying amounts of the Company's financial assets and liabilities, such as cash, prepaid expenses, other current assets, accounts payable & accrued expenses, certain notes payable and notes payable - related party, approximate their fair values because of the short maturity of these instruments.

The Company accounts for its derivative liabilities, at fair value, on a recurring basis under level 3.

	Level 1	Level 2	Level 3	Total
Fair value of derivatives	$ –	$ –	$11,119,717	$11,119,717

Embedded Conversion Features

The Company evaluates embedded conversion features within convertible debt under ASC 815 "Derivatives and Hedging" to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 "Debt with Conversion and Other Options" for consideration of any beneficial conversion feature.

Derivative Financial Instruments

The Company has financial instruments that are considered derivatives or contain embedded features subject to derivative accounting related to 22 convertible notes issued totaling $4,609,000 which have a variable conversion price equal to 50% of the lowest volume weighted average price in the 30 days prior to conversion. The notes have maturity dates ranging from February 2, 2018 – October 21, 2018. The Company also has financial instruments that are considered derivatives or contain embedded features subject to derivative accounting related to 2,200,000 warrants which included a ratchet provision in the conversion price of $.05 as part of a conversion of preferred AAA shares, and 1,000,000 warrants which included a ratchet provision in the conversion price of $.055 as part of a placement fee related to a note. Embedded derivatives are valued separately from the host instrument and are recognized as derivative liabilities in the Company's balance sheet. The Company measures these instruments at their estimated fair value and recognizes changes in their estimated fair value in results of operations during the period of change. The Company has estimated the fair value of these embedded derivatives for convertible debentures and associated warrants using a multinomial lattice model as of June 30, 2018. The fair values of the derivative instruments are measured each quarter, which resulted in a loss of $9,246,435 and derivative expense of $559,728 during the six months ended June 30, 2018. As of June 30, 2018, the fair market value of the derivatives aggregated $11,119,717 using the following assumptions: estimated 0.1 to 4.1-year term, estimated volatility of 196.98% to 394.26%, and a discount rate of 0.00% to 2.09%.

CASH AND CASH EQUIVALENTS — The Company considers all highly liquid debt instruments with a maturity of three months or less, as well as bank money market accounts, to be cash equivalents. As of June 30, 2018, and December 31, 2017, the balances were $121,034 and $56,470, respectively.

CONCENTRATION OF CREDIT RISK — Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables and cash and cash equivalents.

Concentration of credit risk with respect to trade receivables is generally diversified due to the large number of entities comprising the Company's customer base and their dispersion across geographic areas principally within the United States. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its receivable credit risk exposure is limited. Our current receivables at June 30, 2018 are with five customers. One customer constitutes 82.79% of our sales.

The Company places its temporary cash investments with high credit quality financial institutions. At times, the Company maintains bank account balances, which exceed FDIC limits. As of June 30, 2018, and December 31, 2017, the Company did not exceed FDIC limits.

REVENUE RECOGNITION — The Company recognized revenue on arrangements in accordance with FASB Codification Topic 606, Revenue from Contracts with Customers. Revenue represents amounts earned for data licensing arrangements consisting of flat fee, per use basis or revenue share. Licensee is sent data on a daily basis, has use of the data for a period of time based on the contract life between one month to one year.

We recognize revenues in the period in which the data transmission is provided to the licensee.

Under these policies, the Company evaluates each of these criteria as follows:

- Evidence of an arrangement. We consider a signed insertion order or contract by the licensee or its agency to be evidence of an arrangement.

- Delivery. Delivery is considered to occur daily with the transmission of the data from our network servers to the licensee.

- Fixed or determinable fee. The Company recognizes revenue for data license arrangements ratably over the term of the insertion order or contract. Our arrangements with the licensee is noted in the signed contracts which specifies the price to be paid and due date of remittance. Contracts that include fixed-fee data transmission are invoiced upon acceptance of the insertion order or contract and billed at time of delivery. The Company’s terms as stated in the contracts. Final billing is based on usage of delivered data. At the end of the period (usually monthly) an acknowledgment of data amount delivered is sent to licensee, who then verifies usage and at the point a final invoice is generated.

- Collection is deemed reasonably assured. We deem collection reasonably assured if we expect that the licensee will be able to pay the amounts under the arrangement as payments become due. Collection is deemed not reasonably assured when a licensee is perceived to be in financial distress, which may be evidenced by weak industry conditions, a bankruptcy filing, or previously billed amounts that are past due. If we determine that collection is not reasonably assured, then we would defer the revenue and recognize the revenue upon cash collection.

- No other warranties and or obligations are implied or due once the data transmission has been completed with the licensee.

MOBIQUITY NETWORKS — Revenue is recognized with the billing of an advertising contract or data sale. The customer signs a contract directly with us for an advertising campaign with mutually agreed upon term and is billed on the start date of the advertising campaign, which are normally in short duration periods. The second type of revenue is through the licensing of our data. Revenue from data can occur in two ways; the first is a direct feed, which is billed at the end of each month. The second way is through the purchasing of audience segments. When an audience segment is purchased, we bill the buyer upon delivery, which is usually 1-2 days for the order date.

ALLOWANCE FOR DOUBTFUL ACCOUNTS — Management must make estimates of the collectability of accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. As of June 30, 2018, and December 31, 2017, allowance for doubtful accounts were $0 and $0, respectively.

PROPERTY AND EQUIPMENT — Property and equipment are stated at cost. Depreciation is expensed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are being amortized using the straight-line method over the estimated useful lives of the related assets or the remaining term of the lease. The costs of additions and improvements, which substantially extend the useful life of a particular asset, are capitalized. Repair and maintenance costs are charged to expense. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the account and the gain or loss on disposition is reflected in operating income.

LONG LIVED ASSETS — Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. The Company recognized no impairment losses for the period ended June 30, 2018.

PATENTS and TRADEMARKS — Patents and trademarks developed during the prior years were capitalized for the period of development and testing. Expenditures during the planning stage and after implementation have been expensed in accordance with ASC 985.

ADVERTISING COSTS — Advertising costs are expensed as incurred. For the quarter ended June 30, 2018 and for the year ended December 31, 2017, there were no advertising costs.

ACCOUNTING FOR STOCK BASED COMPENSATION — Stock based compensation cost is measured at the grant date fair value of the award and is recognized as expense over the requisite service period. The Company uses the Black-Sholes option-pricing model to determine fair value of the awards, which involves certain subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term ("volatility") and the number of options for which vesting requirements will not be completed ("forfeitures"). Changes in the subjective assumptions can materially affect estimates of fair value stock-based compensation, and the related amount recognized on the consolidated statements of operations. Refer to Note 8 "Stock Option Plans" in the Notes to Consolidated Financial Statements in this report for a more detailed discussion.

BENEFICIAL CONVERSION FEATURES — Debt instruments that contain a beneficial conversion feature are recorded as deemed interest to the holders of the convertible debt instruments. The beneficial conversion is calculated as the difference between the fair values of the underlying common stock less the proceeds that have been received for the debt instrument limited to the value received.

INCOME TAXES — Deferred income taxes are recognized for temporary differences between financial statement and income tax basis of assets and liabilities for which income tax or tax benefits are expected to be realized in future years. A valuation allowance is established to reduce deferred tax assets, if it is more likely than not, that all or some portion of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS — *Revenue from Contracts with Customers (Topic 606).* The company adopted Revenue Recognition Standard, ASC 606 on January 1, 2018 and after for the recognition for our revenue policy.

We have completed our assessment of the impact under the new revenue standard on our condensed financial statements. Based on our assessment, we have concluded that our financial statements will not be materially impacted upon adoption.

NOTE 2: LOSS PER SHARE

Basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Dilutive loss per share gives effect to stock options and warrants, which are considered to be dilutive common stock equivalents. Basic loss per common share was computed by dividing net loss by the weighted average number of shares of common stock outstanding. The number of common shares potentially issuable upon the exercise of certain options and warrants that were excluded from the diluted loss per common share calculation was approximately 357,519,663 because they are anti-dilutive as a result of a net loss for the six months ended June 30, 2018.

NOTE 3: CONVERTIBLE DEBT AND DERIVATIVE LIABILITIES

Summary of Convertible Promissory Notes:

	June 30, 2018	December 31, 2017
CAVU Notes, net	$100,000	$100,000
Berg Note	50,000	50,000
Secured and unsecured Notes net of discounts of $368,990 for June 30, 2018 and $234,502 for December 31, 2017	4,240,010	2,999,498
Total Debt	4,390,010	3,149,498
Current portion of debt	4,390,010	3,149,498
Long-term portion of debt	$–	$–

In the first quarter of 2018, the Company entered into agreements with non-affiliated persons to provide $1,000,000 of short term secured debt financing in four monthly tranches. The Company will issue in connection with each tranche, a six-month secured convertible promissory note. In connection with this transaction, the Company agreed to issue an origination fee of 1,000,000 shares of restricted common stock. Alexander Capital L.P. acted as Placement Agent and Advisor for this transaction. Each of these new notes are on the terms of the Company's 10% Senior Secured debt.

The Company's 10% Senior Secured Debt consists of 19 convertible notes issued totaling $4,234,000. These notes mature 6 months from the date of issuance, accrue interest at 10%, and had a base conversion price of $.05. As of June 30, 2018, the 10% Senior Secured Debt notes are in default for breach of covenants due to notes which have matured during the period not being settled. The default on these notes triggered an increase in the interest rate from 10% to 24% on the principal balance, a 9% late fee being charged on interest accrued, and a variable conversion price equal to 50% of the lowest volume weighted average price in the 30 days prior to conversion. On February 27, 2018 the Company reduced the base conversion price from $.05 to $.02. The Company accounted for this modification per ASC 470-50 "Modifications and Extinguishments". Due to the variable rate in effect from the default provisions of the 10% Senior Secured Debt notes this reduction in base conversion price had no material change on the value of the notes.

In the second quarter of 2018, the Company borrowed $375,000 from investors, including $125,000 from the Chairman of the Company. A total of 10,500,000 shares of common stock were issued as origination fees. The principal of the loans are due and payable the earlier of July 31, 2018 or upon the completion of a financing of at least $1,000,000**.**

A recap of the derivative liability is as follows:

Derivative Liability 2018	
Beginning balance	$(666,123)
New Issuances	(559,728)
Discount on new issuances	(647,431)
Gain (Loss) on revaluation of derivative liability	(9,246,435)
Ending balance	$(11,119,717)

NOTE 4: STOCKHOLDERS' (DEFICIT)

Shares issued for Original Interest Discount

During the quarter ended June 30, 2018, the Company issued 10,500,000 shares of common stock at a price per share between $0.04 and $0.05 for original issue discount on receipt of $375,000 in unsecured convertible promissory notes.

On June 20, 2018, the Company entered into a strategic investment transaction with Glen Eagles Acquisitions LP ("GEA"). As part of the strategic investment, the Company received 4,500,000 shares of Gopher Protocol Inc. common stock (traded in the OTC Market under the symbol "GOPH") and cash in exchange for 150,000,000 shares of its restricted common stock. There was also an origination fee of 15,000,000 shares of its restricted common stock paid to GEA by the Company in connection with this transaction. There were no commissions or finder's fees paid by the Company in connection with this transaction.

NOTE 5: STOCK-BASED COMPENSATION

Compensation costs related to share-based payment transactions, including employee stock options, are recognized in the financial statements utilizing the straight-line method for the cost of these awards.

The Company's results for the three-month period ended June 30, 2018 and 2017 include employee share-based compensation expense totaling $0.00 and $152,266, respectively. The Company's results for the six-month period ended June 30, 2018 and 2017 include employee share-based compensation expense totaling $327,405 and $425,358, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within selling, general and administrative expenses. No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements due to a history of operating losses.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Employee stock-based compensation - option grants	$–	$152,266	$273,945	$302,858
Employee stock-based compensation - stock grants	–	–	–	