



PEERSTREAM

Annual Report | **2017**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Fiscal Year Ended December 31, 2017

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission File No. 000-52176

**PEERSTREAM, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**20-3191847**

(State or other jurisdiction of incorporation or organization)

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

**122 East 42nd Street  
New York, NY**

**10168**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(212) 594-5050**

Securities registered pursuant to Section 12(b) of the Exchange Act: **None**

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

**Common stock, par value \$0.001 per share**

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a 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 ☒

The aggregate market value of the registrant's common stock, par value \$0.001 per share, held by non-affiliates of the registrant, based on the closing price of the common stock as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$4,856,429.

As of March 16, 2018, the registrant had 6,723,223 shares of common stock outstanding, excluding 158,571 unvested shares of restricted stock.

**DOCUMENTS INCORPORATED BY REFERENCE:**

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated by reference to the registrant's Definitive Proxy Statement on Schedule 14A relating to the 2018 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

**PEERSTREAM, INC.**  
**ANNUAL REPORT ON**  
**FORM 10-K**  
**TABLE OF CONTENTS**

	<u><b>Page</b></u>
<b>PART I</b>	
ITEM 1. Business .....	1
ITEM 1A. Risk Factors .....	10
ITEM 1B. Unresolved Staff Comments .....	27
ITEM 2. Properties .....	27
ITEM 3. Legal Proceedings .....	27
ITEM 4. Mine Safety Disclosures .....	27
<b>PART II</b>	
ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	28
ITEM 6. Selected Financial Data .....	29
ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations ...	29
ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk .....	39
ITEM 8. Financial Statements and Supplementary Data .....	40
ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure ...	41
ITEM 9A. Controls and Procedures .....	41
ITEM 9B. Other Information .....	41
<b>PART III</b>	
ITEM 10. Directors, Executive Officers and Corporate Governance .....	42
ITEM 11. Executive Compensation .....	42
ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	42
ITEM 13. Certain Relationships and Related Transactions, and Director Independence .....	42
ITEM 14. Principal Accountant Fees and Services .....	42
<b>PART IV</b>	
ITEM 15. Exhibits and Financial Statement Schedules .....	43
ITEM 16. Form 10-K Summary .....	47
Signatures .....	48

*Effective March 12, 2018, we changed our name from “Snap Interactive, Inc.” to “PeerStream, Inc.” Unless the context otherwise indicates, references to “PeerStream,” “Snap,” “we,” “our,” “us” and the “Company” refer to PeerStream, Inc. and its subsidiaries on a consolidated basis.*

*PeerStream, FirstMet, Paltalk, our logo and other trademarks or service marks appearing in this report are the property of PeerStream, Inc. Trade names, trademarks and service marks of other companies appearing in this report are the property of their respective owners.*

*Unless otherwise indicated, metrics for users are based on information that is reported by Facebook® and internally-derived metrics for users across all platforms through which our applications are accessed. References in this report to users means those persons who have created a user name and password, and active subscribers means users that have prepaid a fee, redeemed credits or received an upgrade from another user as a gift for current unlocked features such as enhanced voice and video access, elevated status in the community or unrestricted communication on our applications and whose subscription period has not yet expired. The metrics for active subscribers are based on internally-derived metrics across all platforms through which our applications are accessed.*

## EXPLANATORY NOTE

### **Name Change**

Effective March 12, 2018, we changed our name from “Snap Interactive, Inc.” to “PeerStream, Inc.” In connection with the name change, we also changed our trading symbol on the OTCQB Marketplace from “STVI” to “PEER.” The new brand is intended to honor the Company’s legacy of empowering consumers to meet new people and connect with peers via social video applications, while also referencing the anticipated importance of peer-to-peer networks and multimedia streaming in the Company’s future.

### **AVM Merger**

On October 7, 2016, PeerStream, Inc. (“PeerStream”) (formerly known as Snap Interactive, Inc.) completed its previously announced merger with A.V.M. Software, Inc. (d/b/a Paltalk) (“AVM”), pursuant to which SAVM Acquisition Corporation, PeerStream’s wholly owned subsidiary, merged with and into AVM, with AVM surviving as a wholly owned subsidiary of PeerStream (the “AVM Merger”). As a result of the AVM Merger, the former shareholders of AVM received shares of PeerStream’s common stock representing approximately 77.9% of the outstanding shares of common stock of the post-AVM Merger combined company, and PeerStream’s former shareholders retained approximately 22.1% of the outstanding shares of common stock of the post-AVM Merger combined company, in each case including unvested shares of restricted stock in the total number of shares of common stock outstanding. In connection with the consummation of the AVM Merger, PeerStream fully repaid its outstanding 12% Senior Secured Convertible Note due February 13, 2017 in the original aggregate principal amount of \$3,000,000.

The AVM Merger has been accounted for as a “reverse merger” under the acquisition method of accounting for business combinations with AVM being treated as the accounting acquirer of PeerStream. As such, the historical financial statements of AVM are treated as the historical financial statements of the combined company. Accordingly, the financial results for the fiscal year ended December 31, 2017 presented in this Form 10-K reflect the operations of the combined company. These results for the fiscal year ended December 31, 2017 are compared to the financial results of AVM for the period of January 1, 2016 through October 7, 2016 and the operations of the combined company for the period of October 8, 2016 through December 31, 2016.

For additional information, see the Notes to our Consolidated Financial Statements set forth in this Annual Report on Form 10-K.



## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K constitute “forward-looking statements” as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are based on current expectations, estimates, forecasts and assumptions and are subject to risks and uncertainties. Words such as “anticipate,” “assume,” “began,” “believe,” “budget,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “would” and variations of such words and similar expressions are intended to identify such forward-looking statements. All forward-looking statements speak only as of the date on which they are made. Such forward-looking statements are subject to certain risks, uncertainties and assumptions relating to factors that could cause actual results to differ materially from those anticipated in such statements, including, without limitation, the following:

- our ability to generate and maintain active subscribers and to maintain engagement with our user base;
- the intense competition in the online live video and dating industries and our ability to effectively compete with existing competitors and new market entrants;
- our increasing focus on the use of new and novel technologies, such as blockchain, to enhance our applications, and our ability to timely complete development of applications using new technologies;
- our ability to effectively market and generate revenue from our new business solutions unit;
- the dependence of our applications on mobile platforms and operating systems that we do not control, including our heavy reliance on the platforms of Apple Inc. (“Apple”), Facebook, Inc. (“Facebook”) and Google Inc. (“Google”) and their ability to discontinue, limit or restrict access to their platforms by us or our applications, change their terms and conditions or other policies or features (including restricting methods of collecting payments, sending notifications or placing advertisements), establish more favorable relationships with one or more of our competitors or develop applications or features that compete with our applications;
- our ability to obtain additional capital or financing to execute our business plan, including through offerings of debt, equity or initial coin offerings;
- our ability to develop, establish and maintain strong brands;
- the effects of current and future government regulation, including laws and regulations regarding the use of the internet, privacy and protection of user data and blockchain and cryptocurrency technologies;
- legal and regulatory requirements related to us investing in cryptocurrencies and our acceptance of cryptocurrencies as a method of payment;
- our ability to manage our partnerships and strategic alliances, including the resolution of any material disagreements and the ability of our partners to satisfy their obligations under these arrangements;
- our ability to offset fees associated with the distribution platforms that host our applications;
- our reliance on our executive officers;
- our reliance on internally derived data to accurately report user metrics and other measures of our performance;
- our ability to release new applications on schedule or at all, as well as our ability to improve upon existing applications;
- our ability to update our applications to respond to rapid technological changes;
- our ability to protect our intellectual property rights;
- our ability to successfully integrate the operations of PeerStream and AVM and manage our growth;
- our ability to adapt or modify our applications for the international market and derive revenue therefrom;

- the ability of foreign governments to restrict access to our applications or impose new regulations, including the European Union’s General Data Protection Regulation (“GDPR”);
- the reliance of our mobile applications on high-bandwidth data capabilities;
- our reliance on third party email service providers for delivery of email campaigns to convert users to subscribers and to retain subscribers;
- our reliance on third party investor relations firms to help create awareness of our Company and compliance by such third parties with regulatory requirements related to promotional reports;
- the effect of security breaches, computer viruses and computer hacking attacks;
- our reliance upon credit card processors and related merchant account approvals and the impact of chargeback liabilities that we may face from credit card processors;
- the impact of any claim that we have infringed on intellectual property rights of others;
- our ability to effectively integrate companies and properties that we acquire;
- the risk that we might be deemed a “dating service” or an “Internet dating service” under various state regulations;
- the possibility that our users or third parties may be physically or emotionally harmed following interaction with other users;
- the risk that we may face litigation resulting from the transmission of information through our applications;
- our ability to attract and retain qualified employees; and
- our ability to maintain effective internal controls over financial reporting.

For a more detailed discussion of these and other factors that may affect our business, see the discussion in “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report. We caution that the foregoing list of factors is not exclusive, and new factors may emerge, or changes to the foregoing factors may occur, that could impact our business. We do not undertake any obligation to update any forward-looking statement, whether written or oral, relating to the matters discussed in this report, except to the extent required by applicable securities laws.

## PART I

### ITEM 1. BUSINESS

#### Background of Presentation and Recent Developments

##### *Name Change*

Effective March 12, 2018, we changed our name from “Snap Interactive, Inc.” to “PeerStream, Inc.” In connection with the name change, we also changed our trading symbol on the OTCQB Marketplace from “STVI” to “PEER.” The new brand is intended to honor the Company’s legacy of empowering consumers to meet new people and connect with peers via social video applications, while also referencing the anticipated importance of peer-to-peer networks and multimedia streaming in the Company’s future.

##### *AVM Merger*

On October 7, 2016, we completed the AVM Merger, pursuant to which SAVM Acquisition Corporation, our wholly owned subsidiary, merged with and into AVM, with AVM surviving as a wholly owned subsidiary of the Company. As a result of the AVM Merger, the former shareholders of AVM received shares of our common stock representing approximately 77.9% of the outstanding shares of common stock of the post-AVM Merger combined company, and the Company’s former shareholders retained approximately 22.1% of the outstanding shares of common stock of the post-AVM Merger combined company, in each case including unvested shares of restricted stock in the total number of shares of common stock outstanding.

##### *Presentation for Reverse Stock Split*

On January 5, 2017, we effected a 1-for-35 reverse stock split of our issued and outstanding common stock (the “Reverse Stock Split”). As a result of the Reverse Stock Split, each issued and outstanding share of our common stock, and the per share exercise price of and number of shares of our common stock underlying our outstanding stock options, was automatically proportionally adjusted based on the 1-for-35 Reverse Stock Split ratio. Except as otherwise provided herein, all share and per-share amounts of our common stock and stock options have been adjusted to give effect to the Reverse Stock Split for all periods presented. The Reverse Stock Split did not alter the par value of our common stock, which remains at \$0.001 per share, modify any voting rights or other terms of our common stock or impact the amount of preferred stock we are authorized to issue.

##### *Terminated LiveXLive Merger Agreement*

On September 6, 2017, we entered into an Agreement and Plan of Merger with LiveXLive Media, Inc. (“LiveXLive”), LXL Video Acquisition Corp., a wholly owned subsidiary of LiveXLive (“Merger Sub”), and Jason Katz, as the agent of the stockholders of the Company, pursuant to which we would have merged with and into Merger Sub, with Merger Sub surviving as a wholly owned subsidiary of LiveXLive (the “LiveXLive Merger Agreement”).

On October 31, 2017, we terminated the LiveXLive Merger Agreement pursuant to Section 8.2(a) of the LiveXLive Merger Agreement due to certain conditions of the LiveXLive Merger Agreement not having been fulfilled as of October 27, 2017, which relieved us of all of our obligations under the LiveXLive Merger Agreement. No termination fee was payable by the Company in connection with the termination of the LiveXLive Merger Agreement.

#### Company Overview

We are a leading developer of innovative decentralized technologies that power multimedia social applications and business communication solutions worldwide. We were incorporated under the laws of the State of Delaware in 2005. Our principal executive office is located at 122 East 42<sup>nd</sup> Street, Suite 2600, New York, New York 10168.

Our product portfolio includes Paltalk and Camfrog, which together host one of the world’s largest collections of video-based communities, and FirstMet, a prominent interactive dating brand serving users 35 and older. Our other products include Tynychat, Firetalk, 50More, Ribbit Live, The Grade, and Vumber. We recently announced a number of initiatives that feature enhancements of our technology platform using blockchain and plans to offer aspects of our multimedia streaming and communications technology to third party developers and corporate clients. We

are also currently developing a new video-enabled secure messaging service built on blockchain technology called Backchannel that we expect to launch in the fourth quarter of 2018.

Our leading network of products creates a unique social media enterprise where users can meet, see, chat, broadcast and message in real time with other users in our network. Our properties are generally available through Windows®, Mac™ OS, iOS™ and Android™ platforms. The proprietary technology underlying our products allows us to operate thousands of simultaneous streams, including on mobile platforms, that support interactions on a one-on-one, one-to-many and many-to-many basis. We also have a worldwide established presence and brand identity in both live video chat and interactive dating, with users in over 180 countries as of March 16, 2018. Furthermore, our technology is supported by a portfolio of 26 issued patents.

We believe that live video is in the early stages of adoption for applications related to meeting, chatting, dating, broadcasting and other interactive purposes and over time presents an attractive growth opportunity as it becomes pervasively integrated across the social networking and interactive communications industries. As individuals become more reliant on communicating through applications, we believe it is becoming increasingly more important to users that we provide a secure and private environment on which to interact via live video online.

In 2018, we plan to pursue a strategy of using blockchain technology to improve our existing technology platform, to build new proprietary applications and to offer technology solutions to third parties, in each case taking advantage of the enhanced security, scalability and cost-effectiveness that blockchain technology offers. We recently announced that we are developing an open source, multimedia delivery platform based on blockchain technology called “PeerStream Protocol,” or “PSP,” that is expected to specialize in routing live, rich media content and powering applications that require real time data and video communications. At launch, we plan for this platform to host new proprietary apps we develop, as well as to allow third-party developers to build the next generation of social networking, messaging, group collaboration and live video streaming applications based on blockchain technologies. In concert with PSP, we are currently developing Backchannel, a blockchain-based secure messaging application that we believe will be the first video messaging application to eliminate a centralized intermediary responsible for hosting and storing user information, thereby reducing the risk that communications between users can be hacked, stolen or leaked.

We believe that we are well-positioned to take advantage of key business opportunities in our industry by leveraging our technology, user base and suite of complementary applications to provide video, voice and chat services and experiences with superior security, scalability and cost-efficiency.

## **Key Business Strengths**

### *Early Mover to Live Video*

We believe our early development and use of live video and dating applications have enabled us to have a leading position in the live video industry today. Our products, Paltalk and Camfrog, together host one of the world’s largest collections of video-based communities and we believe live video will in time become ubiquitous and an integral element of social networking, messaging and online business applications. Our early mover advantage enables us to seize growth opportunities with existing and new products as the popularity and pervasiveness of live video increases.

### *Engaging Functionality*

We have designed our applications with browse functions and other features that prompt interactions between users, which make our applications highly engaging and easy to use. While many online applications and websites provide similar functionality, many competitive services require meaningful effort and initiative on the part of the user to make contact with other users. Our applications are designed to eliminate effort and friction in user-to-user interaction by organizing users around common interests or automating certain aspects of the introductory dialog between users. As a result, we believe our users find our experience more social and enjoyable than many competitive social networking and dating services.

### *Freemium Online Model*

We operate our video chat and dating products on a “freemium” model in which certain application features are free to all users and other features are only available to paid subscribers or other paying members. Dating users are allowed to create a profile, browse, search and view profiles of other users, send instant messages and send an



initial message to any user. Premium features, such as access to multiple video chat rooms and enhanced status in the community for our video chat applications or unlimited custom messaging for our dating applications, require a paid subscription. We believe this “freemium” model differentiates us from some other like applications in the industry.

#### *Data-Driven Model*

We have developed data analytics and application development processes that we believe provide us with a competitive advantage over many other video chat and online dating applications and platforms. Our data analytics provide us with critical visibility into the effectiveness of our sales and marketing expense which allows us to quickly modify such expenditures to create more effective user acquisition campaigns. Our application development processes include a sophisticated A/B testing framework, a framework for comparing two versions of the same application, which allows us to test new features, new functionality, design changes, changes to our proprietary algorithms and compare our results to control groups. These processes provide a real-time granular analysis of user behavior with the intention to modify our applications to improve the user experience as well as increase user engagement in order to increase the number of users that convert into paying subscribers.

#### *Highly Scalable Platform*

Our applications are extremely scalable and require limited incremental cost to host additional users, create new features catering to additional discrete audiences, or build new applications based on developed feature-sets with new brand identities. Our video chat properties are built on a highly scalable architecture that enables them to power thousands of chat rooms and live streams simultaneously. This technology is used to power topical discussions in several different formats, including interactions on a one-on-one, one-to-many and many-to-many basis. Our dating platforms allow thousands of simultaneous users to browse the profile of other users, message other users or otherwise be active on our website and applications.

#### *Subscriber Base*

Our applications and the majority of revenues generated therefrom are supported by a large user database of approximately 164,000 active subscribers worldwide as of March 16, 2018. Our management believes that the scale of our subscriber base presents a competitive advantage in the video chat and dating industry and can present growth opportunities to advance existing products with upsell opportunities as well as to build future brands with cross-sell offers. We also believe that our large user base provides us the opportunity to utilize our blockchain development efforts to offer products and services at scale with the benefits of this advanced technology. The scale of our usage also offers us the opportunity to build our third party advertising revenue.

### **Company Business Strategy**

#### *Build on Blockchain Technology*

We recently announced a multipoint strategy to extend our existing capabilities in multimedia streaming and communications while embracing the growth potential and technological capabilities of blockchain technology. We are currently in the process of developing PSP, an open source protocol for multimedia streaming and communications, and our first blockchain-based application, Backchannel. We are also exploring opportunities to enhance our existing applications with blockchain technology. We believe that using blockchain technology provides several key advantages over the traditional technology used to develop live multimedia streaming and communications applications:

- **Scalability:** Blockchain-based networks are formed through community contribution of computing resources, and with compensation mediated through consensus protocols, these peer networks become professionalized. Because they can tap into millions of contributors around the world, these peer networks have the potential to scale far greater than any existing private networks.
- **Cost-Efficiency:** Because blockchain technology would eliminate the need for us to serve as an intermediary by hosting servers to transmit data between users, we expect that the transition to blockchain-based applications could significantly reduce our overhead by decreasing our hosting expenses. Though decentralized peer network hosts would require compensation, we expect that compensation costs will be lower than the cost of centralized hosting.

- Security: The decentralized architecture of blockchain networks typically is not vulnerable to distributed denial of service (DDoS) attacks, one of the most common security issues of today's internet. This saves developers the high overhead of various security countermeasures, as well as offering improved uptime.

In order to drive our blockchain strategy, we formed a Blockchain Advisory Board in November 2017. The purpose of the Blockchain Advisory Board is to assist us in:

- developing our blockchain-based initiatives, including PSP and Backchannel;
- extending business relationships and forming partnerships with blockchain influencers and innovators to help further our blockchain strategy, including the development of PSP and other elements of our blockchain technology portfolio; and
- identifying potential strategic M&A with or equity and token investments in blockchain companies that can accelerate our execution ability or extend our market position.

As part of our blockchain strategy, in the second half of 2017, we expanded our payment processing options on two of our applications, Camfrog and Tinychat, to accept bitcoin as a form of payment. Upon receipt of a bitcoin payment, our payment processor automatically converts the bitcoin into U.S. dollars, so that we receive payment for the transaction in U.S. dollars.

In December 2017, we took two steps to advance our blockchain strategy. First, we initiated a strategic product development and technology relationship with blockchain security innovator, Gladius Network, LLC ("Gladius"). Gladius is building a decentralized solution to protect against DDoS attacks that we believe has promise to integrate into our technology platform that supports several our applications. As part of our strategic relationship with Gladius, we also made a small investment in Gladius' initial coin offering.

In addition, based on the research and recommendation of our development team, we selected the blockchain protocol of NEM.io Foundation Ltd. ("NEM"), one of industry's leading blockchain technology projects, to power our core blockchain infrastructure. We believe that NEM's highly regarded technology will offer us the right combination of premier security, capability, flexibility and scalability, coupled with a strong, passionate core development team and community.

#### *Develop PSP as an Open Source Media Streaming Protocol*

We believe our video technology has broad applications to many other industries beyond video social networking. Additionally, we believe that our multimedia streaming technology is scalable and applicable to a large array of applications for consumer and business end users. Through the development of PSP, an open source multimedia streaming and communication protocol, we intend to explore opportunities to contribute technology to and collaborate with leading companies in other industries seeking to integrate multimedia communication or improve their existing service. These partnerships can take many different forms, all of which ultimately may help us to drive the value of our technology and build our business.

#### *Introduce New Applications*

We plan to enhance our existing applications and develop new applications around our core video chat and blockchain technologies. For example, as described above, we have started development of Backchannel, a blockchain-based secure messaging application, which we expect to launch in the fourth quarter of 2018 targeting privacy-minded consumers as well as business and government end users.

#### *Launch PeerStream Business Solutions*

On March 8, 2018, we launched PeerStream Business Solutions to provide technology licensing, services and support related to multimedia streaming and communications for third party developers and corporate clients ("PeerStream Business Solutions"). PeerStream Business Solutions is intended to leverage our nearly 20 years of technology innovation to tap into a potential new B2B revenue stream and support the efforts of a broad range of prospective corporate clients to adopt blockchain technology.

On March 21, 2018, as a first step in providing services through PeerStream Business Solutions, we entered into a technology services agreement with ProximaX Limited (“ProximaX”) whereby we agreed to provide certain development and related services to ProximaX to facilitate the implementation of PSP into ProximaX’s proprietary blockchain protocol that is currently under development. Pursuant to the terms of the agreement, ProximaX agreed to pay us up to an aggregate of \$10.0 million of cash in exchange for our services, with \$5.0 million due upon the successful consummation of a future initial coin offering by ProximaX and up to an additional \$5.0 million due upon our achievement of certain development milestones set forth in the agreement. In addition, ProximaX agreed to issue us a number of tokens equal to 2.4% of all outstanding tokens on the date of the planned initial coin offering and to reserve an additional 2% of such tokens to be issued as payment for future services provided by us, subject, in each case, to such initial coin offering generating aggregate gross proceeds of at least \$30.0 million. If the planned initial coin offering does not raise at least \$30.0 million or ProximaX fails to pay us the upfront cash payment of \$5.0 million by June 1, 2018, we and ProximaX have agreed to negotiate alternative compensation for our services in good faith.

### *Defend our Intellectual Property*

We have a portfolio of 26 issued patents. We have successfully defended our intellectual property in the past and have generated tens of millions of dollars in licensing fees for the use of our patents. In 2016, we commenced an enforcement action related to two of our patents against Riot Games, Inc. and Valve Corporation for infringement of U.S. Patent Nos. 5,822,523 and 6,226,686 with respect to their online games League of Legends and Defense of the Ancients 2. These two patents were previously asserted against, and then licensed to, Microsoft, Sony, and Activision. For additional information concerning the status of these proceedings, see “Item 3. Legal Proceedings” herein.

### **Our Products**

#### *Live Video Chat*

We have five existing products in the video chat space: Paltalk; Camfrog; Tinychat; Ribbit Live; and Firetalk. In addition, we are currently developing a new blockchain based video application, Backchannel, which is expected to launch in the fourth quarter of 2018. The major revenue-generating Live Video Chat products are Paltalk and Camfrog. Each product enables individuals to self-organize around topics and users with common affinities. Tinychat, Ribbit Live and Firetalk enable adaptations of our video technology for alternative uses and opportunities in the future.

Key features and tools of our video chat applications include:

- *Profile Creation:* Our video chat products are intuitive and allow users to easily find, connect and communicate with each other based on a user’s particular interest. Users can join our video chat properties by creating a personal profile that is connected to their email address or by using “Facebook Connect®” to create a profile. A user with a Facebook® profile can easily import information from his or her profile, including photos and interest data. Once a profile has been created, users are able to search our thousands of chat rooms organized by topics and easily click to join one.
- *Dynamic Tools and Features:* Our video chat products are also dynamic and offer the chance for users to message and/or talk with others while also viewing them through live video. Once a user joins a chat room, he/she can directly message another individual or join a group community chat. Users also have the option to listen to the group through their device microphone and to join a queue for a turn to speak out loud to the group. Two users can also choose to have a one-on-one private live video chat. Our products offer the tools for users to administer the experience in a particular chat room. Users that open chat rooms can mute other users, restrict other users from broadcasting video, and remove a user’s ability to text. Additionally, each user that opens a chat room not only can exercise these administrative controls, they can also deputize other users to be administrators in their rooms, further helping to create a managed and enjoyable experience.

*Paltalk and Camfrog.* Paltalk and Camfrog are our major video chat applications and are both leading providers of live video social networking applications available on Windows, Mac OS, iOS, Android and other tablet devices. Together, these products power one of the world’s largest global collections of video based communities, with proprietary technology to host thousands of simultaneous live group conversations on topics such as politics, financial markets, music and dating. Our proprietary client server technology helps maintain high quality video and audio even as many users simultaneously watch a particular broadcaster. Paltalk and Camfrog both have hundreds of millions of

registered users and attract a demographically and geographically diverse user base, with users in over 180 different countries. Paltalk users are approximately one-third domestic and two-thirds international, whereas the majority of Camfrog users are international, with a particular concentration in Southeast Asia.

In the first half of 2017, we founded an innovation lab to leverage our technology and commercial platform to support growth initiatives in the live video markets. Through the support of our innovation lab, we recently updated Camfrog to support one-to-many live streaming video capabilities through the launch of Camfrog Live. Camfrog Live offers a wide variety of live video broadcasting entertainment while allowing spontaneous, real-time engagement at a more personal level. The platform offers these viewing users a unique way of connecting and sharing through live interaction with content creators, allowing them to offer feedback and appreciation, including cash donations and tips. Camfrog will continue to support its industry-leading traditional group video chat service, which the Company believes is complemented by the addition of live streaming entertainment. We expect to offer similar one-to-many live streaming video capabilities within our Paltalk application in 2018.

**PSP.** PSP is an open source, decentralized, peer-to-peer multimedia and messaging protocol that, when coupled with blockchain technology, is designed to increase scalability, cost efficiency and security for real-time communication applications in such areas as video conferencing, messaging and workforce collaboration.

*Backchannel.* Backchannel is a blockchain-based video-enabled secure messaging service we are developing that we plan to release in the fourth quarter of 2018. Backchannel is expected to enable real-time text, voice, and video messaging between individuals and among small groups and to leverage blockchain and other decentralization technologies to offer unique security and privacy benefits. We plan to market Backchannel to privacy-minded consumers around the world, as well as business, legal and government end-users.

Backchannel is expected to integrate end-to-end and forward secrecy encryption best practices for communication applications. In addition, we anticipate that Backchannel will use blockchain technology to validate and authenticate users with a crypto identity that does not require any personally identifiable information from the user. As a result, Backchannel will never request or hold the real world identity of its users, and therefore will not have any personal information that could be stolen by hackers. In addition, Backchannel is intended to decentralize the transmission of all communications within its network, meaning that communications will never pass through Backchannel servers, making the application more resistant to censorship, disruption and eavesdropping than traditional communication platforms.

### *Dating*

We currently have three dating applications: FirstMet, 50more and The Grade. FirstMet generates substantially all of the revenue in our dating portfolio. 50more, our product targeting users over 50, was launched commercially in July 2017. For the foreseeable future, we expect to focus our dating application resources on FirstMet and 50more.

*FirstMet.* We provide a leading online dating application under the FirstMet brand. FirstMet is native on Facebook, iOS and Android platforms and is also accessible on mobile devices and desktops at FirstMet.com. FirstMet is extremely scalable and requires limited incremental operational cost to add users, active subscribers or new features catering to additional discrete audiences.

FirstMet attracts a demographically and geographically diverse user base, with users in over 180 different countries. FirstMet is intuitive, and allows users and subscribers to easily find, connect and communicate with each other.

*50more.* We introduced 50more commercially in July 2017 as our dating application targeting adults over the age of 50. 50more is based on our FirstMet platform and utilizes the underlying FirstMet infrastructure and technology, a strategy which allowed us to streamline the process of launching 50more as a new and fresh online dating product. 50more has similar functionality to FirstMet but offers more information-rich user profiles and addresses a different target audience of adults over 50.

We expect that we will operate 50more in parallel with FirstMet in order to leverage the overlap with FirstMet's user base and cross sell our users with multiple brands. 50more is available on mobile and desktop platforms.

*The Grade.* The Grade is a free mobile dating application offered on iOS and Android designed to foster a high quality community of users by rewarding good behavior and exposing improper behavior through a programmatic

grading algorithm. Despite the uniqueness and early success of The Grade, we decided in late 2015 to shift our promotional and product development resource-focus to FirstMet, with its established user base, and the development of 50more. We believe The Grade remains a viable product with relevant technology, and it may provide a platform in the future for other product opportunities.

#### *Telecommunications*

We own and operate a small telecommunications provider called Vumber that enables users to have multiple phone numbers in any area code through which calls can be forwarded to a user's existing cell phone or land line telephone number. Vumber serves both the retail and small business community. Vumber not only allows individuals to communicate while protecting privacy, but also gives business professionals the ability to add a new business line with any chosen area code to their cell phones. Vumber provides an in-depth data analytics platform that can track, record and analyze calls to gain new insights into one's business.

#### *Product Payment Options*

Our users have a variety of methods by which to purchase product subscriptions across all of our platforms. Users can pay by credit card, PayPal, Western Union, Check, local e-wallet providers, or complete an in-app purchase through the Apple App Store or Google Play for Android users. As noted above, we also expanded our payment options on certain of our applications in 2017 to include bitcoin as a method of payment. However, any payment made in bitcoin is automatically converted by our payment processor into U.S. dollars so that we receive U.S. dollars for the transaction.

Apple retains 30% of the revenue that is generated from sales on our iPhone application through in-app purchases in the United States. Google also retains 30% of the revenue that is generated from sales on Android applications via Google wallet through in-app purchases in the United States.

All of our credit card transactions are processed through various payment providers. Video chat users in certain international territories also have an option to purchase through local resellers. Local resellers prepay in bulk for services and debit the prepaid balance as one-time subscriptions and virtual currency are sold to end users. Regardless of which payment method is utilized, users may access our products through any of the gateways we offer.

#### *Product Development and Innovation Lab*

We are continually developing new products, as well as optimizing our existing platforms and feature sets in order to meet the evolving needs of our user base and advertising partners.

We develop most of our software internally. We will, however, purchase technology and license intellectual property rights where it is strategically important, operationally compatible, or economically advantageous. For instance, we partner with third parties to further our internationalization efforts as we look to bring additional languages into our existing platforms. We are not materially dependent upon licenses and other agreements with third parties relating to product development.

In the first half of 2017, we founded an innovation lab to leverage our technology and commercial platform to support growth initiatives in the live video markets. Our innovation lab contributed to the launch of the blockchain initiative, and is currently pursuing live video social networking and live streaming entertainment opportunities on mobile, two areas that we believe show extraordinary promise for user adoption and revenue growth. As described above, our innovation lab recently launched Camfrog Live as an update to our existing Camfrog application to provide support for one-to-many live streaming videos and to include new monetization opportunities for content creators. We believe that the launch of Camfrog Live has the potential to substantially grow our user base by providing a compelling platform for live video interactions.

#### **Marketing Strategy**

We invest in advertising and marketing for the purpose of acquiring users. We adapt our marketing expenditures and channels as we gather the data to analyze the success of our campaigns. We primarily advertise through Internet and mobile advertising networks and run hundreds of campaigns at any given time, targeting various audiences of users, and focusing on campaigns that we believe will produce a positive return over the lifetime of new users. We also



generate new sign-ups organically, as people find our sites and applications through brand recognition and word of mouth, search engines and product review websites.

## **Competition and Our Industry**

Our products face substantial competition in both the live video and dating industries. We have direct competition from many live video streaming websites including YouNow, Live.me, BIGO Live, Live.ly, Houseparty, Facebook Live, YouTube Live, Instagram Live, and Twitch. In the dating industry, we compete with online dating websites such as OkCupid.com, Christianmingle.com, eHarmony.com, POF.com, Match Group, Inc. properties, as well as online dating applications provided by Badoo Trading Limited, IAC, Affinitas, MeetMe, Inc. and Zoosk, Inc. We also face substantial competition from mobile-based applications including Tinder, Happn, Hinge and Bumble. In addition, the products within our portfolio both compete and collaborate with each other.

As technology evolves and the lines between video and dating become less defined, many of these and other properties will become our competitors. There are relatively few significant barriers to entry in our industry and, as a result, any organization that has adequate financial resources and technical expertise may become a competitor. Nonetheless, we believe that users often utilize multiple applications for multiple purposes, and the use of one website or application is not necessarily to the exclusion of others.

Achieving a critical mass of users is crucial for our applications. As a result of our large and dynamic user base, we believe we are well-positioned to continue as a leader in the industries in which we currently operate. Additionally, we seek to offer applications and services that are differentiated in the industry, superior in quality and more appealing than those of our competitors. We also believe that we have the tools and expertise to attract new users through Facebook and other sources at a lower cost per subscriber than certain of our traditional competitors. As social networking application platforms and mobile platforms continue to expand and the Internet becomes ever more of a mainstream method for connecting and interacting with others, we believe that the industries we operate within offer substantial room for growth.

## **Patent and Trademarks**

To establish and protect our proprietary rights, we rely on a combination of trademarks, copyrights, trade secrets, license agreements, patent applications, confidentiality agreements and other contractual rights. We have 26 registered trademarks in the United States and internationally. We have a patent portfolio of 26 patents, and we have historically generated tens of millions of dollars successfully defending our patents. We continue to pursue patents related to certain feature sets on applications currently under development, as well as defend our intellectual property as appropriate. In 2016, we commenced an enforcement action related to two of our patents against Riot Games, Inc. and Valve Corporation for infringement of U.S. Patent Nos. 5,822,523 and 6,226,686 with respect to their online games League of Legends and Defense of the Ancients 2. These two patents were previously asserted against, and then licensed to, Microsoft, Sony, and Activision. For additional information concerning the status of these proceedings, see “Item 3. Legal Proceedings” herein.

## **Governmental Regulations**

We are subject to a number of U.S. federal and state laws and regulations that affect companies conducting business on the Internet, many of which are still evolving and being litigated in the courts and could be interpreted in ways that could harm our business. These laws and regulations may involve user privacy, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, taxation and online payment services. In particular, we are subject to federal and state laws regarding privacy and protection of user data, which are constantly evolving and can be subject to significant change. We are also subject to diverse and evolving laws and regulations in other countries in which we operate. The application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly-evolving industry in which we operate. Because our applications are accessible worldwide and used by residents of some foreign countries, foreign jurisdictions may claim that we must comply with foreign laws, even in jurisdictions in which we have no local business entity, employees or infrastructure.

We are also subject to federal laws and regulations regarding content, privacy and the protection of user data, including The Communications Decency Act of 1996, as amended (“The Communications Decency Act”), The

Children's Online Privacy Protection Act of 1998, as amended, The Digital Millennium Copyright Act, The Electronic Communications Privacy Act of 1986, as amended, the USA PATRIOT Act of 2001, and the Controlling the Assault of Non-Solicited Pornography And Marketing ("CAN-SPAM") Act of 2003, among others. The Digital Millennium Copyright Act limits our liability as an online service provider for linking to or hosting third-party content that infringes copyrights. The Communications Decency Act provides statutory protections to online service providers like us who distribute third-party content. The Children's Online Privacy Protection Act restricts the ability of online service providers to collect personal information from children under 13. Congress, the Federal Trade Commission ("FTC") and many states have promulgated laws and regulations regarding email advertising, including the CAN-SPAM Act. Any changes in these laws or judicial interpretations narrowing the protections of these laws may subject us to increased risk, increased costs of compliance, and limits on the operation of certain parts of our business.

Growing public concern about privacy and the use of personal information may subject us to increased regulatory scrutiny. The FTC has, over the last few years, begun investigating companies that have used personally identifiable information in a deceptive or unfair manner or in violation of a posted privacy policy. The European Union is implementing a new privacy directive called the Global Data Protection Regulation ("GDPR") that comes into effect in May 2018 and will impose additional new regulatory scrutiny on our business in that geographic region with possible financial consequences for noncompliance. If we are accused of violating the terms of our privacy policy or implementing unfair privacy practices, we may be forced to expend significant financial and managerial resources to defend against an FTC or GDPR enforcement action. Our user database holds the personal information of our users and subscribers residing in the United States and other countries, and we could be sued by those users if any of the information is misappropriated. Any failure by us to adequately protect our users' privacy and data could also result in loss of user confidence in our online dating applications and services and ultimately in a loss of active subscribers, which could adversely affect our business.

In addition, virtually every U.S. state has passed laws requiring notification to users when there is a security breach for personal data resulting in unauthorized disclosure, many of which are modeled on California's Information Practices Act. There are a number of legislative proposals pending before the U.S. Congress and various state legislative bodies concerning data protection that could, if adopted, have an adverse effect on our business. We are unable to determine if and when such legislation may be adopted. Many jurisdictions, including the European Union, have adopted breach notification and other data protection notification laws designed to prevent unauthorized disclosure of personally identifiable information. The introduction of new privacy and data breach laws and the interpretation of existing privacy and data breach laws in the United States, Europe and other foreign jurisdictions is constantly evolving. There is a risk that new laws may be introduced or existing laws may be applied in a way that would conflict our current data protection practices or prevent the transfer of data between countries in which we operate.

While online personal services are not currently required to verify the age or identity of subscribers, or to run criminal background checks, legislation in this area has been proposed over the last few years in Ohio, Texas, California, Michigan, New Jersey, Florida and Virginia. Companies that provide personal services are not currently subject to the same type of regulation as companies deemed "dating service" providers. However, if a court holds that we are legally providing "dating services" as defined in the relevant regulations, we may be required to comply with additional state regulations. Further, Connecticut, New York, Florida, Texas and New Jersey each have enacted laws that require us to display safety warnings and disclosures to users that we do not conduct background checks.

In addition, rising concern about the use of social networking technologies for illegal conduct may in the future produce legislation or other governmental action that could require changes to our online dating applications or restrict or impose additional costs upon the conduct of our business. These regulatory and legislative developments, including excessive taxation, may prevent or significantly limit our ability to expand our business.

We may also become subject to laws or regulations in the future that limit our ability to accept bitcoin or other cryptocurrencies as a form of payment or to otherwise hold bitcoin or other cryptocurrencies. As cryptocurrencies have grown in both popularity and market size, governments around the world have reacted differently to cryptocurrencies, with certain governments deeming cryptocurrency offerings and cryptocurrency exchanges illegal, while others have allowed their use and trade. Governments may in the future curtail or outlaw the acquisition or use of cryptocurrencies or the exchange of cryptocurrencies for fiat currencies. Ownership of, holding, trading in or participating in offerings of cryptocurrencies may then be considered illegal and subject to sanction. Governments may also take regulatory action that may increase the cost and/or subject companies that transact in or hold cryptocurrencies to additional regulation.

## Employees

As of March 16, 2018, we had 53 employees. We believe that our future success depends in part on our continued ability to hire, assimilate and retain qualified personnel. We attract and retain employees by offering training, bonus opportunities, competitive salaries and a comprehensive benefits package.

## ITEM 1A. RISK FACTORS

The risks below are those that we believe are the material risks that we currently face, but are not the only risks facing us and our business. If any of these risks actually occur, our business, financial condition and results of operations could be materially adversely affected.

### Risks Relating to Our Business

*The success of our business is principally dependent on our active subscribers and our engagement with our user base.*

As of March 16, 2018, our applications supported an active subscriber base of approximately 164,000 active subscribers worldwide. However, compared to the total number of users in any given period, only a small portion of our users are active subscribers or purchasers of virtual currency. We primarily generate revenue through the sale of subscriptions and virtual currency to this small portion of users and secondarily generate revenue through paid advertisements. Accordingly, our financial results are substantially dependent on our ability to convert our users into active subscribers and to sell our users virtual currency.

Users discontinue the use of our applications in the ordinary course of business, and to sustain our revenue levels, we must attract, retain and increase the number of users or more effectively monetize our existing users. Falling user retention, growth or engagement could also make our applications less attractive to advertisers, which could harm our business.

There are a number of factors that could negatively impact user retention, growth and engagement, including, among other things:

- users may adopt competing products instead of ours;
- we may fail to introduce new products and services or those we introduce may be poorly received;
- our products may fail to operate effectively on mobile or other platforms;
- we may be unable to combat spam or other hostile or inappropriate usage on our products;
- there may be adverse changes in user sentiment about the quality or usefulness of our existing products;
- there may be concerns about the privacy implications, safety or security of our products;
- technical or other problems may frustrate the experience of our users, particularly if those problems prevent us from delivering our products in a fast and reliable manner;
- we may fail to provide adequate service to our users;
- we or other companies in our industry may be the subject of adverse media reports or other negative publicity;
- we may not maintain our brand image or our reputation may be damaged; and
- we may be subject to denial of service or other attacks from hackers that result in service downtime.

To retain existing users, and particularly those users who are paying subscribers, we must devote significant resources so that our applications retain their interest. If we fail to grow or sustain the number of our users, or if the rates at which we attract and retain existing users declines or the rate at which users become paying subscribers declines, it could have a material adverse effect on our business, results of operations or financial condition.

***We operate in an intensely competitive industry and any failure to attract new users and subscribers could diminish or suspend our development and possibly cease our operations.***

The online live video and dating industries are highly competitive and have few barriers to entry. If we are unable to efficiently and effectively attract new users and subscribers as a result of intense competition or a saturated market, we may not be able to continue the development and enhancement of our applications or become profitable on a consistent basis in the future.

Important factors affecting our ability to successfully compete include:

- the usefulness, novelty, performance and reliability of our products compared to our competitors;
- the timing and market acceptance of our products, including developments and enhancements of our competitors' products;
- our ability to effectively monetize our products and the availability of free or cheaper alternatives from our competitors;
- our ability to hire and retain talented employees, including technical employees, executives, and marketing experts;
- the success of our customer service and support efforts;
- our reputation and brand strength compared to our competitors;
- competition for acquiring users that could result in increased user acquisition costs;
- reliance upon the platforms through which our applications are accessed and the platform owner's ability to control our activities on such platforms;
- the effectiveness of the marketing and advertisement of our products;
- our ability to maintain advertisers' interests in advertising through our products;
- our ability to innovate in the ever-changing industries in which we operate;
- changes as a result of new legislation or regulation within our industries; and
- acquisitions or consolidations within our industries.

We face substantial competition in both the live video and dating industries. We have direct competition from many live video streaming websites including YouNow, Live.me, BIGO Live, Live.ly, Houseparty, Facebook Live, YouTube Live, Instagram Live, and Twitch. In the dating industry, we compete with online dating websites such as OkCupid.com, Christianmingle.com, eHarmony.com, POF.com, Match Group, Inc., as well as online dating applications provided by Badoo Trading Limited, IAC, Affinitas, MeetMe, Inc. and Zoosk, Inc. We also face substantial competition from mobile-based applications including Tinder, Happn, Hinge and Bumble. In addition, the products within our portfolio both compete and collaborate with each other.

Many of our current and potential competitors offer similar services, have longer operating histories, significantly greater capital, financial, technical, marketing and other resources and larger user or subscriber bases than we do. These factors may allow our competitors to more quickly respond to new or emerging technologies and changes in user preferences. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing strategies that may allow them to build larger user bases consisting of greater numbers of paying users. Our competitors may develop applications or services that are equal or superior to our applications or that achieve greater market acceptance than our applications. It is possible that a new product developed by one of our competitors could gain rapid scale at the expense of existing brands through harnessing a new technology or distribution channel, creating a new approach to connecting people or some other means. In addition, our advertisers may use information that our users share through our applications to develop or work with competitors to develop products or features that compete with us.

Certain entities that we do not directly compete with but that have large or dominant positions in one or more markets could use those positions to gain a competitive advantage against us in areas where we operate by integrating

competing dating, video chat or social media platforms into products they control, such as search engines, web browsers or mobile device operating systems.

Costs for consumers to switch between products in the video chat and dating industries are generally low, and consumers have a propensity to try new products to connect with new people. As a result, new entrants and business models are likely to continue to emerge in our industry. These activities could attract users and subscribers away from our applications and reduce our market share.

If we are unable to effectively compete, our users may discontinue the use of our products and we may lose active subscribers, which would have a material adverse effect on our business, results of operations and financial condition.

***Our shift in focus towards the utilization and development of blockchain-based applications and technologies could have a material adverse effect on our business, financial condition or results of operations.***

We recently announced our intention to pursue a multipoint strategy to embrace the growth potential and technological capabilities of blockchain technology, a rapidly evolving technology in which we have limited operational history or experience. Our focus on blockchain technology subjects us to risks associated with the use of new and novel technologies, including technical, operational, financial, regulatory, legal and reputational risks, as well as the risk that we may be unable to timely develop our blockchain-based applications or technologies or market, license or sell our blockchain-based applications or technologies successfully or profitably. Although we formed a Blockchain Advisory Board in 2017 to help drive our blockchain strategy, we cannot provide any assurance that we will be able to retain or continue to hire well-qualified individuals with experience in the blockchain industry or that our assessment of individuals we retain will be correct. These individuals may be unfamiliar with the requirements of being involved in a public company which could cause us to have to expend time and resources helping them become familiar with such requirements. This could be expensive and time-consuming and could lead to various regulatory issues which may adversely affect our operations.

***We may face significant challenges in launching PeerStream Business Solutions.***

On March 8, 2018, we launched PeerStream Business Solutions, which provides blockchain-based licensing, services and support related to multimedia streaming, messaging and communications. The launch of PeerStream Business Solutions poses risks and challenges that could materially impact our business, financial condition and results of operations. The success of PeerStream Business Solutions depends upon our ability to identify suitable clients on acceptable terms, and our failure to do so could negatively affect our ability to generate revenue. In addition, our management only recently determined to shift our corporate focus towards providing business solutions services. While we intend to expand our staff with individuals with more experience in the business solutions industry and will closely scrutinize individuals we engage, we cannot provide assurance that we will be able to retain or continue to hire well-qualified and experienced individuals or that our assessment of individuals we retain will be correct.

***We are subject to risks related to holding cryptocurrencies and accepting cryptocurrencies as a form of payment.***

In August 2017, we began accepting bitcoin as a form of payment for purchases on two of our applications, Camfrog and Tinychat. In the future, we may accept bitcoin and other forms of cryptocurrencies across our entire portfolio of applications.

Cryptocurrencies are not considered legal tender or backed by any government and have experienced price volatility, technological glitches and various law enforcement and regulatory interventions. At present, we do not accept bitcoin or cryptocurrency payments directly, but use a third party vendor to accept cryptocurrency payments on our behalf. That third party vendor then immediately converts the cryptocurrency payments into U.S. dollars so that we receive payment for the transaction at the sales price in U.S. dollars.

The use of cryptocurrency such as bitcoin has been prohibited or effectively prohibited in some countries. If we fail to comply with prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences.

We may also invest in and hold cryptocurrencies directly. For example, as part of our strategy of forming strategic alliances with blockchain companies, we may make limited investments in initial coin or token offerings, such as our investment in Gladius' initial coin offering in December 2017. In addition, a portion of our compensation under our



technology services agreement with ProximaX will be paid in tokens, subject to certain conditions. Consequently, we may have exchange rate risk on the amounts we hold, as well as the risks that regulatory or other developments may adversely affect the value of the cryptocurrency we hold. For instance, governments may in the near future curtail or outlaw the acquisition, use or redemption of cryptocurrencies. Ownership of, holding or trading in cryptocurrencies may then be considered illegal and subject to sanction. In the future, we may transact in cryptocurrency directly or increase our cryptocurrency holdings. This would subject us to additional exchange risk and other risks described above, which may have an adverse effect on our results.

There is substantial uncertainty regarding the future legal and regulatory requirements relating to cryptocurrency or transactions utilizing cryptocurrency. These uncertainties, as well as future accounting and tax developments, or other requirements relating to cryptocurrency, could have a material adverse effect on our business.

***Our mobile applications are substantially dependent on interaction with mobile platforms and operating systems that we do not control.***

A portion of our revenue, primarily our revenue from mobile platforms, is derived from Apple's iOS and Google's Android platforms. Although we believe that we have a good relationship with Apple and Google, any deterioration in our relationship with either could materially harm our business, results of operations or financial condition.

We are subject to each of Apple's and Google's standard terms and conditions for application developers, which govern the promotion, distribution and operation of our applications on their respective storefronts. Each of Apple and Google has broad discretion to change its standard terms and conditions. In addition, these standard terms and conditions can be vague and subject to changing interpretations by Apple or Google. In addition, each of Apple and Google has the right to prohibit a developer from distributing applications on the storefront if the developer violates the standard terms and conditions. In the event that either Apple or Google ever determines that we are in violation of its standard terms and conditions and prohibits us from distributing our applications on its storefront, it could materially harm our business, results of operations or financial condition.

The number of people who access the Internet through devices other than personal computers, including smart phones, cell phones and handheld tablets, has increased dramatically in the past few years and is projected to continue to increase. Accordingly, we are substantially dependent on interoperability with popular mobile platforms that we do not control, including the Apple App Store and the Google Play™ Store, and a portion of our revenue is derived from these two digital storefronts. There have been occasions in the past when these digital storefronts were unavailable for short periods of time or where there have been issues with the in-App purchasing functionality from the storefront. In the event that either the Apple App Store or the Google Play Store is unavailable or if in-App purchasing functionality from the storefront is non-operational for a prolonged period of time, it could have a material adverse effect on our business, results of operations or financial condition.

In addition, each of the Apple App Store and Google Play Store provide consumers with products that compete with ours. If either of these platforms give preferential treatment to competitive products, it could seriously harm the usage of our products on mobile devices.

***Our business depends on developing, establishing and maintaining strong brands. If we are unable to maintain and enhance our brands, we may be unable to expand or retain our user and paying subscriber bases.***

We believe that developing, establishing and maintaining awareness of our application brands is critical to our efforts to achieve widespread acceptance of our applications and is an important element to expanding our user and subscriber bases. Successful promotion of our application brands will depend largely on the effectiveness of our advertising and marketing efforts and on our ability to provide reliable and useful applications at competitive prices. If paying users do not perceive our applications to be of high quality, or if our applications are not favorably received by users and subscribers, the value of our brands could diminish, thereby decreasing the attractiveness of our applications to users and subscribers. In addition, advertising and marketing activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brands.

If we fail to successfully promote and maintain our application brands, or incur substantial expenses in unsuccessfully attempting to promote and maintain our brands, we may fail to attract enough new subscribers or retain our existing subscribers to the extent necessary to realize a sufficient return on our advertising and marketing activities, and it could have a material adverse effect on our business, results of operations or financial condition.

***We may conduct a portion of our operations through partnerships, strategic alliances or joint ventures, and our failure to continue such relationships or resolve any material disagreements with these third parties could have a material adverse effect on the success of these operations, our financial condition and our results of operations.***

We may conduct a portion of our operations through partnerships, strategic alliances or joint ventures. For instance, as part of our blockchain strategy, we are exploring forming partnerships with blockchain companies and identifying potential strategic equity or small investments in blockchain companies. As part of this strategy, we formed a strategic product development and technology relationship with Gladius and made a small investment in Gladius' initial coin offering, and we also entered into a technology services agreement with ProximaX under which we will receive a combination of cash and tokens as compensation for our services, subject to certain conditions. We may enter into similar arrangements in the future.

We may depend on third parties for elements of these arrangements that are important to the success of the relationship, such as the development of features or technologies to be incorporated into our applications. The performance of these third party obligations or the ability of third parties to meet their obligations under these arrangements is outside of our control. If these third parties do not meet or satisfy their obligations under these arrangements, the performance and success of these arrangements, and their value to us, may be adversely affected. If our current or future partners are unable to meet their obligations, we may be forced to undertake the obligations ourselves and/or incur additional expenses in order to have some other party perform such obligations. In such cases we may also be required to seek legal enforcement of our rights, the outcome of which would be uncertain. If any of these events occur, they may adversely impact us, our financial performance and results of operations, and/or adversely impact our ability our ability to enter into similar relationships in the future.

These arrangements with third parties may involve risks not otherwise present when we directly manage our operations, including, for example:

- third parties may share certain approval rights over major decisions within the scope of the relationship;
- the possibility that these third parties might become insolvent or bankrupt;
- the possibility that we may incur liabilities as a result of an action taken by one of these third parties;
- these third parties may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; and
- disputes between us and these third parties may result in litigation or arbitration that would increase our expenses, delay or terminate projects and prevent our officers and directors from focusing their time and effort on our business.

***As the distribution of our products through application stores increases, we may incur additional fees from the developers of application stores.***

As our user base continues to shift to mobile solutions, we increasingly rely on the Apple iOS and Google's Android platforms to distribute our products. While our products are free to download from these stores, we offer our users the opportunity to purchase paid memberships and certain premium features through our products. We determine the prices at which these memberships and features are sold and, in exchange for facilitating the purchase of these memberships and features through our products to users who download our products from these stores, we pay Apple or Google, as applicable, a share (currently 30%) of the revenue we receive from these transactions. In the future, other distribution platforms that we utilize may charge us fees for the distribution of our applications. As the distribution of our products through application stores increases, the amount of fees that we must pay to the developers of these application stores will also increase. Unless we find a way to offset these fees, our business, financial condition and results of operations could be adversely affected.

***Our future success is dependent, in part, on the performance and continued service of our executive officers. Without their continued service, we may be forced to interrupt or eventually cease our operations.***

We are dependent to a great extent upon the experience, abilities and continued service of Alexander Harrington, our Chief Executive Officer, and Jason Katz, our Chairman of the Board of Directors and Chief Operating Officer. The loss of the services of these individuals would substantially affect our business or operations and could have a material adverse effect on our business, results of operations or financial condition.

***Our user metrics and other estimates are subject to inherent challenges in measurement, and real or perceived inaccuracies in those metrics may seriously harm and negatively affect our reputation and our business.***

We regularly review metrics, including our number of users, active subscribers and transaction purchasers, to evaluate growth trends, measure our performance, and make strategic decisions. These metrics are calculated using internal company data and have not been validated by an independent third party. While these numbers are based on what we believe to be reasonable estimates of our user base for the applicable period of measurement, there are inherent challenges in measuring how our products are used across large populations globally.

Some of our demographic data may be incomplete or inaccurate. For example, because users self-report their dates of birth, our age-demographic data may differ from our users' actual ages. If our users provide us with incorrect or incomplete information regarding their age or other attributes, then our estimates may prove inaccurate.

In addition, our business strategy is guided by data analytics that we compute internally based on data collection, data processing, cloud-based platforms, statistical projections and forecasting, mobile computing, social media analytics and other applications and technologies. We use these internally derived data analytics to guide decisions concerning the development and modification of features on our applications, monetization strategies for our applications and the development of new applications, among other things. Our new Backchannel application, when commercial, will not collect any personally identifiable information. As a result, Backchannel will not allow us this analytical opportunity, as a result, our business could suffer.

The inability to accurately derive our metrics or data analytics could result in incorrect business decisions and inefficiencies. For instance, if a significant understatement or overstatement of our users were to occur, we may expend resources to implement unnecessary business measures or fail to take required actions to attract a sufficient number of users to satisfy our growth strategies. If advertisers or investors do not perceive our user, geographic or other demographic metrics to be accurate representations of our user base, or if we discover material inaccuracies in our user, geographic or other demographic metrics, our reputation may be seriously harmed. At the same time, advertisers may be less willing to allocate their budgets or resources to our products, which could seriously harm our business, results of operation or financial condition.

***Because we recognize revenue from subscriptions over the subscription term, the full impact of downturns or upturns in subscription sales may not be immediately reflected in our results of operations or financial condition.***

We recognize subscription revenue from customers monthly over the subscription term, and subscriptions are generally offered in durations of one-, three-, six-, twelve-, and fifteen-month terms, depending on the particular product. As a result, much of the subscription revenue we report in each period is deferred revenue from subscription agreements entered into during previous periods. Consequently, a decline in new or renewed subscriptions in any one quarter will negatively affect our revenue in future quarters. In addition, we might not be able to immediately adjust our costs and expenses to reflect these reduced revenues. Accordingly, the effect of significant downturns in user acceptance of our applications may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to quickly increase our revenue through additional sales in any period, as revenue from new subscribers must be recognized over the subscription term. As a result, you should not rely on the amount of subscription revenue generated in prior quarters as an indication of future results.

***The online live video and dating industries are characterized by rapid technological change and the development enhancements and new applications, and if we fail to keep pace with technological developments or launch new applications, our business may be adversely affected.***

The online live video and dating industries are characterized by rapid change, and our future success is dependent upon our ability to adopt and innovate. To attract new users and increase revenues from existing users, we need to enhance, add new features to and improve our existing applications and introduce new applications in the future. The success of any enhancements or new features and applications depends on several factors, including timely completion, introduction and market acceptance. For example, we recently announced a strategic shift towards focusing on blockchain technology, a rapidly evolving technology that we have limited operational history or experience with. Building a new brand or product is generally an iterative process that occurs over a meaningful period of time and involves considerable resources and expenditures, and we may expend significant time and resources developing and launching an application that may not result in revenues in the anticipated timeframe or at all, or may not result in revenue growth that is sufficient to offset increased expenses. If we are unable to successfully develop enhancements,

new features or new applications to meet user trends and preferences, our business and operating results could be adversely affected.

In addition, our applications are designed to operate on a variety of network, hardware and software platforms using Internet tools and protocols and we need to continuously modify and enhance our applications to keep pace with technological changes. If we are unable to respond in a timely and cost-effective manner, our current and future applications may become less marketable and less competitive or even obsolete.

***If we are unable to protect our intellectual property rights, we may be unable to compete with competitors developing similar technologies.***

Historically, our defense of our intellectual property rights has been a significant aspect of our business and has meaningfully contributed to our results of operations. Accordingly, our success and ability to compete are often dependent upon the development of intellectual property for our applications.

We aim to protect our confidential proprietary information, in part, by entering into confidentiality agreements and invention assignment agreements with all our employees, consultants, advisors and any third parties who access or contribute to our proprietary know-how, information, or technology. We also rely on trademark, copyright, patent, trade secret, and domain-name-protection laws to protect our proprietary rights. In the United States and internationally, we have filed various applications to protect aspects of our intellectual property, and we currently hold a number of issued patents in multiple jurisdictions. In the future we may acquire additional patents or patent portfolios, which could require significant cash expenditures. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business.

In any of these cases, we may be required to expend significant time and expense to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, others may offer products or concepts that are substantially similar to ours and compete with our business. If we are unable to protect our proprietary rights or prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished, and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could seriously harm our business.

***Our business has recently undergone significant changes, including management, personnel and business changes. We may not be able to effectively manage the integration of our business and our growth following the completion of the AVM Merger.***

As a result of the completion of the AVM Merger in October 2016, our employee headcount and the scope and complexity of our business have increased significantly. Following the AVM Merger, our management consists of Alexander Harrington, our Chief Executive Officer and the Chief Executive Officer of pre-AVM Merger PeerStream, Jason Katz, our Chairman of the Board of Directors and Chief Operating Officer and the Chief Executive Officer of pre-AVM Merger AVM, Judy Krandel, our Chief Financial Officer and a member of the Board of Directors of pre-AVM Merger PeerStream, Arash Vakil, our Chief Product Officer and the Chief Product Officer of pre-AVM Merger AVM, and Eric Sackowitz, our Chief Technology Officer and the Chief Technology Officer of pre-AVM Merger AVM. Our new management team has been working to adapt to operating our business in a manner that differs meaningfully from prior periods, but may not successfully adapt to these changes.

Following the AVM Merger, business and product integration has been a significant focus of management and has created new challenges, including managing new relationships with users, advertisers, and other third parties. The integration of our products may cause disruptions in our business, and any such disruption could have a material adverse effect on our results of operations and financial condition. Further, any delay in the timing of product integration could decrease and/or delay our expense savings expected in respect of such integration, and any such disruption could have a material adverse effect on our results of operations and financial condition.

Although we are focused on reducing costs and increasing profitability following the AVM Merger, as we continue to grow, we must expend significant resources to identify, hire, integrate, develop, motivate and retain a number of qualified employees. If we fail to effectively manage our employment needs and successfully integrate our new hires, our ability to launch new applications and enhance or support our existing applications could suffer and it

could have a material adverse effect on our business, results of operations or financial condition. In addition, we may also find it increasingly difficult to maintain the benefits of our corporate culture, including our ability to quickly develop and launch new and innovative products, as a result of rapid growth. Moreover, if our operations continue to grow, our information-technology systems and our internal controls and procedures may not adequately support our operations. Any of these factors could negatively affect our business performance and seriously harm our business.

***If our use of the NEM blockchain protocol is limited, it could materially or permanently disrupt our blockchain initiatives.***

We have selected the NEM blockchain protocol to power our core blockchain infrastructure, including our in-development blockchain-based application Backchannel. We are not party to any agreement with the NEM Foundation to use the NEM technology, and no person, business, governmental authority or other entity or authority of any kind has any obligation to provide any financial, technical or other support to the continued operation or development of the NEM blockchain protocol. If the NEM blockchain protocol were to become unavailable to us in its current form and functionality for any reason, we would need to use a different blockchain protocol to power our applications, which could delay the launch of PSP, Backchannel or any of our other blockchain initiatives on a long-term or permanent basis.

***The failure to complete the LiveXLive merger may have negatively affected our results of operations and may have negatively impacted our existing or prospective relationships with users or vendors.***

On September 6, 2017, we entered into the LiveXLive Merger Agreement. On October 31, 2017, we terminated the LiveXLive Merger Agreement pursuant to Section 8.2(a) of the LiveXLive Merger Agreement due to certain conditions of the LiveXLive Merger Agreement not having been fulfilled as of October 27, 2017, which us of our obligations under the LiveXLive Merger Agreement. No termination fee was payable by us in connection with the termination of the LiveXLive Merger Agreement.

Although no termination fee was payable by us in connection with the termination of the LiveXLive Merger Agreement, the termination has had a negative impact on our results of operations. Due to the uncertainty surrounding the closing of the merger with LiveXLive, we ceased certain employee actions during the pendency of the LiveXLive Merger Agreement, such as hiring, terminating and reallocating personnel. During this time, our employees and management reallocated significant time to integration efforts, and we were also caused to defer and delay the pursuit of new product initiatives and financing options, such as equity issuances or debt facilities, which temporarily decreased our operational efficiency and effectiveness. This temporary allocation of resources to the LiveXLive merger may have adversely impacted our results of operations as we continue to operate as a standalone company. We also expended significant resources in connection with due diligence and negotiations with LiveXLive.

***We plan to continue expanding our operations internationally and may be subject to increased business and economic risks that could seriously harm our business.***

Presently, we derive a significant portion of revenue from international territories and we plan to continue expanding our business operations abroad. In addition, we rely on outsourced services based in Russia, India and elsewhere. We may enter new international markets where we have limited or no experience in marketing, selling and deploying our products. If we fail to deploy or manage our operations in international markets successfully, our business may suffer. As our international operations increase our operating results may become more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. In addition, we are subject to a variety of risks inherent in doing business internationally, including:

- political, social, and economic instability;
- risks related to the legal and regulatory environment in foreign jurisdictions, including with respect to privacy, and unexpected changes in laws, regulatory requirements, and enforcement;
- potential damage to our brand and reputation due to compliance with local laws, including potential censorship and requirements to provide user information to local authorities;
- fluctuations in currency exchange rates;
- higher levels of credit risk and payment fraud;



- complying with multiple tax jurisdictions;
- reduced protection for intellectual-property rights in some countries;
- difficulties in staffing and managing global operations and the increased travel, infrastructure and compliance costs associated with multiple international locations;
- regulations that might add difficulties in repatriating cash earned outside the United States and otherwise preventing us from freely moving cash;
- import and export restrictions and changes in trade regulation;
- complying with statutory equity requirements;
- complying with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar laws in other jurisdictions; and
- export controls and economic sanctions administered by the Department of Commerce Bureau of Industry and Security and the Treasury Department's Office of Foreign Assets Control.

If we are unable to expand internationally and manage the complexity of our global operations successfully, our business could be seriously harmed.

***A portion of our revenue is dependent on third-party resellers, the efforts of which we do not control.***

We are dependent on the efforts of third parties who resell our subscriptions for a portion of our revenue. In particular, video chat users in certain international territories have an option to purchase subscriptions through local resellers. These local resellers prepay in bulk for services and debit the prepaid balance as one-time subscriptions and virtual currency are sold to end users.

We do not control the efforts of these resellers. If they fail to market or sell our subscriptions successfully, merge or consolidate with other businesses, declare bankruptcy or depart from their respective industries, our business could be harmed. If we are unable to maintain or replace our contractual relationships with resellers, efficiently manage our relationships with them or establish new contractual relationships with other third parties, we may fail to retain subscribers or acquire potential new subscribers and may experience delays and increased costs in adding or replacing subscribers that were lost, any of which could materially affect our business, operating results and financial condition.

***Foreign governments restricting access to our applications could materially adversely impact our business.***

We have continued to focus on increasing the international presence of our applications by expanding the localized and translated versions for additional international countries that are culturally aligned with our products. Foreign data protection, privacy, consumer protection, content regulation, and other laws and regulations are often more restrictive than those in the United States. Foreign governments may censor our products in their countries, restrict access to our products from their countries entirely, or impose other restrictions that may affect their citizens' ability to access our products for an extended period of time or even indefinitely. If foreign governments think we are violating their laws, or for other reasons, they may seek to restrict access to our products, which would give our competitors an opportunity to penetrate geographic markets that we cannot access. As a result, our ability to grow our international user base would be impaired, and we may not be able to maintain or grow our revenue as anticipated and our business could be seriously harmed.

***Our mobile applications rely on high-bandwidth data capabilities, which are subject to hardware, networks, regulations and standards that we do not control.***

Our mobile applications require high-bandwidth data capabilities. If the costs of data usage increase or access to cellular networks is limited, our user growth and retention on mobile platforms may be seriously harmed. Additionally, to deliver high-quality video and other content over mobile cellular networks, our products must work well with a range of mobile technologies, systems, networks, regulations and standards that we do not control, and any changes to those mobile technologies, systems, networks, regulations or standards could impact the usability of our mobile applications, which would materially adversely affect our business, results of operations or financial condition.

***Our business depends in large part upon the availability of cost-effective advertising space through a variety of media and keeping pace with trends in consumer behavior.***

We depend upon the availability of advertising space through a variety of media, including third party applications on platforms such as Facebook, to recruit new users and subscribers, generate activity from existing users and subscribers and direct traffic to our application. Historically, we have had to increase our marketing expenditures in order to attract and retain users and sustain our growth. The availability of advertising space varies, and a shortage of advertising space in any particular media or on any particular platform, or the elimination of a particular medium on which we advertise, could limit our ability to generate new subscribers, generate activity from existing subscribers or direct traffic to our applications, any of which could have a material adverse effect on our business, results of operations and financial condition. In addition, evolving consumer behavior can affect the availability of profitable marketing opportunities. For example, as consumers communicate less via email and more via text messaging and other virtual means, the reach of email campaigns designed to attract new and repeat users (and retain current users) for our applications is adversely impacted. To continue to reach potential users and grow our business, we must devote more of our overall marketing expenditures to newer advertising channels, which may be unproven and undeveloped, and we may not be able to continue to manage and fine-tune our marketing efforts in response to these trends.

***Our applications rely heavily on email campaigns. We face a risk that any disruptions in or restrictions on the sending or receipt of emails, or any increase in the associated costs could adversely affect our business, results of operations or financial condition.***

Our emails are an important driver of our users' and subscribers' activities. We send a large volume of emails to our subscribers notifying them of a variety of activities on our applications, such as new matches. We face a risk that service providers or email applications may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails to our users and subscribers. Third parties may also block our emails as spam, impose restrictions on, or start to charge for, the delivery of emails through their email systems. Without the ability to email these users and subscribers, we may have limited means of promoting new subscriptions and inducing subscribers to return to and use our applications.

In addition, we face the risk that, as consumer habits evolve, usage of email will decline as users focus on communicating through text messages and social networking applications. While we continually work to find new means of communicating and connecting with our members, these new means may not be as effective as email has historically been for us. Due to the importance of email to our business, any disruptions or restrictions on the distribution or receipt of emails or increase in the associated costs or erosion in our ability to communicate with our users via email could have a material adverse effect on our business, results of operations and financial condition.

***Interruption, maintenance or failure of our programming code, servers or technological infrastructure could hurt our ability to effectively provide our applications, which could damage our reputation and harm our results of operations.***

The availability of our applications depends on the continued operation of our programming code, databases, servers and technological infrastructure. Any damage to, or failure of, our systems could result in interruptions in service for our applications, which could damage our brands and have a material adverse effect on our business, results of operations or financial condition. Our systems are vulnerable to damage or interruption from terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities.

In addition, from time to time we experience limited periods of server downtime due to maintenance or enhancements. If our applications are unavailable during these periods of downtime or if our users are unable to access our applications within a reasonable amount of time, users may not return to our applications in the future, or at all. As our user base and the volume and types of information shared on our applications continues to grow, we will need an increasing amount of technology infrastructure, including network capacity and computing power, to continue to satisfy our users' needs. It is possible that we may fail to effectively scale and grow our technology infrastructure to accommodate these increased demands. Any failure to support and scale our technology infrastructure could adversely impact the reputation of our brands and harm our results of operations.

***Security breaches, computer viruses and computer hacking attacks could harm our business, results of operations or financial condition.***

We receive, process, store and transmit a significant amount of personal user and other confidential information, including credit card information, and enable our users to share their personal information with each other. In some cases, we retain third party vendors to store this information. We continuously develop and maintain systems to protect the security, integrity and confidentiality of this information, but cannot guarantee that inadvertent or unauthorized use or disclosure will not occur or that third parties will not gain unauthorized access to this information despite our efforts. If any such event were to occur, we may not be able to remedy the event, and we may have to expend significant capital and resources to mitigate the impact of such an event, and to develop and implement protections to prevent future events of this nature from occurring.

Security breaches, computer malware and computer hacking attacks have become more prevalent in our industry, have occurred on our systems in the past, and may occur on our systems in the future. Although it is difficult to determine what, if any, harm may directly result from an interruption or attack, any security breach caused by hacking, including efforts to gain unauthorized access to our applications, servers or websites, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could harm our business, financial condition and results of operations. If a breach of our security (or the security of our vendors and partners) occurs, the perception of the effectiveness of our security measures and our reputation may be harmed, we could lose current and potential users and the recognition of our various brands and their competitive positions could be diminished, any or all of which could adversely affect our business, financial condition and results of operations.

Spammers may attempt to use our products to send targeted and untargeted spam messages to users, which may embarrass or annoy users and make our products less user friendly. We cannot be certain that the technologies that we have developed to repel spamming attacks will be able to eliminate all spam messages from our products. Our actions to combat spam may also require diversion of significant time and focus of our engineering team from improving our products. As a result of spamming activities, our users may use our products less or stop using them altogether, and result in continuing operational cost to us.

Similarly, terror and other criminal groups may use our products to promote their goals and encourage users to engage in terror and other illegal activities. We expect that as more people use our products, these groups will increasingly seek to misuse our products. Although we invest resources to combat these activities, including by suspending or terminating accounts we believe are violating our Terms of Service, we expect these groups will continue to seek ways to act inappropriately and illegally on our products. Combating these groups requires our engineering team to divert significant time and focus from improving our products. In addition, we may not be able to control or stop our products from becoming the preferred application of use by these groups, which may become public knowledge and seriously harm our reputation or lead to lawsuits or attention from regulators. If these activities increase, our reputation, user growth and user engagement, and operational cost structure could be seriously harmed.

***If there are changes in laws or regulations regarding privacy and the protection of user data, or if we fail to comply with such laws or regulations, we may face claims brought against us by regulators or users that could adversely affect our business, results of operations or financial condition.***

State, federal and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from and about our users. These laws can be particularly restrictive in countries outside of the United States. In addition, the application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industries in which we operate.

Any failure, or perceived failure, by us to comply with such laws and regulations, including Federal Trade Commission requirements or industry self-regulatory principles, could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business. As a result of such a failure, or perceived failure, we may be subject to a claim or class-action lawsuit regarding our online services. The successful assertion of a claim against us, or a regulatory action against us, could result in significant monetary damages, diversion of management resources and require us to make significant payments and incur substantial legal expenses. Any claims with respect to violation of privacy or misappropriation of user data brought against us may have a material adverse effect on our business, results of operations and financial condition.

Several proposals are pending before federal, state, and foreign legislative and regulatory bodies that could significantly affect our business. For example, the GDPR in the European Union, which will go into effect on May 25, 2018, will require us to change our policies and procedures regarding the handling of personal and sensitive data in the European Union. The failure to comply with the GDPR could, in certain instances, result in penalties of up to 4% of our worldwide revenues. As a result, a failure to comply with the GDPR could seriously harm our business.

Continued privacy concerns may result in new or amended laws and regulations. Future laws and regulations with respect to the collection, compilation, use and publication of information and consumer privacy could result in limitations on our operations, increased compliance or litigation expense, adverse publicity or loss of revenue, which any of which could have a material adverse effect on our business, financial condition and results of operations. It is also possible that we could be prohibited from collecting or disseminating certain types of data, which could affect our ability to meet our users' needs.

***Changes in laws or regulations that impact the use of the internet, including internet neutrality laws, could adversely affect our business, results of operations or financial condition.***

The adoption of any laws or regulations that adversely affect the growth or use of the internet, including laws governing internet neutrality, could decrease the demand for our products and increase our cost of doing business. Current Federal Communications Commission "open internet rules" prohibit internet providers in the United States from impeding access to most content, or otherwise unfairly discriminating against content providers like us. These rules also prohibit mobile providers from entering into arrangements with specific content providers for faster or better access over their data networks. The European Union similarly requires equal access to internet content. If the Federal Communications Commission, Congress, the European Union or courts modify these open internet rules, mobile providers may be able to limit our users' ability to access our applications or make our applications a less attractive alternative to our competitors' applications, which could materially adversely affect our business, results of operations and financial condition.

***We have faced, and we expect that we will continue to face, chargeback liability when our credit card providers resolve chargebacks in favor of their customers. We cannot accurately anticipate the extent of these liabilities, and if not properly addressed, these liabilities could increase our operating expenses or preclude us from accepting certain credit cards as a method of payment, either of which would materially adversely affect our results of operations and financial condition.***

We depend on the ability to accept credit and debit card payments from our subscribers and our ability to maintain the good standing of our merchant account with our credit card providers to process subscription payments. In the event that one of our customers initiates a billing dispute and one of our credit card providers resolves the dispute in the customer's favor, the transaction is normally "charged back" to us and the purchase price is credited or otherwise refunded to the customer. In addition, under current credit card practices, a merchant is liable for fraudulent credit card transactions when, as is the case with the transactions we process, that merchant does not obtain a cardholder's signature.

We have suffered losses and we expect that we will continue to suffer losses as a result of subscriptions placed with fraudulent credit card data, as well as users who chargeback their purchases. Any failure to adequately control fraudulent credit card transactions or keep our chargebacks under an acceptable threshold would result in significantly higher credit card-related costs and, therefore, materially increase our operating expenses.

***If we are subject to intellectual property infringement claims, it could cause us to incur significant expenses, pay substantial damages or royalties and prevent us from offering our applications.***

From time to time, third parties may claim that our applications infringe or violate their intellectual property rights. Any claims of infringement could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages and prevent us from using licensed technology that may be fundamental to our applications. Even if we were to prevail, any litigation regarding intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. We maintain insurance to protect against intellectual property infringement claims and resulting litigation, but such insurance may not cover or may not be sufficient to cover all potential claims, liability or expenses. We may also be obligated to indemnify our business partners in any such litigation, which could further exhaust our resources.

Furthermore, as a result of an intellectual property challenge, we may be prevented from offering our applications unless we enter into royalty, license or other agreements. We may not be able to obtain such agreements at all or on terms acceptable to us, and as a result, we may be precluded from offering our applications and services.

***We may make acquisitions in the future, which could require significant management attention, disrupt our business, dilute our stockholders and seriously harm our business.***

As part of our business strategy, we have made and intend to make acquisitions to add specialized employees and complementary companies, products and technologies. In the future, we may not be able to find other suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. Our previous and future acquisitions may not achieve our goals, and any future acquisitions we complete could be viewed negatively by users, advertisers or investors. In addition, if we fail to successfully close transactions or integrate new teams, or integrate the products and technologies associated with these acquisitions into our company, our business could be seriously harmed. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or use the acquired products, technology and personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may also incur unanticipated liabilities that we assume as a result of acquiring companies. We may have to pay cash, incur debt or issue equity securities to pay for any acquisition, any of which could negatively impact our business and financial condition. Issuing equity to finance any such acquisitions would also dilute our existing stockholders. Incurring debt would increase our fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

***We face risks of litigation and regulatory actions if we are deemed a dating service or Internet dating service.***

In certain states, companies that provide dating services or Internet dating services are subject to various regulations. Because our applications provide online dating features, we could be exposed to regulation as a dating or Internet dating service. If we were considered to be a dating service or Internet dating service in any of the jurisdictions in which we operate, we might be required to comply with regulations that would require us to, among other things, provide disclosure regarding our screening practices and warnings on our applications regarding the dangers associated with the use of our applications. If a legal authority determines that we have provided and are providing dating services or Internet dating services that are regulated by certain states, we could be deemed to be out of compliance with such regulations and could be liable for any damages as a result of our past non-compliance, either of which could have a material adverse effect on our business, financial condition or results of operations.

***We face certain risks related to the physical and emotional safety of users and third parties.***

We cannot control the actions of our users in their communications or physical actions. There is a possibility that users or third parties could be physically or emotionally harmed following interaction with another user. We warn our users that we do not screen other users and, given our lack of physical presence, we do not take any action to ensure personal safety on a meeting between users or subscribers arranged following contact initiated via our applications or ensure personal safety of our users against self-harming following contact with other users initiated via our applications. If an unfortunate incident of this nature occurred in a meeting of two people following contact initiated on our applications or that of one of our competitors, any resulting negative publicity could materially and adversely affect us or the online video chat and dating industries in general. Any such incident involving our applications could damage our reputation and our brand, which could have a material adverse effect on our business, results of operations or financial condition. In addition, the affected users or third parties could initiate legal action against us, which could divert management attention from operations, cause us to incur significant expenses, whether we are successful or not, and damage our reputation.

***We may be liable as a result of information retrieved from or transmitted over the Internet.***

We may be sued for defamation, civil rights infringement, negligence, copyright or trademark infringement, invasion of privacy, personal injury, product liability or under other legal theories relating to information that is published or made available on our websites or applications. These types of claims have been brought, sometimes successfully, against online services in the past. We also offer messaging services on our applications and we send emails directly and through third parties to our users, which may subject us to potential risks, such as liabilities or claims resulting from unsolicited email or spamming, lost or misdirected messages, security breaches, illegal or



fraudulent use of email or personal information or interruptions or delays in email service. Our insurance does not specifically provide for coverage of these types of claims and, therefore, may be inadequate to protect us against them. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not held liable. If any of these events occurs, our revenue could be materially adversely affected or we could incur significant additional expense, and the market price of our securities may decline.

***We may need additional capital to execute our business plan. If we do not obtain additional financing, it could have a material adverse effect on our business, results of operations or financial condition.***

We might need to raise additional capital or financing through debt or equity offerings to support our expansion, marketing efforts and application development programs in the future. We might require additional capital or financing to:

- hire and retain talented employees, including technical employees, executives, and marketing experts;
- effectuate our long-term growth strategy and expand our application development programs; and
- market and advertise our applications to attract more paying subscribers.

We may be unable to obtain future capital or financing on favorable terms or at all. If we cannot obtain additional capital or financing, we may need to reduce, defer or cancel application development programs, planned initiatives, marketing or advertising expenses or costs and expenses. The failure to obtain necessary additional capital or financing on favorable terms, if at all, could have a material adverse effect on our business, results of operations or financial condition.

***If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud and our business may be harmed and our stock price may be adversely impacted.***

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and to effectively prevent fraud. Any inability to provide reliable financial reports or to prevent fraud could harm our business. The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) requires management to evaluate and assess the effectiveness of our internal control over financial reporting. In order to continue to comply with the requirements of the Sarbanes-Oxley Act, we are required to continuously evaluate and, where appropriate, enhance our policies, procedures and internal controls. If we fail to maintain the adequacy of our internal controls over financial reporting, we could be subject to litigation or regulatory scrutiny and investors could lose confidence in the accuracy and completeness of our financial reports. We cannot provide any assurance that in the future we will be able to fully comply with the requirements of the Sarbanes-Oxley Act or that management will conclude that our internal control over financial reporting is effective. If we fail to fully comply with the requirements of the Sarbanes-Oxley Act, our business may be harmed and our stock price may decline.

With respect to the year ended December 31, 2017, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures. Based upon this evaluation, our management concluded that our disclosure controls and procedures over financial reporting were effective as of December 31, 2017.

***We may not be effective in protecting our internet domain names.***

We currently hold various Internet domain names related to our brands and in the future may acquire new Internet domain names. The regulation of domain names in the United States and in foreign countries is subject to change. Governing bodies may establish additional top level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we conduct business. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our existing trademarks and other proprietary rights or those we may seek to acquire. Any such inability to protect ourselves could cause us to lose a significant portion of our members and paying subscribers to our competitors.

## **Risks Related to our Common Stock**

***Our results of operations are volatile and difficult to predict, and our stock price may decline if we fail to meet the expectations of stockholders.***

Our revenue and results of operations could vary significantly from period-to-period and year-to-year and may fail to match our past performance because of a variety of factors, many of which are outside of our control. Any of these events could cause the market price of our common stock to fluctuate. Factors that may contribute to the variability of our results of operations include:

- changes in expectations as to our future financial performance;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships or capital commitments;
- market acceptance of our new applications and enhancements to our existing applications;
- the amount of advertising and marketing that is available and spent on user acquisition campaigns;
- disruptions in the availability of our applications on third party platforms;
- actual or perceived violations of privacy obligations and compromises of subscriber data;
- the entrance of new competitors in our market whether by established companies or the entrance of new companies;
- additions or departures of key personnel and the cost of attracting and retaining application developers and other software engineers; and
- general market conditions, including market volatility.

Given the rapidly evolving industries in which we operate, our historical results of operations may not be useful in predicting our future results of operations. In addition, metrics available from third parties regarding our industry and the performance of our applications may not be indicative of our future financial performance.

***Our common stock is usually thinly traded, you may be unable to sell at or near ask prices or at all and the price of our common stock may be volatile.***

The shares of our common stock have usually been thinly-traded on the OTCQB Marketplace (the “OTCQB”), meaning that the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on stock price. In addition, we may experience unusual or infrequent trading events that cause the price of our common stock to fluctuate wildly. For example, in February 2017, a number of third party publications reported that the trading price of our common stock increased by over 100% when investors inadvertently purchased our common stock thinking it was the common stock of Snap Inc., a camera company that, among other things, owns the application Snapchat.

A broader or more active public trading market for our common stock may not develop or be sustained, and the current trading level of our common stock may not be sustained. Due to these conditions, you may be unable to sell your common stock at or near ask prices or at all if you desire to sell shares of common stock.

Because of the limited trading market for our common stock, and because of the possible price volatility, you may not be able to sell your shares of common stock when you desire to do so. The inability to sell your shares in a rapidly declining market may substantially increase your risk of loss because of such illiquidity and because the price for our common stock may suffer greater declines because of its price volatility.

***The ownership of our common stock is significantly concentrated in a small number of investors, some of whom are affiliated with our Board of Directors and management, which could prevent shareholders from having input on the course of our operations or otherwise lead to actual or potential conflicts of interest.***

As of March 16, 2018, Jason Katz, our Chairman of the Board of Directors and Chief Operating Officer, beneficially owned approximately 10.1% of our outstanding common stock, including shares of common stock held directly by Mr. Katz' spouse and The J. Crew Delaware Trust A, a trust formed by Mr. Katz, also beneficially owned approximately 34.2% of our outstanding common stock as of March 16, 2018. In addition, as of March 16, 2018, Clifford Lerner, a member of our Board of Directors, held approximately 11.9% of our outstanding common stock.

These shareholders and others that have significant beneficial ownership of our common shares have substantial influence regarding matters submitted for shareholder approval, including proposals regarding:

- any merger, consolidation or sale of all or substantially all of our assets;
- the election of members of our Board of Directors; and
- any amendment to our Certificate of Incorporation.

The current or increased ownership position of any of these shareholders and/or their respective affiliates could delay, deter or prevent a change of control or adversely affect the price that investors might be willing to pay in the future for our common shares. In addition, the interests of these shareholders and/or their respective affiliates may significantly differ from the interests of our other shareholders and they may vote the common shares they beneficially own in ways with which our other shareholders disagree.

***The issuance of shares upon the exercise of derivative securities may cause immediate and substantial dilution to our existing stockholders.***

As of December 31, 2017, we had approximately 448,623 shares of common stock that were issuable upon the exercise of vested outstanding stock options. The issuance of shares upon the exercise of these options may result in substantial dilution to the equity interest and voting power of holders of our common stock.

In the future, we may also issue additional shares of common stock or other securities convertible into or exchangeable for shares of common stock. Our Certificate of Incorporation, as amended, currently authorizes us to issue up to 25,000,000 shares of common stock, of which 6,723,745 were outstanding as of March 16, 2018, which excludes 158,571 of unvested restricted shares, and 10,000,000 shares of preferred stock with such designations, preferences and rights as determined by our Board of Directors, of which none were outstanding as of March 16, 2018. The issuance of additional shares of our common stock may substantially dilute the ownership interests of our existing stockholders. Furthermore, sales of a substantial amount of our common stock in the public market, or the perception that these sales may occur, could reduce the market price of our common stock. This could also impair our ability to raise additional capital through the sale of our securities.

***Delaware law and our Certificate of Incorporation, as amended, and Amended and Restated By-Laws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.***

Under our Certification of Incorporation, as amended, our Board of Directors is authorized to issue shares of preferred stock in one or more series and to fix the voting powers, preferences and the qualifications, limitations or restrictions of the preferred stock. Accordingly, we may issue shares of preferred stock with a preference over our common stock with respect to dividends or distributions on liquidation or dissolution, or that may otherwise adversely affect the voting or other rights of the holders of common stock. Issuances of preferred stock, depending upon the rights, preferences and designations of the preferred stock, may have the effect of delaying, deterring or preventing a change of control, even if that change of control might benefit our stockholders.

We are also subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the transaction, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (ii) the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding

for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to the date of the transaction, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

***If we fail to remain current on our reporting requirements, we could be removed from the OTCQB, which would limit the ability of broker-dealers to sell our common stock and the ability of stockholders to sell their common stock in the secondary market.***

Companies trading on the OTCQB must be reporting issuers under Section 12 of the Exchange Act, and must be current in their filings under the Exchange Act to maintain price quotation privileges on the OTCQB. If we fail to remain current on our reporting requirements, we could be removed from the OTCQB. As a result, the liquidity for our common stock could be adversely affected by limiting the ability of broker-dealers to sell our common stock and the ability of stockholders to sell their common stock in the secondary market.

***We do not expect to pay dividends and stockholders should not expect to receive dividends.***

We do not anticipate that we will declare or pay any dividends on our common stock in the foreseeable future. Consequently, stockholders will only realize an economic gain on their investment in our common stock if the price appreciates. Stockholders should not purchase our common stock expecting to receive cash dividends. Because we currently do not pay dividends, and there may be limited trading in our common stock, stockholders may not have any manner to liquidate or receive any payment on their common stock. Therefore, our failure to pay dividends may cause stockholders to not see any return on their common stock even if we are successful in our business operations. In addition, because we do not pay dividends we may have trouble raising additional funds which could affect our ability to expand our business operations.

***Investor relations activities, nominal “float” and supply and demand factors may affect the price of our common stock.***

We have engaged an investor relations firm to create investor awareness for our Company. These campaigns may include non-deal road shows and personal, video and telephone conferences with investors and prospective investors in which our business and business practices are described. We provide compensation to our investor relations firm, and may in the future provide compensation to additional investor relations firms or financial advisory firms, for these services, and pay for newsletters, websites, mailings and email campaigns that are produced by third-parties based upon publicly available information concerning us. We do not intend to review or approve of the content of such analyst reports or other writings and communications that are based upon analysts’ own research or methods. Investor relations firms are generally required to disclose when they are compensated for their efforts and the source of such compensation, but whether such disclosure is made or in compliance with applicable laws is not under our control. In addition, investors in the Company may, from time to time, take steps to encourage investor awareness through similar activities that may be undertaken at the expense of such investors. Investor awareness activities may also be suspended or discontinued which may impact the trading market of our common stock.

The SEC and FINRA enforce various statutes and regulations intended to prevent manipulative or deceptive devices in connection with the purchase or sale of any security and carefully scrutinize trading patterns and company news and other communications for false or misleading information, particularly in cases where the hallmarks of “pump and dump” activities may exist, such as rapid share price increases or decreases. We and our stockholders may be subjected to enhanced regulatory scrutiny due to the fact that our affiliates hold a majority of our outstanding common stock and we have a limited number of shares of common stock that are publicly available for resale. The limited trading markets in which our shares of common stock may be offered or sold have often been associated with improper activities concerning penny-stocks, such as the OTCQB Marketplace or the pink sheets.

The Supreme Court of the United States has stated that manipulative action is a term of art connoting intentional or willful conduct designed to deceive or defraud investors by controlling or artificially affecting the price of securities. Often times, manipulation is associated by regulators with forces that upset the supply and demand factors that would normally determine trading prices. Securities regulators have often cited thinly-traded markets, small numbers of holders and awareness campaigns as components of their claims of price manipulation and other violations of law

when combined with manipulative trading, such as wash sales, matched orders or other manipulative trading timed to coincide with false or touting press releases. There can be no assurance that our activities or the activities of third parties, or the small number of potential sellers or small percentage of stock in our public float, or determinations by purchasers or holders as to when or under what circumstances or at what prices they may be willing to buy or sell stock, will not artificially impact (or would be claimed by regulators to have affected) the normal supply and demand factors that determine the price of our common stock.

***We have incurred and will continue to incur substantial costs as a result of being a reporting company.***

We have faced and will continue to face substantial legal, accounting, administrative and other costs as a result of being a publicly reporting company. In addition to the requirements of the Sarbanes-Oxley Act, rules implemented by the SEC and the Public Company Accounting Oversight Board require us to maintain certain corporate governance practices. Historically, these rules and regulations have increased our legal and financial compliance costs and made our legal, accounting and administrative activities more time-consuming and costly, and we expect these costs to continue in the future. For example, we recently formed an audit committee of our independent directors and adopted an audit committee charter containing policies regarding internal control over financial reporting and disclosure controls and procedures. We are also incurring higher costs to obtain directors' and officers' insurance than in prior periods as a result of the addition of several new independent directors following the Merger. In addition, we may identify and incur additional costs and expenses associated with being a publicly held company.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our principal executive office is located at 122 East 42nd Street in New York, NY 10168. We have two leases for office space in this location that run until May 30, 2019 and July 31, 2019, respectively. We currently do not own any real property. We also lease office space at 30 Jericho Executive Plaza in Jericho, New York 10168. The 30 Jericho Executive Plaza office space lease expires on November 30, 2021.

**ITEM 3. LEGAL PROCEEDINGS**

On August 2, 2016, Banartek LLC filed a complaint against us in the United States District Court for the Eastern District of Texas, Marshall Division (Case No. 2:16-cv-00836). The complaint alleged that we infringed upon one of Banartek LLC's patents (U.S. Patent No. 6,839,731 B2) by, among other things, using our FirstMet application as a system and method for providing data communication in a device network in violation of such patent. On April 6, 2017, we confidentially settled this claim on terms mutually agreeable to the parties and each of the parties agreed to file a dismissal with prejudice with respect to the claim.

On December 16, 2016, a wholly owned subsidiary of the Company, Paltalk Holdings, Inc., filed a patent infringement lawsuit in Delaware against Riot Games, Inc. and Valve Corporation for infringement of U.S. Patent Nos. 5,822,523 and 6,226,686 with respect to their online games League of Legends and Defense of the Ancients 2. These two patents were previously asserted against, and then licensed to, Microsoft, Sony, and Activision. In 2018, Valve Corporation made a motion to move the litigation from Delaware to the Western District of Washington which was granted by the court.

Riot Games, Inc. has filed a total of four *inter partes* reviews at the patent office, two per patent held by Paltalk Holdings, Inc., seeking to have the Paltalk Holdings, Inc. patents declared invalid. The patent office has not ruled on these motions.

To our knowledge, other than as described above, there are no material pending legal proceedings to which we are a party or of which any of our property is the subject.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

As of March 12, 2018, our common stock has been quoted on the OTCQB under the symbol "PEER." Prior to our name change to "PeerStream, Inc.," our common stock was quoted on the OTCQB under the symbol "STVI." The following table sets forth the range of the quarterly high and low bid price information for the fiscal quarters indicated below as reported by the OTCQB. Reported prices for periods prior to October 7, 2016 reflect the prices of pre-AVM Merger PeerStream's common stock. Prior to the AVM Merger, AVM's common stock was not listed for trading on a national securities exchange or quoted on an over-the-counter market.

	High Bid*	Low Bid*
	(\$)	(\$)
<b>2017</b>		
Fourth Quarter.....	\$ 8.31	\$ 1.50
Third Quarter .....	\$ 3.82	\$ 2.99
Second Quarter .....	\$ 5.00	\$ 3.00
First Quarter .....	\$ 11.00	\$ 3.01
<b>2016</b>		
Fourth Quarter.....	\$ 7.00	\$ 3.50
Third Quarter .....	\$ 7.00	\$ 0.35
Second Quarter .....	\$ 7.00	\$ 1.05
First Quarter .....	\$ 5.25	\$ 0.70

\* The over-the-counter market quotations of the bid prices reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

The market price of our common stock is subject to significant fluctuations in response to variations in our quarterly operating results, general trends in the market, and other factors, over many of which we have little or no control. In addition, broad market fluctuations, as well as general economic, business and political conditions, may adversely affect the market for our common stock, regardless of our actual or projected performance.

#### Holders

As of March 16, 2018, there were approximately 75 holders of record of our common stock. This does not reflect the number of persons or entities who held stock in nominee or street name through various brokerage firms.

#### Dividend Policy

We have not declared any dividends on our common stock in the past two fiscal years and we do not anticipate paying any dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. Any future determination to declare dividends will be subject to the discretion of our Board of Directors and will depend on various factors, including applicable Delaware law, future earnings, capital requirements, results of operations and any other relevant factors. In general, as a Delaware corporation, we may pay dividends out of surplus capital or, if there is no surplus capital, out of net profits for the fiscal year in which a dividend is declared and/or the preceding fiscal year.

#### Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended December 31, 2017 that were not previously reported on a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

## **Issuer Purchases of Equity Securities**

We did not repurchase any of our equity securities during the fourth quarter of the fiscal year ended December 31, 2017.

## **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and the accompanying notes thereto included in “Item 8. Financial Statements and Supplementary Data.”

### **Forward-Looking Statements**

In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See “Forward-Looking Statements.” Our results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under “Item 1A. Risk Factors” in this Annual Report on Form 10-K.

### **Background of Presentation and Recent Developments**

#### *Name Change*

Effective March 12, 2018, we changed our name from “Snap Interactive, Inc.” to “PeerStream, Inc.” In connection with the name change, we also changed our trading symbol on the OTCQB Marketplace from “STVI” to “PEER.” The new brand is intended to honor the Company’s legacy of empowering consumers to meet new people and connect with peers via social video applications, while also referencing the anticipated importance of peer-to-peer networks and multimedia streaming in the Company’s future.

#### *AVM Merger*

On October 7, 2016, we completed a merger with A.V.M. Software, Inc. (d/b/a Paltalk) (“AVM”), pursuant to which SAVM Acquisition Corporation, our wholly owned subsidiary, merged with and into AVM, with AVM surviving as a wholly owned subsidiary of the Company (the “AVM Merger”). As a result of the AVM Merger, the former shareholders of AVM received shares of our common stock and replacement options representing approximately 77.9% of the outstanding shares of common stock of the post- AVM Merger combined company, and the Company’s former shareholders retained approximately 22.1% of the outstanding shares of common stock of the post- AVM Merger combined company, in each case including unvested shares of restricted stock in the total number of shares of common stock outstanding.

The AVM Merger has been accounted for as a “reverse merger” under the acquisition method of accounting for business combinations with AVM being treated as the accounting acquirer of PeerStream. As such, the historical financial statements of AVM are treated as the historical financial statements of the combined company. Accordingly, the financial results for the fiscal year ended December 31, 2016 presented in this Form 10-K reflect the operations of AVM for the period of January 1, 2016 through October 7, 2016, and the operations of the post-combination company for the period of October 8, 2016 through December 31, 2017.

Except as otherwise specifically provided, this Management’s Discussion and Analysis of Financial Condition and Results of Operations relates to the business and operations of AVM and its consolidated subsidiaries for the periods prior to the closing of the AVM Merger and on a consolidated basis with PeerStream and its subsidiary for periods after the closing of the AVM Merger. Unless the context otherwise indicates, references to “PeerStream,”

“we,” “our,” “us” and the “Company” refer to the post- AVM Merger combined company and its subsidiaries on a consolidated basis.

#### *Presentation for Reverse Stock Split*

On January 5, 2017, we effected a 1-for-35 reverse stock split of our issued and outstanding common stock (the “Reverse Stock Split”). As a result of the Reverse Stock Split, each issued and outstanding share of our common stock, and the per share exercise price of and number of shares of our common stock underlying our outstanding stock options, was automatically proportionally adjusted based on the 1-for-35 Reverse Stock Split ratio. Except as otherwise provided herein, all share and per-share amounts of our common stock and stock options have been adjusted to give effect to the Reverse Stock Split for all periods presented. The Reverse Stock Split did not alter the par value of our common stock, which remains at \$0.001 per share, modify any voting rights or other terms of our common stock, or impact the amount of preferred stock we are authorized to issue.

#### *Terminated LiveXLive Merger Agreement*

On September 6, 2017, we entered into an Agreement and Plan of Merger with LiveXLive Media, Inc. (“LiveXLive”), LXL Video Acquisition Corp., a wholly owned subsidiary of LiveXLive (“Merger Sub”), and Jason Katz, as the agent of the stockholders of the Company, pursuant to which we would have merged with and into Merger Sub, with Merger Sub surviving as a wholly owned subsidiary of LiveXLive (the “LiveXLive Merger Agreement”).

On October 31, 2017, we terminated the LiveXLive Merger Agreement pursuant to Section 8.2(a) of the LiveXLive Merger Agreement due to certain conditions of the LiveXLive Merger Agreement not having been fulfilled as of October 27, 2017, which relieved us of all of our obligations under the LiveXLive Merger Agreement. No termination fee was payable by the Company in connection with the termination of the LiveXLive Merger Agreement.

#### *Private Placement of Equity Securities*

On December 19, 2017, we entered into a securities purchase agreement with Hershey Strategic Capital, LP (“Hershey Capital”), pursuant to which we issued and sold 200,000 shares of our common stock to Hershey Capital for an aggregate purchase price of \$1,000,000, or \$5.00 per share, in a private placement exempt from the registration requirements of the Securities Act. In connection with the entry into the securities purchase agreement, we entered into a professional services agreement with Adam Hershey, the managing member of Hershey Capital, pursuant to which Mr. Hershey agreed to advise us on matters related to our capital markets strategy. We intend to use the proceeds from the offering for general corporate purposes, including the development of our blockchain product initiatives.

#### *Business Solutions and Technology Services Agreement with ProximaX*

On March 8, 2018, we launched PeerStream Business Solutions to provide technology licensing, services and support related to multimedia streaming and communications for third party developers and corporate clients (“PeerStream Business Solutions”). PeerStream Business Solutions is intended to leverage our nearly 20 years of technology innovation to tap into a potential new B2B revenue stream and support the efforts of a broad range of prospective corporate clients to adopt blockchain technology.

On March 21, 2018, as a first step in providing services through PeerStream Business Solutions, we entered into a technology services agreement with ProximaX Limited (“ProximaX”) whereby we agreed to provide certain development and related services to ProximaX to facilitate the implementation of PSP into ProximaX’s proprietary blockchain protocol that is currently under development. Pursuant to the terms of the agreement, ProximaX agreed to pay us up to an aggregate of \$10.0 million of cash in exchange for our services, with \$5.0 million due upon the successful consummation of a future initial coin offering by ProximaX and up to an additional \$5.0 million due upon our achievement of certain development milestones set forth in the agreement. In addition, ProximaX agreed to issue us a number of tokens equal to 2.4% of all outstanding tokens on the day of the planned initial coin offering and to reserve an additional 2% of such tokens to be issued as payment for future services provided by us, subject, in each case, to such initial coin offering generating aggregate gross proceeds of at least \$30.0 million. If the planned initial coin offering does not raise at least \$30.0 million or ProximaX fails to pay us the upfront cash payment of \$5.0 million by June 1, 2018, we and ProximaX have agreed to negotiate alternative compensation for our services in good faith.

## Overview

We are a leading developer of innovative decentralized technologies that power multimedia social applications and business communication solutions worldwide. Our product portfolio includes Paltalk and Camfrog, which together host one of the world's largest collections of video-based communities, and FirstMet, a prominent interactive dating brand serving users 35 and older. Our other products include Tinychat, Firetalk, 50More, Ribbit Live, The Grade, and Vumber. We recently announced a number of initiatives that feature enhancements of our technology platform using blockchain, and plans to offer aspects of our multimedia streaming and communications technology to third party developers and corporate clients. We are also currently developing a new video-enabled secure messaging service built on blockchain technology called Backchannel that we expect to launch in the fourth quarter of 2018.

Our leading network of products creates a unique social media enterprise where users can meet, see, chat, broadcast and message in real time in a secure environment with others in our network. Our properties are generally available through Windows®, Mac™ OS, iOS™ and Android™ platforms. The proprietary technology underlying our products allows us to operate thousands of simultaneous streams, including on mobile platforms, which support interactions on a one-on-one, one-to-many and many-to-many basis. We also have a worldwide established presence and brand identity in both live video chat and interactive dating, with users in over 180 countries as of March 16, 2018. Furthermore, most of our technology is supported by a portfolio of 26 issued patents.

We believe that live video is in the early stages of adoption for applications related to meeting, chatting, dating, broadcasting and other interactive purposes and over time presents an attractive growth opportunity as it becomes pervasively integrated across the social networking and interactive communications industries. As individuals become more reliant on communicating through applications, we believe it is becoming increasingly more important to many users that they have a secure and private environment on which to interact via live video online.

In 2018, we plan to pursue a strategy of using blockchain technology to improve our existing technology platform, to build new proprietary applications and to offer technology solutions to third parties, in each case taking advantage of the enhanced security, scalability and cost-effectiveness that blockchain technology offers. We recently announced that we are developing an open source, multimedia delivery platform based on blockchain technology called "PeerStream Protocol," or "PSP," that is expected to specialize in routing live, rich media content and powering applications that require real time data and video communications. At launch, we plan for this platform to host new proprietary apps we develop, as well as to allow third-party developers to build the next generation of social networking, messaging, group collaboration and live video streaming applications based on blockchain technologies. In concert with PSP we are currently developing, Backchannel, a blockchain-based secure messaging application that we believe will be the first video messaging application to eliminate a centralized intermediary responsible for hosting and storing user information, thereby reducing the risk that communications between users can be hacked, stolen or leaked.

We believe that we are well-positioned to take advantage of key business opportunities in our industry by leveraging our technology, user base and suite of complementary applications to provide video, voice and chat experiences with superior security, scalability and cost-efficiency.

## Operational Highlights and Objectives

During the year ended December 31, 2017, we executed key components of our objectives:

- founded an innovation lab to leverage our technology and commercial platform to support growth initiatives in the live video markets;
- completed the launch of Camfrog Live, a new live video streaming entertainment service;
- launched a strategy to integrate blockchain into our technology base and business, form partnerships and advisory relationships to expand technology capabilities, and evaluate strategic M&A, equity and token investments supporting our blockchain strategy;
- announced the development of Backchannel, a secure video messaging app leveraging end-user privacy features of blockchain technology, expected to launch in the fourth quarter of 2018;
- formed a product development and technology relationship with blockchain security innovator Gladius Network, LLC ("Gladius") and completed a limited investment in Gladius' initial coin offering;

- formed a Blockchain Advisory Board to lead our blockchain strategy, and appointed the three initial members;
- completed the commercial launch of 50more, our dating product targeting users over 50 years old;
- executed an exclusive advertising operations partnership with a full service digital advertising and media company, with the goal of maximizing advertising revenue;
- expanded our relationship with a leading payment processor to allow bitcoin payment processing on Camfrog and Tinychat, evolving our platform to further serve our worldwide user base;
- completed a \$1.0 million private investment in public equity offering with Hershey Capital, the proceeds of which we plan to use to further our blockchain development initiative;
- continued AVM Merger integration efforts, including organizational restructuring, real estate and vendor consolidation, and standardizing our technology platform and reporting systems;
- completed the Reverse Stock Split at a 1-for-35 ratio; and
- formed both an audit and compensation committee consisting of three and two independent directors, respectively.

In addition, in the portion of 2018 that has already transpired, we accomplished the following objectives:

- rebranded our corporate entity to PeerStream, Inc., which we believe better reflects our mission to connect peers via multimedia streaming and communications;
- began development of PSP, an open source, multimedia delivery protocol that is built on blockchain technology and designed to increase scalability, cost efficiency and security for real-time communication applications in such areas as video conferencing, messaging and workforce collaboration;
- launched PeerStream Business Solutions to provide technology licensing, services and support related to multimedia streaming and communications for third party developers and corporate clients, leveraging the Company's blockchain technology base; and
- entered into a technology services agreement with ProximaX as an initial step in providing services through PeerStream Business Solutions.

For the near term, our business objectives include:

- advancing development of PSP, our multimedia delivery protocol that integrates with blockchain technology;
- developing our business solutions offerings;
- launching a beta version of Backchannel, our new secure video messaging service leveraging blockchain technology and its benefits;
- growing our live video streaming entertainment business by increasing the content creator base and monetization for Camfrog Live, and extending this service to users of the Paltalk application;
- exploring strategic opportunities such as business partnerships and M&A opportunities; and
- continuing to defend our intellectual property.

## **Sources of Revenue**

Currently, our only sources of revenue are subscription, advertising and other fees generated from users of our video chat and dating products. In future periods, we plan to also generate revenue through the services provided by our PeerStream Business Solutions unit.



## *Subscription*

Our video chat platforms generate revenue primarily through subscription fees. Our tiers of subscriptions provide users with unlimited video windows and levels of status within the community. Multiple subscription tiers are offered in different durations depending on the product from one-, six-, twelve-, and fifteen-month terms, which continue to vary as we continue to test and optimize length and pricing. Longer-term plans (those with durations longer than one month) are generally available at discounted monthly rates. Levels of membership benefits are offered in tiers, with the least membership benefits in the lowest paid tier and the most membership benefits in the highest paid tier. Our membership tiers are “Plus,” “Extreme,” “VIP” and “Prime” for Paltalk and “Pro,” “Extreme” and “Gold” for Camfrog. We also hold occasional promotions that offer discounted subscriptions and virtual gifts.

Our dating applications generate revenue primarily through subscription fees. Multiple subscription tiers are offered in one-, three- and six-month terms, which continue to vary as we continue to test and optimize length and pricing. Longer-term plans (those with durations longer than one month) are generally available at discounted monthly rates. Pursuant to the terms of service of our dating platforms, subscriptions automatically renew for periods of the same length and at the same price as the original subscription term until terminated by the subscriber. We also hold occasional promotions that offer initial discounted subscriptions that renew at the regular price.

We recognize revenue from monthly premium subscription services beginning in the month in which the subscriptions are originated. Revenues from multi-month subscriptions are recognized on a straight-line basis over the length of the subscription period. The unearned portion of subscription revenue is presented as deferred revenue in the accompanying Consolidated Balance Sheets.

## *Advertising*

We also generate a portion of our revenue on both our video and dating platforms through advertisements. Advertising revenue is dependent upon traffic as well as the advertising inventory we place on our products. We recognize advertising revenue as earned on a click-through, impression, registration or subscription basis. When a user clicks an advertisement (CPC basis), views an advertisement impression (CPM basis), registers for an external website via an advertisement by clicking on or through our application (CPA basis) or clicks on an offer to subscribe to premium features on the application, the contract amount is recognized as revenue.

## *Virtual Gifts/Micro-transactions*

In our video chat platforms we offer virtual gifts to our users. Users may purchase credits that can be redeemed for a host of virtual gifts such as a rose, a beer or a car, among other items. These gifts are given among users to enhance communication and are generally redeemed within the month of purchase. Virtual gift revenue is recognized at the point of sale, as they are incurred as purchased, and included in subscription revenue.

We also offer micro-transactions to our dating users. Micro-transactions allow users to increase the visibility of their profile and messages by paying for such services. In addition, micro-transactions include activation fees for new subscriptions. While microtransactions are not currently a significant driver of revenue, we believe that micro-transactions increase user engagement with our applications and the likelihood that users will become paid subscribers. Micro-transaction revenue is recognized at the point of sale and included in subscription revenue.

## **Costs and Expenses**

*Cost of revenue.* Cost of revenue consists primarily of compensation (including stock-based compensation) and other employee-related costs for personnel engaged in data center and customer care functions, credit card processing fees, hosting fees, and data center rent and bandwidth costs.

*Sales and marketing expense.* Sales and marketing expense consists primarily of advertising expenditures and compensation (including stock-based compensation) and other employee-related costs for personnel engaged in sales, and sales support functions. Advertising and promotional spend includes online marketing, including fees paid to search engines, and offline marketing, which is primarily partner-related payments to those who direct traffic to our brands. We plan to continue to expand sales and marketing efforts to attract new users, retain existing users and increase sales to both new and existing users.

*Product development expense.* Product development expense, which relates to the development of technology of our applications, consists primarily of compensation (including stock-based compensation) and other employee-related costs that are not capitalized for personnel engaged in the design, testing and enhancement of service offerings as well as amortization of capitalized website development costs.

*General and administrative.* General and administrative expense consists primarily of compensation (including stock-based compensation) and other employee-related costs for personnel engaged in executive management, finance, legal, tax, human resources and facilities costs and fees for other professional services, including fees in connection with the AVM Merger and the terminated merger with LiveXLive. General and administrative expense also includes depreciation of property and equipment and amortization of intangible assets.

## Key Metrics

Our management relies on certain non-GAAP and/or unaudited performance indicators to manage and evaluate our business. The key performance indicators set forth below help us evaluate growth trends, establish budgets, measure the effectiveness of our advertising and marketing efforts and assess operational efficiencies. We also discuss net cash used in operating activities under the “Results of Operations” and “Liquidity and Capital Resources” sections below. Bookings and Adjusted EBITDA are discussed below.

	December 31,	
	2017	2016
Bookings . . . . .	\$ 22,623,529	\$ 18,168,008
Net cash used in operating activities. . . . .	\$ (730,758)	\$ (406,651)
Net loss . . . . .	\$ (5,894,253)	\$ (1,452,776)
Adjusted EBITDA. . . . .	\$ (1,930,574)	\$ 11,805
Adjusted EBITDA as percentage of total revenues. . . . .	(7.8)%	0.1%

### Bookings

Bookings is a financial measure representing the aggregate dollar value of subscription fees and micro-transactions received during the period. We calculate bookings as subscription revenue recognized during the period plus the change in deferred subscription revenue recognized during the period. We record subscription revenue from subscription fees and micro-transactions as deferred subscription revenue and then recognize that revenue ratably over the length of the subscription term. Our management uses bookings internally in analyzing our financial results to assess operational performance and to assess the effectiveness of, and plan future, user acquisition campaigns. We believe that this financial measure is useful in evaluating our business because we believe, as compared to subscription revenue, it is a better indicator of the subscription activity in a given period. We believe that both management and investors benefit from referring to bookings in assessing our performance and when planning, forecasting and analyzing future periods.

While the factors that affect bookings and subscription revenue are generally the same, certain factors may affect subscription revenue more or less than such factors affect bookings in any period. While we believe that bookings is useful in evaluating our business, it should be considered as supplemental in nature and it is not meant to be a substitute for subscription revenue recognized in accordance with GAAP.

### Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure. Adjusted EBITDA is defined as net income (loss) adjusted to exclude interest expense, net, income tax (benefit), depreciation and amortization expense, loss on disposal of property and equipment, other income, net and stock-based compensation expense.

We present Adjusted EBITDA because it is a key measure used by our management and Board of Directors to understand and evaluate our core operating performance and trends, to develop short- and long-term operational plans, and to allocate resources to expand our business. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons of the cash operating income generated by our business. We believe that Adjusted EBITDA is useful to investors and others to understand and evaluate our operating results and it allows for a more meaningful comparison between our performance and that of competitors.

### *Limitations of Adjusted EBITDA*

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider this performance measure in isolation from or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect cash capital expenditures for assets underlying depreciation and amortization expense that may need to be replaced or for new capital expenditures;
- Adjusted EBITDA does not reflect our working capital requirements;
- Adjusted EBITDA does not consider the potentially dilutive impact of stock-based compensation; and
- other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results. The following table presents a reconciliation of net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP, to Adjusted EBITDA for each of the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Reconciliation of Net Loss to Adjusted EBITDA:		
Net loss . . . . .	\$ (5,894,253)	\$ (1,452,776)
Interest (income) expense, net . . . . .	(41,717)	60,030
Other (income) expense, net . . . . .	46,933	(351,102)
Income tax expense . . . . .	228,972	—
Depreciation and amortization expense . . . . .	2,132,496	1,402,533
Loss on disposal of property and equipment . . . . .	17,074	—
Stock compensation expense . . . . .	1,579,921	353,120
Adjusted EBITDA . . . . .	<u>\$ (1,930,574)</u>	<u>\$ 11,805</u>

### **Results of Operations**

The following table sets forth Consolidated Statements of Operations data for each of the periods indicated as a percentage of total revenues:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Total revenue . . . . .	100.0%	100.0%
Costs and expenses:		
Cost of revenue . . . . .	19.6%	23.9%
Sales and marketing expense . . . . .	31.6%	24.3%
Product development expense . . . . .	35.9%	41.0%
General and administrative expense . . . . .	35.7%	19.1%
Total costs and expenses . . . . .	122.8%	108.3%
Loss from operations . . . . .	(22.8)%	(8.3)%
Interest income (expense), net . . . . .	0.2%	(0.3)%
Other income (expense), net . . . . .	(0.2)%	1.7%
Total other income, net . . . . .	(0.0)%	1.4%
Loss before income taxes . . . . .	(22.8)%	(6.9)%
Provision (benefit) for income taxes . . . . .	(0.9)%	(0.0)%
Net loss . . . . .	<u>(23.7)%</u>	<u>(6.9)%</u>

## Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Total revenues increased to \$24,841,283 for the year ended December 31, 2017 from \$20,988,429 for the year ended December 31, 2016. The increase is primarily driven by the inclusion of FirstMet revenue for the full 2017 fiscal year as a result of the AVM Merger, offset by a decline in Paltalk subscription revenue and advertising revenue.

The following table sets forth our subscription revenue, advertising revenue and total revenues for the year ended December 31, 2017 and the year ended December 31, 2016, the increase/decrease between those periods, the percentage increase/decrease between those periods, and the percentage of total revenue that each represented for those periods:

	Years Ended December 31,		\$	%	% of Revenue Years	
	2017	2016	Increase (Decrease)	Increase (Decrease)	Ended December 31,	Ended December 31,
					2017	2016
Subscription revenue . . . . .	\$22,898,530	\$18,647,855	\$ 4,250,675	22.8%	92.2%	88.8%
Advertising revenue . . . . .	1,942,753	2,340,574	(397,821)	(17.0)%	7.8%	11.2%
Total revenues . . . . .	<u>\$24,841,283</u>	<u>\$20,988,429</u>	<u>\$ 3,852,854</u>	<u>18.4%</u>	<u>100.0%</u>	<u>100.0%</u>

### Subscription

Our subscription revenue for the year ended December 31, 2017 increased by \$4,250,675, or 22.8%, as compared to the year ended December 31, 2016. This increase in subscription revenue for the year ended December 31, 2017 was primarily due to the inclusion of a full fiscal year of FirstMet subscription revenue in 2017 following the completion of the AVM Merger which resulted in an increase of \$5,446,000, offset by a decline in fiscal year 2017 Paltalk subscription revenue of approximately \$1,000,000 compared to fiscal year 2016. We believe that the decrease in Paltalk subscription revenue was driven, in part, by a decrease in the new transaction revenue in the Paltalk product driven by lower volume of usage and diminished marketing and advertising spend. We believe the decrease was also the result of a decline in our international markets, where lower reseller volume led to reduced revenue.

### Advertising

Our advertising revenue for the year ended December 31, 2017 decreased by \$397,821, or 17.0%, as compared to the year ended December 31, 2016. The decrease in advertising revenue primarily resulted from internal disruption as we changed our advertising partners by moving to an exclusive relationship with a full service agency to outsource our advertising operations. The digital advertising industry is also experiencing some challenges due to a greater emphasis on fraud control.

### Costs and Expenses

Total costs and expenses for the year ended December 31, 2017 reflect an increase in costs and expenses of \$7,769,071, or 34.2%, as compared to the year ended December 31, 2016. The following table presents our costs and expenses for the year ended December 31, 2017 and 2016, the increase or decrease between those periods and the percentage increase or decrease between those periods:

	Years Ended December 31,		\$	%	% of Revenue Years	
	2017	2016	Increase (Decrease)	Increase (Decrease)	Ended December 31,	Ended December 31,
					2017	2016
Cost of revenue . . . . .	\$ 4,861,315	\$ 5,015,565	\$ (154,250)	(3.1)%	19.6%	23.9%
Sales and marketing . . . . .	7,847,235	5,099,956	2,747,279	53.9%	31.6%	24.3%
Product development . . . . .	8,918,409	8,600,688	317,721	3.7%	35.9%	41.0%
General and administrative . . . . .	8,874,389	4,016,068	4,858,321	121.0%	35.7%	19.1%
Total costs and expenses . . . . .	<u>\$30,501,348</u>	<u>\$22,732,277</u>	<u>\$7,769,071</u>	<u>34.2%</u>	<u>122.8%</u>	<u>108.3%</u>

### *Cost of revenue*

Our cost of revenue for the year ended December 31, 2017 decreased by \$154,250, or 3.1%, as compared to the year ended December 31, 2016. The decrease in cost of revenue for the year ended December 31, 2017 was primarily driven by a decrease in payroll expense as a result of a move from physical servers to cloud web hosting services. The transition to cloud services also drove reduced headcount in our information technology support areas.

### *Sales and marketing expense*

Our sales and marketing expense for the year ended December 31, 2017 increased by \$2,747,279, or 53.9%, as compared to the year ended December 31, 2016. The increase in sales and marketing expense for the year ended December 31, 2017 was primarily due to the inclusion of a full fiscal year of FirstMet sales and marketing expense for 2017 following the completion of the AVM Merger, which resulted in an increase of approximately \$3,683,400, offset by a decrease in Paltalk sales and marketing expense due to headcount changes and reduced marketing spend.

### *Product development expense*

Our product development expense for the year ended December 31, 2017 increased by \$317,721, or 3.7% as compared to the year ended December 31, 2016. The increase in product development expense was mainly due to the inclusion of pre-AVM Merger PeerStream product development expense in 2017 and an increase in consulting services supporting the efforts to enhance user retention and improve monetization, offset by a decrease primarily due to reduced headcount in the product development and engineering teams.

### *General and administrative expense*

Our general and administrative expense for the year ended December 31, 2017 increased by \$4,858,321, or 121.0%, as compared to the year ended December 31, 2016. The increase in general and administrative expense for the year ended December 31, 2017 was primarily driven by an increase in depreciation and amortization expense and officers' salaries related to the inclusion of pre-AVM Merger PeerStream's fixed and intangible assets and officer headcount. In addition, the increase was in part driven by stock compensation expense relating to executive equity awards, a \$225,000 lease cancellation fee related to our office space on 320 W 37th Street in New York, NY, an accounting and legal fees increase related to the filing of the Form 10-K and approximately \$452,000 in legal and consulting fees increase relating to the proposed merger with LiveXLive.

### ***Non-Operating Income (Expense), Net***

The following table presents the components of non-operating income for the year ended December 31, 2017 and the year ended December 31, 2016, the increase or decrease between those periods and the percentage increase or decrease between those periods:

	<b>Years Ended December 31,</b>		<b>\$</b>	<b>%</b>	<b>% of Revenue Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>	<b>Increase (Decrease)</b>	<b>2017</b>	<b>2016</b>
Interest income (expense), net . .	\$ 41,717	\$ (60,030)	\$ 101,747	169.5%	0.2%	(0.3)%
Other income (expense), net . . .	(46,933)	351,102	(398,035)	(113.4)%	(0.2)%	1.7%
Total non-operating income (expense), net . . . . .	<u>\$ (5,216)</u>	<u>\$ 291,072</u>	<u>\$ (296,288)</u>	<u>(101.8)%</u>	<u>(0.0)%</u>	<u>1.4%</u>

Non-operating income for the year ended December 31, 2017 decreased by \$296,288, or 101.8%, as compared to the year ended December 31, 2016. The decrease in non-operating income was driven by legal settlement expenses in 2016 and other minor contractual interest incurred.



## Liquidity and Capital Resources

	Years Ended December 31,	
	2017	2016
Consolidated Statements of Cash Flows Data:		
Net cash (used in) operating activities . . . . .	\$ (730,758)	\$ (406,651)
Net cash used in investing activities . . . . .	(219,227)	(2,084,576)
Net cash provided by (used in) financing activities . . . . .	924,439	(22,734)
Net change in cash and cash equivalents . . . . .	<u>\$ (25,546)</u>	<u>\$ (2,513,961)</u>

We have historically financed our operations through cash generated from operations; however, we also recently completed a \$1.0 million private placement of our common stock described in more detail below. Currently, our primary source of liquidity is cash on hand and cash flows from continuing operations. As of December 31, 2017, we had \$4,137,050 in cash and cash equivalents, as compared to cash and cash equivalents of \$4,162,596 as of December 31, 2016, and no long-term debt.

We undertook a plan to reduce costs and increase profitability following the AVM Merger, and we believe that our cash balance and our expected cash flow from operations will be sufficient to meet all of our financial obligations for the twelve months from the filing date of this Form 10-K. It is possible that we would need additional capital in the future to fund our operations, particularly growth initiatives, which we expect we would raise through a combination of equity offerings, debt financings, other third party funding and other collaborations and strategic alliances. Our future capital requirements will depend on many factors including our growth rate, headcount, sales and marketing activities, research and development efforts and the introduction of new features, products, acquisitions and continued user engagement.

Our primary use of working capital is related to user acquisition costs, including sales and marketing expense and product development expense. Our sales and marketing expenditures are primarily spent on channels where we can estimate the return on investment without making long-term commitments. Accordingly, we believe we can adjust our advertising and marketing expenditures quickly based on the expected return on investment, which should provide flexibility and should enable us to manage our advertising and marketing expense. In addition, we allocate significant resources to product development in order to maintain and create new features and products which will enable a better user experience and increase interactions. We may also seek to grow our business by expending our capital resources to fund strategic investments and partnership opportunities.

We are continuously evaluating and implementing cost reduction initiatives to manage the expense of our operations. Our cost reduction initiatives implemented during 2017 have included the decision to outsource our data center and physical servers to cloud web hosting services, headcount reorganization, marketing spend rationalization and vendor consolidation and subsequent contract renegotiations.

### *Operating Activities*

Net cash used in operating activities was \$730,758 for the year ended December 31, 2017, as compared to net cash used by operating activities of \$406,651 for the year ended December 31, 2016. This increase in net cash used in operating activities of \$324,107 was mainly a result of an increase of approximately \$452,000 in one-time expenses as result of the cancelled LiveXLive Merger and acquisition initiatives.

Significant items impacting cash flow in the year ended December 31, 2016 included significant cash outlays relating to advertising and marketing expense and increased headcount related expenses in the product development area. These uses of cash were offset in part by collections of subscription and advertising revenue received during the period.

### *Investing Activities*

Net cash used in investing activities for the year ended December 31, 2017 and 2016 was \$219,227 and \$2,084,576, respectively. The decrease of cash used in investing activities for the year ended December 31, 2017 was primarily the result of the net cash acquired from the AVM Merger, net of \$1,739,506 used to repay outstanding debt in connection with the AVM Merger, and reduced purchases of computers and office furniture. Purchases of property and equipment may vary from period to period due to the timing of the expansion of our operations and software development.

### *Financing Activities*

Net cash provided by financing activities for the year ended December 31, 2017 was \$924,439 and net cash used in financing activities for the year ended December 31, 2016 was \$22,734.

The primary reason for the increase was the completion of our private placement with Hershey Capital, pursuant to which we sold 200,000 shares of our common stock to Hershey Capital at a price of \$5.00 per share for aggregate gross proceeds of \$1.0 million. We intend to use the net proceeds from the offering for general corporate purposes, including the development of our blockchain product initiatives.

### *Contractual Obligations and Commitments*

On January 18, 2016, we entered into a lease agreement for office space located at 122 East 42nd Street in New York, NY and paid a security deposit in the amount of \$37,000. The term of the lease runs until May 30, 2019. Our office rent payments under the lease are currently approximately \$12,300 per month and escalate on an annual basis for each year of the term of the lease thereafter.

On September 18, 2017, the Company entered into a lease agreement for a second office space located at 122 East 42nd Street in New York, NY and expires in July 31, 2019 and paid a security deposit in the amount of \$8,000. The term of the lease runs until July 31, 2019. Our office rent payments under the lease are currently approximately \$4,000 per month.

On October 27, 2017, the Company entered into a lease agreement for an office space located at Sparks-Ledesma House 1306 East 7th Street in Austin, TX and expires in October 31, 2018. We paid a security deposit in the amount of \$2,142. Our office rent payments under the lease are currently approximately \$1,129 per month.

On June 7, 2016, we entered into a lease agreement with Jericho Executive Center LLC for office space at 30 Jericho Executive Plaza in Jericho, New York which commenced on September 1, 2016 and runs through November 30, 2021. Our office rent payments under the lease are currently approximately \$5,900 per month.

### *Off-Balance Sheet Arrangements*

As of December 31, 2017, we did not have any off-balance sheet arrangements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	<b>Page Number</b>
Report of Independent Registered Public Accounting Firm . . . . .	F-1
Consolidated Balance Sheets as of December 31, 2017 and 2016 . . . . .	F-2
Consolidated Statements of Operations for the Years Ended December 31, 2017 and 2016 . . . . .	F-3
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2016 . . . . .	F-4
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016 . . . . .	F-5
Notes to Consolidated Financial Statements. . . . .	F-6

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors  
of PeerStream, Inc. (f/k/a Snap Interactive, Inc.)

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Peerstream, Inc. (f/k/a Snap Interactive, Inc.) (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We have served as the Company’s auditor since 2016.

New York, New York

March 22, 2018

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents . . . . .	\$ 4,137,050	\$ 4,162,596
Credit card holdback receivable . . . . .	140,789	172,169
Accounts receivable . . . . .	479,148	958,695
Prepaid expense and other current assets . . . . .	228,296	1,047,483
Total current assets . . . . .	4,985,283	6,340,943
Property and equipment, net . . . . .	622,712	793,305
Goodwill . . . . .	13,086,472	14,304,667
Intangible assets, net . . . . .	3,920,443	5,605,193
Other receivables . . . . .	52,267	82,435
Long term security deposits . . . . .	97,270	397,608
Total assets . . . . .	<u>\$ 22,764,447</u>	<u>\$ 27,524,151</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable . . . . .	\$ 2,374,253	\$ 1,665,831
Accrued expenses and other current liabilities . . . . .	405,646	472,406
Deferred subscription revenue . . . . .	2,553,826	2,828,827
Total current liabilities . . . . .	5,333,725	4,967,064
Deferred rent, net of current portion . . . . .	—	261,286
Deferred tax liability . . . . .	—	1,452,339
Total liabilities . . . . .	<u>5,333,725</u>	<u>6,680,689</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value, 25,000,000 shares authorized, 6,881,794 and 6,714,915 shares issued and outstanding, respectively . . . . .	6,882	6,715
Additional paid-in capital . . . . .	18,346,914	15,865,568
(Accumulated deficit) retained earnings . . . . .	(923,074)	4,971,179
Total stockholders' equity . . . . .	<u>17,430,722</u>	<u>20,843,462</u>
Total liabilities and stockholders' equity . . . . .	<u>\$ 22,764,447</u>	<u>\$ 27,524,151</u>

The accompanying notes are an integral part of these consolidated financial statements.



**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenues		
Subscription revenue . . . . .	\$ 22,898,530	\$ 18,647,855
Advertising revenue . . . . .	1,942,753	2,340,574
Total revenue . . . . .	24,841,283	20,988,429
Costs and expenses		
Costs of revenue . . . . .	4,861,315	5,015,565
Sales and marketing . . . . .	7,847,235	5,099,956
Product development . . . . .	8,918,409	8,600,688
General and administrative . . . . .	8,874,389	4,016,068
Total costs and expenses . . . . .	30,501,348	22,732,277
Loss from operations . . . . .	(5,660,065)	(1,743,848)
Interest income (expense), net . . . . .	41,717	(60,030)
Other (expense) income, net . . . . .	(46,933)	351,102
Loss before provision for income taxes . . . . .	(5,665,281)	(1,452,776)
Income tax expense . . . . .	(228,972)	—
Net loss . . . . .	<u>\$ (5,894,253)</u>	<u>\$ (1,452,776)</u>
Loss per share of common stock:		
Basic and diluted . . . . .	\$ (0.91)	\$ (0.26)
Weighted average number of common shares outstanding:		
Basic and diluted . . . . .	6,452,581	5,577,856

The accompanying notes are an integral part of these consolidated financial statements.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	<u>Common Shares</u>	<u>Stock Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total Stockholders' Equity</u>
<b>Balance on January 1, 2016</b> . . . . .	5,228,617	\$ 5,229	\$ 6,872,868	\$ 6,423,955	\$ 13,302,052
Issuance of shares and options in connection with the AVM Merger. . . . .	1,486,298	1,486	8,639,580	—	8,641,066
Stock-based compensation expense . . . . .	—	—	353,120	—	353,120
Net loss . . . . .	—	—	—	(1,452,776)	(1,452,776)
<b>Balance on December 31, 2016</b> . . . . .	6,714,915	\$ 6,715	\$ 15,865,568	\$ 4,971,179	\$ 20,843,462
Stock-based compensation expense for restricted stock awards and stock options. . . . .	—	—	1,579,921	—	1,579,921
Shares issued for consulting services . . . . .	12,000	12	39,588	—	39,600
Shares issued in connection with Security Purchase Agreement . . . . .	200,000	200	999,800	—	1,000,000
Cancellation of common stock . . . . .	(45,121)	(45)	(137,963)	—	(138,008)
Net loss . . . . .	—	—	—	(5,894,253)	(5,894,253)
<b>Balance on December 31, 2017</b> . . . . .	<u>6,881,794</u>	<u>\$ 6,882</u>	<u>\$ 18,346,914</u>	<u>\$ (923,074)</u>	<u>\$ 17,430,722</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Net loss . . . . .	\$ (5,894,253)	\$ (1,452,776)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment . . . . .	447,746	568,028
Amortization of intangible assets . . . . .	1,684,750	834,505
Common stock issued for consulting services . . . . .	39,600	—
Cancellation of common stock . . . . .	(138,008)	—
Stock-based compensation expense . . . . .	1,579,921	353,120
Loss on disposal of property and equipment . . . . .	17,074	—
Bad debt expense . . . . .	137,615	—
Change in fair value of contingent liability . . . . .	—	(134,000)
Changes in operating assets and liabilities:		
Credit card holdback receivable . . . . .	31,380	138,971
Accounts receivable . . . . .	341,932	66,433
Prepaid expenses and other current assets . . . . .	819,187	221,644
Other receivables . . . . .	(10,555)	(36,115)
Deferred tax asset . . . . .	—	754,535
Accounts payable, accrued expenses and other current liabilities . . . . .	717,223	(1,257,735)
Deferred rent . . . . .	4,775	145,046
Deferred tax . . . . .	—	(128,460)
Deferred subscription revenue . . . . .	(509,145)	(479,847)
Net cash provided by (used in) operating activities . . . . .	(730,758)	(406,651)
Cash flows from investing activities:		
Purchase of property and equipment . . . . .	(294,227)	(345,070)
Return of security deposits . . . . .	75,000	—
Cash acquired in the AVM Merger, net of payment of note payable . . . . .	—	(1,739,506)
Net cash provided by (used in) investing activities . . . . .	(219,227)	(2,084,576)
Cash flows from financing activities:		
Payments of capital leases . . . . .	(75,561)	(22,734)
Proceeds in connection with Security Purchase Agreement . . . . .	1,000,000	—
Net cash provided by (used in) financing activities . . . . .	924,439	(22,734)
Net decrease in cash and cash equivalents . . . . .	(25,546)	(2,513,961)
Cash and cash equivalents at beginning of year . . . . .	4,162,596	6,676,557
Cash and cash equivalents at end of year . . . . .	<u>\$ 4,137,050</u>	<u>\$ 4,162,596</u>
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Cash paid in interest . . . . .	\$ 12,899	\$ —
Cash paid in income taxes . . . . .	\$ 26,210	\$ —
Cash investing and financing activities		
Measurement period adjustments:		
Goodwill . . . . .	\$ 1,218,198	\$ —
Deferred tax liability . . . . .	\$ 1,452,339	\$ —
Deferred subscription revenue . . . . .	\$ 234,144	\$ —
Acquisition:		
Cash and cash equivalents . . . . .	\$ —	\$ 1,460,494
Term note payable (intercompany) . . . . .	\$ —	\$ (200,000)
Note payable, net of discount (intercompany) . . . . .	\$ —	\$ (3,000,000)

The accompanying notes are an integral part of these consolidated financial statements.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Description of Business**

On October 7, 2016, PeerStream, Inc. (f/k/a Snap Interactive, Inc.) and its wholly owned subsidiary, Snap Mobile Limited (collectively, “PeerStream”), completed a business combination with privately-held A.V.M. Software, Inc. and its wholly owned subsidiaries, Paltalk Software Inc., Paltalk Holdings, Inc., Tiny Acquisition Inc., Camshare, Inc., Vumber LLC and Fire Talk LLC (collectively, “AVM”) in accordance with the terms of an Agreement and Plan of Merger (the “AVM Merger Agreement”), by and among PeerStream, SAVM Acquisition Corporation, PeerStream’s former wholly owned subsidiary, AVM and Jason Katz, pursuant to which AVM merged with and into SAVM Acquisition Corporation, with AVM surviving as a wholly owned subsidiary of PeerStream (the “AVM Merger”).

Under U.S. generally accepted accounting principles (“GAAP”), the AVM Merger is treated as a “reverse merger” under the acquisition method of accounting. For accounting purposes, AVM is considered to have acquired PeerStream. Consequently, the historical financial statements reflect the operations and financial condition of AVM and operating results of PeerStream are reported beginning on the closing date of the AVM Merger (collectively, the “Company” or “we”).

The Company is an Internet software company. Under its registered trademarks, the Company develops and operates computer software that enables spontaneous global real time audio/video conversation via the internet and operates a portfolio of dating applications.

*Reverse Stock Split*

The Company completed a 1-for-35 reverse stock split which became effective on January 5, 2017. Except as otherwise provided herein, all share and per-share amounts of the Company’s common stock and stock options have been adjusted to give effect to the reverse stock split for all periods presented.

*Terminated LiveXLive Merger Agreement*

On September 6, 2017, the Company entered into an Agreement and Plan of Merger with LiveXLive Media, Inc. (“LiveXLive”), LXL Video Acquisition Corp., a wholly owned subsidiary of LiveXLive (“Merger Sub”), and Jason Katz, as the agent of the stockholders of the Company, pursuant to which the Company would have merged with and into Merger Sub, with Merger Sub surviving as a wholly owned subsidiary of LiveXLive (the “LiveXLive Merger Agreement”).

On October 31, 2017, the Company provided a letter to LiveXLive that terminated the LiveXLive Merger Agreement, pursuant to Section 8.2(a) of the LiveXLive Merger Agreement, due to certain conditions of the LiveXLive Merger Agreement not having been fulfilled as of October 27, 2017, which relieved the Company of its obligations under the LiveXLive Merger Agreement. No termination fee was payable by the Company in connection with the termination of the LiveXLive Merger Agreement. The Company incurred in one-time expenses of approximately \$452,000 as a result of the cancelled LiveXLive Merger Agreement.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and were prepared in conformity with GAAP and with the requirements of the Security and Exchange Commission (“SEC”). All intercompany balances and transactions have been eliminated upon consolidation.

*Significant Estimates and Assumptions*

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (cont.)**

Significant estimates relied upon in preparing these financial statements include the estimates used to determine the fair value of the Company's common stock up until the time of the AVM Merger, and stock options issued in share based payment arrangements, acquisition accounting, collectability of the Company's accounts receivable and the valuation allowance on deferred tax assets. Management evaluates these estimates on an ongoing basis. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from the estimates.

*Revenue Recognition*

The Company recognizes revenue on arrangements in accordance with Accounting Standards Codification ("ASC") No. 605, Revenue Recognition. In all cases, revenue is recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability is reasonably assured.

The Company has revenue streams consisting of subscriptions and advertisements. The Company recognizes revenue from monthly premium subscription services beginning in the month in which the subscriptions are originated. Revenues are presented net of refunds, credits, and known and estimated credit card chargebacks. During the years ended December 31, 2017 and 2016, subscriptions were offered in durations of one-, three-, six-, twelve-, and fifteen-month terms. All subscription fees, however, are paid by credit card at the origination of the subscription regardless of the term of the subscription. Revenues from multi-month subscriptions are recognized on a straight-line basis over the length of the subscription period. The unearned portion of subscription revenue is presented as deferred revenue in the accompanying Consolidated Balance Sheets.

The Company generates advertising revenue from advertising agreements with third parties. Advertising revenue is dependent upon traffic as well as the advertising inventory placed on our products. The Company recognizes advertising revenue as earned on a click-through, impression, registration or subscription basis. When a user clicks an advertisement (CPC basis), views an advertisement impression (CPM basis), registers for an external website via an advertisement by clicking on or through our application (CPA basis), or clicks on an offer to subscribe to premium features on the application, the amount earned is recognized as revenue.

In addition, the Company offers virtual gifts and micro-transactions to its users. Users may purchase credits in \$5, \$10 or \$20 increments that can be redeemed for a host of virtual gifts such as a rose, a beer, a car, among other items. These gifts are given among users to enhance communication and are typically redeemed within the month of purchase. Micro-transactions allow users to increase the visibility of their profile and messages by paying for such services. Virtual gift and micro-transaction revenue are recognized at the point of sale and included in subscription revenue in the accompanying consolidated statements of operations.

The Company's payment processors have established reserve accounts to secure the performance of the Company's obligations under its service agreements, which is standard practice within the payment processing industry. These reserve accounts withhold a small percentage of the Company's sales in a segregated account. These funds are classified as credit card holdback receivables and totaled \$140,789 and \$172,169 as of December 31, 2017 and December 31, 2016, respectively.

*Cost of revenue*

Cost of revenue consists primarily of compensation (including stock-based compensation) and other employee-related costs of personnel engaged in data center and customer care functions, credit card processing fees, hosting fees, and data center rent and bandwidth costs.

*Sales and marketing*

Sales and marketing expense is expensed as incurred and consists primarily of advertising expenditures and compensation (including stock-based compensation) and other employee related costs for personnel engaged in sales, and sales support functions. Sales and marketing spend includes search engine marketing and partner-related



**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (cont.)**

payments to those who direct traffic to our brands. Total advertising expense for the year ended December 31, 2017 was approximately \$6,994,700, and \$4,591,900 for the year ended December 31, 2016.

*Product development*

Product development expense, which relates to the development of technology for our applications, consists primarily of compensation (including stock-based compensation) and other employee-related costs that are not capitalized for personnel engaged in the design, testing and enhancement of service offerings as well as amortization of capitalized website development costs.

*General and administrative*

General and administrative expense consists primarily of compensation (including stock-based compensation) and other employee-related costs for personnel engaged in executive management, finance, legal, tax, human resources, and fees for professional services. General and administrative also includes depreciation of fixed assets and amortization of intangible assets.

*Reportable Segment*

The Company operates in one reportable segment, and management assesses the Company's financial performance and makes operating decisions based on a single operating segment.

*Income Taxes*

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred taxes in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties would be included on the related tax liability line in the accompanying Consolidated Balance Sheets.

*Stock-Based Compensation*

In accordance with ASC No. 718, Compensation — Stock Compensation ("ASC 718"), the Company measures the compensation costs of stock-based compensation arrangements based on the grant date fair value of granted instruments and recognizes the costs in the financial statements over the period during which employees are required to provide services. Stock-based compensation arrangements include stock options and restricted stock awards.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (cont.)**

Equity instruments (“instruments”) issued to non-employees are recorded on the basis of the fair value of the instruments, as required by ASC 718. ASC No. 505, Equity Based Payments to Non-Employees (“ASC 505”), defines the measurement date and recognition period for such instruments. In general, the measurement date is (a) when a performance commitment, as defined, is reached or (b) when the earlier of (i) the non-employee performance is complete and (ii) the instruments are vested. The measured fair value related to the instruments is recognized over a period based on the facts and circumstances of each particular grant as defined in ASC 505.

The fair value of each option granted under the Company’s Amended and Restated 2011 Long-Term Incentive Plan (the “2011 Plan”) and 2016 Long-Term Incentive Plan (the “2016 Plan”) was estimated using the Black-Scholes option-pricing model (see Note 8 for further details). Using this model, fair value is calculated based on assumptions with respect to the (i) expected volatility of the Company’s common stock price, (ii) expected life of the award, which for options is the period of time over which employees and non-employees are expected to hold their options prior to exercise, (iii) expected dividend yield on the Company’s common stock, and (iv) a risk-free interest rate, which is based on quoted U.S. Treasury rates for securities with maturities approximating the expected term. Expected volatility is estimated based on the Company’s historical volatilities. The expected life of options has been determined using the “simplified” method as prescribed by Staff Accounting Bulletin (“SAB”) No. 110, an amendment to SAB No. 107, which uses the midpoint between the vesting date and the end of the contractual term. The expected dividend yield is zero as the Company has never paid dividends and does not currently anticipate paying dividends in the foreseeable future.

*Net Income (Loss) Per Share*

Basic net income (loss) per common share is determined using the two-class method and is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period as defined by ASC No. 260, Earnings Per Share. The two-class method is an earnings allocation formula that determines income (loss) per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The two-class method treats a participating security as having rights to earnings that otherwise would have been available to common shareholders. According to the contractual terms of participating securities, such securities do not participate in losses.

Diluted net income (loss) per common share reflects the more dilutive earnings per share amount calculated using the treasury stock method or the two-class method, taking into account any potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of shares issuable upon the exercise of stock options and unvested shares of restricted common stock (using the treasury stock method). To the extent stock options are antidilutive, they are excluded from the calculation of diluted income per share.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds. The Company maintains cash in bank accounts which, at times, may exceed federally insured limits. As part of its cash management process, the Company periodically reviews the relative credit standing of these banks. The Company has not experienced any losses in such accounts and periodically evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

*Receivables*

Accounts receivables are composed of amounts due from our advertising partners and from credit card processing companies following the initiation of subscription arrangements originated by our subscribers, which subscribers pay by credit cards. These receivables are unsecured and are typically settled by the payment processing company within several days of transaction processing accordingly, no allowance for doubtful accounts is considered. On December 31, 2017, the Company had accounts receivable from advertising partners and payment processing companies in the amount of \$479,148, as compared to \$958,695 on December 31, 2016.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (cont.)**

As of December 31, 2017, three advertising partners accounted for 45% of accounts receivable. As of December 31, 2016, three advertising partners and one payment processing company accounted for 37% of accounts receivable.

*Property and equipment*

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of those assets, as follows:

Computers and equipment	5 years
Website development	3 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of estimated useful life or remaining lease term

Repairs and maintenance costs are expensed as incurred.

The Company's property and equipment assets include computers and office equipment, furniture and fixtures and leasehold improvements, which are subject to depreciation or amortization over the useful life of the asset. Property and equipment also includes website development cost which is incurred during the development stage. See website development costs policy details.

Property and equipment is evaluated for recoverability whenever events or changes in circumstances indicate that the carrying amounts of the assets might not be recoverable. In evaluating an asset for recoverability, the Company estimates the future cash flow expected to result from the use and eventual disposition of the asset. If the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. No impairment losses were recorded on property and equipment for the periods presented in these consolidated financial statements.

*Website Development Costs*

In accordance with ASC 350-50, *Website Development Costs*, the Company accounts for website development costs by capitalizing qualifying costs which are incurred during the development and infrastructure stage. Expenses incurred in the planning stage are expensed as incurred. Capitalized website development cost is included in property and equipment and are amortized straight-line over the expected period of benefit, which is three years, when the software is ready for its intended use. Amortization expense related to capitalize website development costs is included in product development expense.

*Goodwill*

The Company evaluates its goodwill for impairment in accordance with ASC 350, *Intangibles — Goodwill and Other*. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired.

The Company tests the recorded amount of goodwill for impairment on an annual basis on December 31 of each fiscal year or more frequently if there are indicators that the carrying amount of the goodwill exceeds its carried value. The Company has one reporting unit. The Company performed a qualitative assessment and concluded that no impairment existed as of December 31, 2017 and 2016.

*Intangible Assets*

The Company acquired amortizable intangibles assets as part of two asset purchase agreements consisting of trademarks and non-compete agreements. The Company also holds patents. The Company's intangible assets, net

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (cont.)**

represents definite lived intangible assets, which are being amortized on a straight-line basis over their estimated useful lives as follows:

Patents	20 years
Trade names, trademarks, product names, URLs	5-10 years
Internally developed software	5-6 years
Non-compete agreements	3 years
Subscriber/customer relationships	3-12 years
Lead pool	2 years

The Company reviews intangible assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets might not be recoverable. Factors that the Company considers in deciding when to perform an impairment review include significant underperformance of the business in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets. If an impairment review is performed to evaluate a long-lived asset for recoverability, the Company compares forecasts of undiscounted cash flows expected to result from the use and eventual disposition of the long-lived asset to its carrying value. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its fair value, determined based on discounted cash flows. No impairments were recorded on intangible assets as no impairment indicators were noted for the periods presented in these consolidated financial statements.

*Business Combinations*

The AVM Merger was made at a price above the fair value of the assets acquired and liabilities assumed including deferred tax liability, resulting in goodwill, based on the Company's expectations of synergies and other benefits of combining the acquired business.

Significant judgment is required in estimating the fair value of intangible assets and in assigning their respective useful lives. The Company is responsible for determining the fair values of the assets acquired and liabilities assumed in connection with the AVM Merger. These fair values were based on estimates as of October 7, 2016, the closing date of the acquisition, and were based on a number of factors, including a valuation from an independent third party.

Net assets acquired are recorded at their fair values on the date of acquisition.

*Fair Value of Financial Instruments*

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, credit card holdback receivable, accounts payable, approximate fair value due to the short-term nature of these instruments.

*Adoption of Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance on the recognition of revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under generally accepted accounting principles (GAAP). Under the new revenue standards, entities will recognize revenue to depict the transfer of goods and services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows from an entity's contracts with customers. The Company has completed its analysis of the new revenue standards and has concluded that the measurement of revenue and the timing of recognizing revenue is not expected to change for our subscription and advertising revenues. The Company has adopted the new revenue standards on January 1, 2018 using the modified retrospective approach. Based on our analysis, we did not identify a cumulative-effect adjustment to retained earnings at January 1, 2018. Our future financial statements, beginning with the three months ended March 31, 2018, will include additional disclosures as required by the new revenue standards.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies (cont.)**

In March 2016, the FASB issued ASU No. 2016-09, which revises the guidance in ASC 718, *Compensation—Stock Compensation*, and will change how companies account for certain aspects of share-based payments to employees, including the income tax impact, classification on the statement of cash flows and forfeitures. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017, for public companies. The Company adopted this guidance as of and for the three months ended March 31, 2017 and its adoption did not have any significant impact on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, which revises the guidance in ASC 230, *Statement of Cash Flows*. The new guidance is intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, and is effective for reporting periods (interim and annual) beginning after December 15, 2017, for public companies. The Company adopted this guidance and its adoption did not have any significant impact on the Company's consolidated financial statements and related disclosures.

In December 2016, the FASB issued ASU 2016-19, *Technical Corrections and Improvements*, which includes numerous technical corrections and clarifications to GAAP that are designed to remove inconsistencies in the board's accounting guidance. Several provisions in this accounting guidance are effective immediately which did not have an impact on the Company's consolidated financial statements. Additional provisions in this accounting guidance are effective for the Company in annual financial reporting periods beginning after December 15, 2016. The Company adopted this guidance and its adoption did not have any significant impact on the Company's consolidated financial statements and related disclosures.

The FASB has issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this guidance and its adoption did not have any significant impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued an ASU 2017-01, *Business Combinations (Topic 805) Clarifying the Definition of a Business*. The amendments in this Update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted this guidance and its adoption did not have any significant impact on the Company's consolidated financial statements and related disclosures.

*Recent Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"), which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will be effective beginning in the first quarter of 2019. Early adoption of ASU 2016-02 is permitted. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard, which will be effective for the Company beginning in the first quarter of fiscal year 2020, is required to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact this standard will have on its financial statements.



**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Business Combination**

On October 7, 2016, AVM completed the AVM Merger with PeerStream, pursuant to which SAVM Acquisition Corporation, PeerStream's former wholly owned subsidiary, merged with and into AVM, with AVM surviving as a wholly owned subsidiary of SNAP.

As a result of the AVM Merger, the former shareholders of A.V.M. Software, Inc. received shares of PeerStream, Inc.'s common stock representing approximately 77.9% of the outstanding shares of common stock of the post-AVM Merger combined company, and PeerStream, Inc.'s former shareholders retained approximately 22.1% of the outstanding shares of common stock of the post-AVM Merger combined company, in each case including shares of unvested restricted stock in the total number of shares of PeerStream, Inc. common stock outstanding.

Consideration in this transaction consisted of the issuance of 1,486,298 shares of PeerStream, Inc. to the former shareholders of A.V.M. Software, Inc., which was based on the Exchange Ratio (as defined in the AVM Merger Agreement). The shares were valued at the market price per share of common stock as of the closing date, which was \$5.60. The fair value of the vested PeerStream options at the time of AVM Merger was estimated using the Black-Sholes pricing model.

<b>Consideration</b>	<b>Shares</b>	<b>Value</b>
PeerStream shares . . . . .	1,486,298	\$ 8,322,852
PeerStream options . . . . .	130,965	\$ 318,214
		<u>\$ 8,641,066</u>

The estimated fair value of the assets acquired and liabilities assumed is as follows:

<b>Accounts</b>	<b>Amount</b>
Cash and cash equivalents. . . . .	\$ 1,460,494
Credit card holdback receivable . . . . .	161,140
Accounts receivable . . . . .	192,490
Other receivable . . . . .	190,000
Prepaid expense and other current assets . . . . .	61,248
Fixed assets, net . . . . .	98,552
Notes receivable . . . . .	82,452
Long term security deposits . . . . .	279,410
Intangibles assets, net . . . . .	3,952,000
Goodwill . . . . .	9,960,017
Accounts payable . . . . .	(1,380,336)
Accrued expenses and other current liabilities . . . . .	(460,719)
Deferred subscription revenue . . . . .	(1,045,856)
Term note payable . . . . .	(200,000)
Note payable, net of discount . . . . .	(3,000,000)
Deferred rent, net of current portion . . . . .	(116,240)
Capital lease obligations, net of current portion . . . . .	(12,786)
Deferred tax liability . . . . .	(1,580,800)
Total consideration . . . . .	<u>\$ 8,641,066</u>

As part of the original valuation analysis, the Company identified intangible assets, including subscriber relationships, trade names, trademarks, product names, URLs, internally developed software and lead pool. The fair value of identifiable intangible assets is determined primarily using the "income approach," which requires a

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Business Combination (cont.)**

forecast of all of the expected future cash flows. Final allocation was determined by a third party valuation specialist hired by management. The following table summarizes the fair value of the identifiable intangible assets and their respective useful lives:

	Estimated Fair Value	Estimated Useful Life in Years
Subscriber relationships .....	\$ 1,940,000	3
Trade names, trademarks, product names, URLs .....	1,000,000	5
Internally developed software .....	730,000	5
Lead pool .....	282,000	2
Total acquired assets .....	<u>\$ 3,952,000</u>	

The Company finalized the original valuation and as part of a revision for the AVM Merger, the Company made an adjustment to increase the fair value of the deferred revenue at the acquisition date by \$234,144, offset by a decrease in deferred tax liability of \$1,452,339, with a corresponding decrease to goodwill reflected in the accompanying condensed consolidated financial statements. Additionally, the change to the provisional amount resulted in amortization of deferred revenue of \$65,000 during the year ended December 31, 2017.

**4. Property and Equipment**

Property and equipment consists of the following:

	December 31,	
	2017	2016
Computer equipment .....	\$ 3,706,017	\$ 3,720,985
Website development .....	2,342,442	2,050,980
Furniture and fixtures .....	89,027	89,027
Leasehold improvements .....	32,726	32,726
Total property and equipment .....	6,170,212	5,893,718
Less: Accumulated depreciation .....	(5,547,500)	(5,100,413)
Total property and equipment, net .....	<u>\$ 622,712</u>	<u>\$ 793,305</u>

Depreciation expense, which includes amortization of website development costs, for the years ended December 31, 2017 and 2016 was \$447,746 and \$568,028, respectively.

The Company only holds property and equipment in the United States.

**5. Intangible Assets**

Intangible assets consist of the following:

	December 31,					
	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents .....	\$ 50,000	\$ (21,250)	\$ 28,750	\$ 50,000	\$ (18,750)	\$ 31,250
Trade names, trademarks, product names, URLs ....	1,555,000	(585,479)	969,521	1,555,000	(329,979)	1,225,021
Internally developed software .....	2,720,000	(1,900,697)	819,303	2,720,000	(1,498,029)	1,221,971
Subscriber/customer relationships .....	4,219,000	(2,221,882)	1,997,118	4,219,000	(1,338,799)	2,880,201
Lead pool .....	282,000	(176,250)	105,750	282,000	(35,250)	246,750
Total intangible assets .....	<u>\$ 8,826,000</u>	<u>\$ (4,905,558)</u>	<u>\$ 3,920,442</u>	<u>\$ 8,826,000</u>	<u>\$ (3,220,807)</u>	<u>\$ 5,605,193</u>

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Intangible Assets (cont.)**

Subscriber/customer relationships, trade names, trademarks, product names, URLs, Internally developed software and lead pool included an aggregate of \$3,952,000 of intangible assets acquired as part of the business combination completed on October 7, 2016 as described in Note 3.

Amortization expense for the years ended December 31, 2017 and 2016 was \$1,684,750 and \$834,505, respectively. The estimated aggregate amortization expense for each of the next five years and thereafter will be \$1,599,718 in 2018, \$1,087,333 in 2019, \$592,681 in 2020, \$444,167 in 2021 and \$196,543 thereafter.

**6. Income Taxes**

The Company's provision for income taxes is comprised of the following:

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current:		
Federal . . . . .	\$ —	\$ —
State and local . . . . .	228,972	—
Total current provision . . . . .	<u>228,972</u>	<u>—</u>
Deferred:		
Federal . . . . .	—	—
State and local . . . . .	—	—
Total deferred provision . . . . .	<u>—</u>	<u>—</u>
Total provision . . . . .	<u>\$ 228,972</u>	<u>\$ —</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Deferred tax assets:		
Net operating losses . . . . .	\$ 4,327,027	\$ 1,847,247
Share-based compensation . . . . .	868,222	2,521,303
Amortization of intangible assets . . . . .	432,335	—
Tax credits . . . . .	62,969	—
Other . . . . .	12,755	—
Subtotal . . . . .	<u>5,703,308</u>	<u>4,368,550</u>
Less valuation allowance: . . . . .	<u>(5,649,582)</u>	<u>(4,307,813)</u>
Total deferred tax assets . . . . .	<u>53,726</u>	<u>60,737</u>
Deferred tax liabilities:		
Intangibles . . . . .	—	(1,452,340)
Property and equipment . . . . .	(53,726)	—
Other . . . . .	—	(60,736)
Total deferred tax liabilities . . . . .	<u>(53,726)</u>	<u>(1,513,076)</u>
Net deferred tax liabilities . . . . .	<u>\$ —</u>	<u>\$ (1,452,339)</u>

During 2017, the Company adjusted its deferred tax liability by \$1,452,339 with an offset to goodwill in connection with the business combination accounting related to the AVM merger. In assessing the Company's ability to recover its deferred tax assets, the Company evaluated whether it is more likely than not that some portion or the entire deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Income Taxes (cont.)**

taxable income in those periods in which temporary differences become deductible and/or net operating losses can be utilized. The Company considered all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Based on these factors the Company determined that its deferred tax assets are not realizable on a more-likely-than-not basis and has recorded a valuation allowance against its net deferred tax assets. The valuation allowance on our total deferred tax assets was \$5,649,582 and \$4,307,813 for the years ended December 31, 2017 and 2016, respectively. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfy the realization standards, the valuation allowance will be reduced accordingly.

As of December 31, 2017, the Company had federal net operating loss carryforwards of approximately \$19.1 million which are set to expire beginning in 2028 through 2037 if not utilized. These net operating losses may be subject to an annual limitation under IRC Section 382.

The Company's effective tax rate differs from the U.S. federal statutory income tax rate of 34% as follows:

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Income tax (expense) benefit at federal statutory rate . . . . .	34.0%	34.0%
State and local taxes . . . . .	(2.6)%	11.0%
Federal tax reform . . . . .	(55.0)%	—%
Valuation allowance . . . . .	25.3%	185.7%
Payable true-up . . . . .	(3.8)%	—%
Other . . . . .	(1.9)%	(0.8)%
NOL adjustment . . . . .	—%	(229.9)%
Effective tax rate . . . . .	<u>(4.0)%</u>	<u>0.0%</u>

The U. S. Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017 and introduces significant changes to U.S. income tax law. Among other things, the TCJA (1) reduces the US statutory corporate income tax rate from 34% to 21% effective January 1, 2018 (2) eliminates the corporate alternative minimum tax (3) eliminates the Section 199 deduction (4) changes rules related to uses and limitations of net operating loss carryforwards beginning after December 31, 2017. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period which the new legislation is enacted. The Tax Act reduces the U.S. statutory corporate tax rate to 21%, effective January 1, 2018. The Company has recorded a provisional decrease in its deferred tax assets and liabilities of \$3,116,794 with an offsetting adjustment to our valuation allowance.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As we collect and prepare necessary data and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the Tax Act will be completed in 2018.

The Company applies the applicable authoritative guidance which prescribes a comprehensive model for the manner in which a company should recognize, measure, present and disclose in its financial statements all material uncertain tax positions that the Company has taken or expects to take on a tax return. As of December 31, 2017 the Company has no uncertain tax positions. There are no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months from December 31, 2017.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**7. Accrued Expenses and Other Current Liabilities**

The Company files federal income tax returns and income tax returns in various state tax jurisdictions. Tax years 2014 through 2017 remain open to examination by the IRS. The states have varying statutes of limitations.

Accrued expenses and other current liabilities consist of the following:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Compensation, benefits and payroll taxes . . . . .	\$ 310,775	\$ 311,845
Other accrued expenses. . . . .	94,871	160,561
Total accrued expenses and other current liabilities . . . . .	<u>\$ 405,646</u>	<u>\$ 472,406</u>

**8. Stockholders' Equity**

The 2011 Plan was terminated as to future awards on May 16, 2016. A total of 181,604 shares of the Company's common stock may be delivered pursuant to outstanding options awarded under the 2011 Plan; however, no additional awards may be granted under such plan. The 2016 Plan was adopted by the Company's stockholders on May 16, 2016 and permits the Company to award stock options (both incentive stock options and non-qualified stock options), stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other stock-based awards and cash-based incentive awards to its employees (including an employee who is also a director or officer under certain circumstances), non-employee directors and consultants. The maximum number of shares of common stock that may be issued pursuant to awards under the 2016 Plan is 1,300,000 shares, 100% of which may be issued pursuant to incentive stock options. In addition, the maximum number of shares of common stock that may be issued under the 2016 Plan may be increased by an indeterminate number of shares of common stock underlying outstanding awards issued under the 2011 Plan that are forfeited, expired, cancelled or settled in cash. As of December 31, 2017, there were 501,810 shares available for future issuance under the 2016 Plan.

*Stock Options*

The following table summarizes the assumptions used in the Black-Scholes pricing model to estimate the fair value of the options granted during the years ended:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Expected volatility . . . . .	116.1–159.0%	76.6–139.2%
Expected life of option . . . . .	5.0–7.0	5.5
Risk free interest rate . . . . .	1.7–2.2%	1.1%–1.8%
Expected dividend yield . . . . .	0.0%	0.0%

The expected life of the options is the period of time over which employees and non-employees are expected to hold their options prior to exercise. The expected life of options has been determined using the "simplified" method as prescribed by Staff Accounting Bulletin 110, which uses the midpoint between the vesting date and the end of the contractual term. The volatility of the Company's common stock is calculated using the Company's historical volatilities beginning at the grant date and going back for a period of time equal to the expected life of the award. The Company estimates potential forfeitures of stock awards and adjusts recorded stock-based compensation expense accordingly. The Company estimates pre-vesting forfeitures primarily based on the Company's historical experience and is adjusted to reflect actual forfeitures as the stock based awards vest.



**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stockholders' Equity (cont.)**

The following tables summarize stock option activity during the year ended December 31, 2017:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2017.....	573,110	\$ 6.94
Granted .....	611,522	3.75
Expired or canceled, during the period.....	(191,027)	6.64
Forfeited, during the period.....	(13,017)	6.00
Outstanding at December 31, 2017.....	<u>980,588</u>	<u>\$ 5.02</u>
Exercisable at December 31, 2017 .....	<u>448,890</u>	<u>\$ 8.36</u>

During the year ended December 31, 2017, the Company entered into option cancellation and release agreements with three employees, pursuant to which each of the parties agreed to cancel outstanding options to purchase an aggregate of 77,312 shares of common stock of the Company at exercise prices ranging from \$4.55 to \$21.00 per share. In exchange for the cancellation of the options, the Company granted the employees replacement options to purchase an aggregate of 64,600 shares of common stock of the Company at exercise prices ranging from \$3.36 to \$6.00 per share. The incremental value of the modified options compared to the original options, both valued on the respective modification date, of \$55,055 is being recognized over the vesting terms of the options.

On April 13, 2017, the Company's Board of Directors awarded Alexander Harrington, Chief Executive Officer, (i) a stock option representing the right to purchase 80,000 shares of common stock at an exercise price equal to \$3.63 per share, with the shares underlying this stock option vesting 25% on the six month anniversary of the date of grant and the remaining three tranches vesting on each of the first, second and third anniversaries of the first vesting date, and (ii) a stock option representing the right to purchase 24,000 shares of common stock at an exercise price equal to \$3.63 per share, with the shares underlying this stock option vesting based on the Company's achievement of certain performance goals related to its annual revenues. In addition, on April 13, 2017, the Company's Board of Directors awarded Jason Katz, Chief Operating Officer and Chairman of the Board of Directors, a stock option representing the right to purchase 70,000 shares of common stock at an exercise price equal to \$3.63 per share, with (i) 17,500 of the underlying shares vesting based on the Company's achievement of certain performance goals related to its earnings before interest, tax, depreciation, and amortization and (ii) 52,500 of the underlying shares vesting based on the Company's achievement of certain performance goals related to its annual revenues. Stock compensation expense recognized for these performance awards for the year ended December 31, 2017 was \$50,114.

On May 5, 2017, the Compensation Committee of the Company's Board of Directors awarded each of Mr. Harrington and Eric Sackowitz, Chief Technology Officer, a stock option representing the right to purchase 28,571 shares of common stock at an exercise price equal to \$3.36 per share. The shares underlying these stock options vest in four equal installments on each anniversary of the date of grant.

On December 31, 2017, the aggregate intrinsic value of stock options that were outstanding and exercisable was \$3,063,208 and \$1,175,244, respectively. The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the fair value of such awards as of the period-end date.

During the year ended December 31, 2017, the Company granted options to employees to purchase an aggregate of 611,522 of common stock. These options vest between one and four years and have a term of ten years and have a weighted average exercise price of \$3.75.

The aggregate fair value for the options granted during the years ended December 31, 2017 and 2016 was \$1,740,578 and \$682,740, respectively.

At December 31, 2017, there was \$1,581,586 of total unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of 2.68 years.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Stockholders' Equity (cont.)**

Stock-based compensation expense for the Company's stock options included in the consolidated statements of operations is as follows:

	<b>Year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cost of revenue . . . . .	\$ 4,302	\$ 117,147
Sales and marketing expense . . . . .	1,784	—
Product development expense . . . . .	166,783	—
General and administrative expense . . . . .	665,556	50,599
Total stock-based compensation expense . . . . .	<u>\$ 838,425</u>	<u>\$ 167,746</u>

*Restricted Stock Awards*

The following table summarizes restricted stock award activity for the year ended December 31, 2017:

	<b>Number of Restricted Stock Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at January 1, 2017 . . . . .	264,286	\$ 20.29
Granted . . . . .	—	—
Forfeited or canceled, during the period . . . . .	(43,405)	20.29
Vested . . . . .	(62,310)	20.29
Outstanding at December 31, 2017 . . . . .	<u>158,571</u>	<u>\$ 20.29</u>

At December 31, 2017, there was \$1,297,617 of total unrecognized compensation expense related to restricted stock, which is expected to be recognized over a weighted average period of 1.8 years.

Stock-based compensation expense relating to restricted stock awards for the years ended December 31, 2017 and 2016 was \$741,496 and \$185,374, respectively, which is included in general and administrative expense in our consolidated financial statements.

On October 7, 2017, an aggregate of 105,715 shares of restricted stock held by Clifford Lerner, a member of the Company's Board of Directors, vested. Pursuant to the terms of Mr. Lerner's restricted stock awards, the Company withheld and subsequently canceled an aggregate of 43,405 of the vesting shares of restricted stock to satisfy Mr. Lerner's tax withholding obligations incurred in connection with the vesting of the shares of restricted stock.

*Common Stock*

On April 7, 2017, the Company executed and filed with the Secretary of State of the State of Delaware an amendment to the Company's Certificate of Incorporation, as amended, to increase the total number of shares of common stock authorized for issuance to 25,000,000.

On December 19, 2017, the Company entered into a securities purchase agreement with Hershey Strategic Capital, LP, pursuant to which we issued and sold 200,000 shares of our common stock to Hershey Capital for an aggregate purchase price of \$1,000,000, or \$5.00 per share, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The Company intends to use the proceeds from the offering for general corporate purposes, including the development of our blockchain product initiatives.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Net (Loss) Income Per Share**

Basic and diluted net (loss) income per common share are computed by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted net (loss) income per share includes the determinants of basic net (loss) income per share and, in addition, gives effect to the common stock potentially issuable under vested and unvested stock options, except where the effect of including them is anti-dilutive.

The following table summarizes the net loss per share calculation:

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Net loss – basic and diluted .....	<u>\$ (5,894,253)</u>	<u>\$ (1,452,776)</u>
Weighted average shares outstanding – basic and diluted .....	<u>6,452,581</u>	<u>5,577,856</u>
Per share data:		
Basic and diluted .....	<u>\$ (0.91)</u>	<u>\$ (0.26)</u>

For the periods where the Company reported losses, all common stock equivalents are excluded from the computation of diluted loss per share, since the result would be anti-dilutive. Common stock equivalents not included in the calculations of diluted loss per share because to do so would have been anti-dilutive, include stock options of 980,588 and 573,110 for the years ended December 31, 2017 and 2016, respectively.

**10. Commitments and contingencies**

*Operating Lease Agreements*

As result of the Merger, the Company entered into a lease for office space located at 320 W 37th Street, 13th Floor, New York, NY 10018. The term of the lease originally ran until March 4, 2022. The Company's monthly office rent payments under the lease were approximately \$26,000 per month. On March 3, 2017, the Company entered into an agreement to terminate the lease for this office space. Under the terms of the lease termination agreement, the Company vacated the offices by May 31, 2017 and agreed to forfeit its security deposit of \$200,659.

On January 18, 2016, the Company entered into a lease agreement for office space located at 122 East 42nd Street in New York, NY and paid a security deposit in the amount of \$37,000. The term of the lease runs until May 30, 2019. The Company's monthly office rent payments under the lease are currently approximately \$12,300 per month and escalate on an annual basis for each year of the term of the lease thereafter.

On June 7, 2016, the Company entered into a lease agreement with Jericho Executive Center LLC for office space at 30 Jericho Executive Plaza in Jericho, New York which commenced on September 1, 2016 and runs through November 30, 2021. The Company's monthly office rent payments under the lease are currently approximately \$5,900 per month.

On September 18, 2017, the Company entered into a lease agreement for a second office space located at 122 East 42nd Street in New York, NY and expires in July 31, 2019 and paid a security deposit in the amount of \$8,000. The term of the lease runs until July 31, 2019. Our monthly office rent payments under the lease are currently approximately \$4,000 per month.

On October 27, 2017, the Company entered into a lease agreement for an office space located at Sparks-Ledesma House 1306 East 7th Street in Austin, TX and expires in October 31, 2018. Our monthly office rent payments under the lease are currently approximately \$1,129 per month.

The Company accounts for rent expense using the straight line method of accounting, deferring the difference between actual rent due and the straight line amount.

**PEERSTREAM, INC.**  
**(F/K/A SNAP INTERACTIVE, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. Commitments and contingencies (cont.)**

On December 31, 2017, future minimum payments under non-cancelable operating leases were as follows:

<b>For the years ending December 31,</b>	<b>Amount</b>
2018.....	\$ 264,697
2019.....	228,493
2020.....	71,070
2021.....	65,148
Total .....	<u>\$ 629,408</u>

*Legal Proceedings*

On December 16, 2016, a wholly owned subsidiary of the Company, Paltalk Holdings, Inc., filed a patent infringement lawsuit in Delaware against Riot Games, Inc. and Valve Corporation for infringement of U.S. Patent Nos. 5,822,523 and 6,226,686 with respect to their online games League of Legends and Defense of the Ancients 2. These two patents were previously asserted against, and then licensed to, Microsoft, Sony, and Activision. In 2018, Valve Corporation made a motion to move the litigation from Delaware to the Western District of Washington which was granted by the court.

Riot Games, Inc. has filed a total of four *inter partes* reviews at the patent office, two per patent held by Paltalk Holdings, Inc., seeking to have the Paltalk Holdings, Inc. patents declared invalid. The patent office has not ruled on these motions.

The Company may be included in legal proceedings, claims and assessments arising in the ordinary course of business. The Company evaluates the need for a reserve for specific legal matters based on the probability of an unfavorable outcome and the reasonability of an estimable loss. No reserve was deemed necessary as of December 31, 2017.

**11. Subsequent Events**

*Name Change*

Effective March 12, 2018, the Company changed its name from “Snap Interactive, Inc.” to “PeerStream, Inc.” In connection with the name change, the Company also changed its trading symbol on the OTCQB Marketplace from “STVI” to “PEER.” The new brand is intended to honor the Company’s legacy of empowering consumers to meet new people and connect with peers via social video applications, while also referencing the anticipated importance of peer-to-peer networks and multimedia streaming in the Company’s future.

*ProximaX Agreement*

On March 21, 2018, as a first step in providing services through PeerStream Business Solutions, the Company entered into a technology services agreement with ProximaX Limited (“ProximaX”) whereby the Company agreed to provide certain development and related services to ProximaX to facilitate the implementation of PSP into ProximaX’s proprietary blockchain protocol that is currently under development. Pursuant to the terms of the agreement, ProximaX agreed to pay the Company up to an aggregate of \$10.0 million of cash in exchange for the Company’s services, with \$5.0 million due upon the successful consummation of a future initial coin offering by ProximaX and up to an additional \$5.0 million due upon the Company’s achievement of certain development milestones set forth in the agreement. In addition, ProximaX agreed to issue the Company a number of tokens equal to 2.4% of all outstanding tokens on the date of the planned initial coin offering and to reserve an additional 2% of such tokens to be issued as payment for future services provided by the Company, subject, in each case, to such initial coin offering generating aggregate gross proceeds of at least \$30.0 million. If the planned initial coin offering does not raise at least \$30.0 million or ProximaX fails to pay the Company the upfront cash payment of \$5.0 million by June 1, 2018, the Company and ProximaX have agreed to negotiate alternative compensation for the Company’s services in good faith.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### ***Evaluation of Disclosure Controls and Procedures***

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized, recorded and reported; and (2) our assets are safeguarded against unauthorized or improper use, to permit the preparation of our consolidated financial statements in conformity with GAAP.

Our management, including our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on the evaluation as of December 31, 2017, for the reasons set forth below, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### ***Management's Annual Report on Internal Control Over Financial Reporting.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act). Our internal control system was designed to, in general, provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements, but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our chief executive officer and chief financial officer evaluated the effectiveness of our internal control over financial reporting as of December 31, 2017, and based on that evaluation, management concluded that our internal control over financial reporting was effective. Therefore, our management, including our chief executive officer and chief financial officer, have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management to allow timely decisions regarding required disclosures.

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

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2017 (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required in response to this Item 10 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required in response to this Item 11 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required in response to this Item 12 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required in response to this Item 13 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required in response to this Item 14 is incorporated herein by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following are filed as part of this Annual Report:

1. Financial Statements

The financial statements filed as part of this Annual Report are included in “Item 8. Financial Statements and Supplementary Data.”

2. Financial Statement Schedules

All schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the Notes thereto.

3. Exhibits

The following exhibits are required by Item 601 of Regulation S-K.

(a) Documents filed as part of this Annual Report.

1. Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2017 and 2016

Consolidated Statements of Operations for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017 and 2016

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

3. Exhibits required to be filed by Item 601 of Regulation S-K

The following exhibits are filed herewith:

2.1# Agreement and Plan of Merger, dated September 13, 2016, by and among PeerStream, Inc., SAVM Acquisition Corporation, A.V.M. Software, Inc. and Jason Katz (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of the Company filed on September 14, 2016 by the Company with the SEC).

2.2# Agreement and Plan of Merger, dated as of September 6, 2017, by and among LiveXLive Media, Inc., LXL Video Acquisition Corp., PeerStream, Inc. and Jason Katz (as the Stockholders' Agent) (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of the Company filed September 8, 2017 by the Company with the SEC).

2.3# Amendment No. 1, dated as of October 3, 2017, to the Agreement and Plan of Merger, dated as of September 6, 2017, by and among LiveXLive Media, Inc., LXL Video Acquisition Corp., PeerStream, Inc. and Jason Katz (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of the Company filed October 10, 2017 by the Company with the SEC).

2.4# Amendment No. 2, dated as of October 10, 2017, to the Agreement and Plan of Merger, dated as of September 6, 2017, by and among LiveXLive Media, Inc., LXL Video Acquisition Corp., PeerStream, Inc. and Jason Katz (incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K of the Company filed October 10, 2017 by the Company with the SEC).

3.1 Certificate of Incorporation, dated July 19, 2005 (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-172202) of the Company filed February 11, 2011 by the Company with the SEC).

3.2 Certificate of Amendment to Certificate of Incorporation, dated November 20, 2007 (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-172202) of the Company filed February 11, 2011 by the Company with the SEC).

- 3.3 Certificate of Amendment to Certificate of Incorporation, dated March 8, 2016 (incorporated by reference to Exhibit 3.3 to the Annual Report on Form 10-K of the Company filed on March 14, 2016 by the Company with the SEC).
- 3.4 Certificate of Amendment to Certificate of Incorporation, dated May 19, 2016 (incorporated by reference to Exhibit 3.4 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 3.5 Certificate of Amendment to Certificate of Incorporation, dated January 5, 2017 (incorporated by reference to Exhibit 3.5 to the Annual Report on Form 10-K filed on March 28, 2017 by the Company with the SEC).
- 3.6 Certificate of Amendment to Certificate of Incorporation, dated May 25, 2017 (incorporated by reference to Exhibit 3.6 to the Quarterly Report on Form 10-Q of the Company filed on August 8, 2017 by the Company with the SEC).
- 3.7 Certificate of Amendment to Certificate of Incorporation, effective March 12, 2018 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of the Company filed on March 13, 2018 by the Company with the SEC).
- 3.8 Amended and Restated By-Laws of PeerStream, Inc., as amended April 19, 2012 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 000-52176) of the Company filed April 25, 2012 by the Company with the SEC).
- 3.9 Amendment No. 1 to the Amended and Restated By-Laws of PeerStream, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of the Company filed September 8, 2017 by the Company with the SEC).
- 3.10 Amendment No. 2 to the Amended and Restated By-Laws of PeerStream, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of the Company filed on March 13, 2018 by the Company with the SEC).
- 10.1 Statement of Rights and Responsibilities, by and between PeerStream, Inc. and Facebook Inc. (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K (File No. 000-52176) filed March 31, 2011 by the Company with the SEC).
- 10.2 Registered Apple Developer Agreement, by and between PeerStream, Inc. and Apple Inc. (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K (File No. 000-52176) filed March 31, 2011 by the Company with the SEC).
- 10.3 iOS Developer Program License Agreement, by and between PeerStream, Inc. and Apple Inc. (incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K (File No. 000-52176) filed March 31, 2011 by the Company with the SEC).
- 10.4† Amended and Restated PeerStream, Inc. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 000-52176) of the Company filed on November 14, 2011 by the Company with the SEC).
- 10.5† Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 99.2 to the Registration Statement on Form S-8 (File No. 333-174456) of the Company filed on May 24, 2011 by the Company with the SEC).
- 10.6† Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 99.3 to the Registration Statement on Form S-8 (File No. 333-174456) of the Company filed on May 24, 2011 by the Company with the SEC).
- 10.7† Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 99.4 to the Registration Statement on Form S-8 (File No. 333-174456) of the Company filed on May 24, 2011 by the Company with the SEC).

- 10.8† Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 000-52176) of the Company filed on November 14, 2011 by the Company with the SEC).
- 10.9† PeerStream, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on May 16, 2016 by the Company with the SEC).
- 10.10† First Amendment to PeerStream, Inc. 2016 Long Term Incentive Plan, dated as of April 10, 2017 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on May 30, 2017 by the Company with the SEC).
- 10.11† Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 10.12† Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 10.13† Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 10.14† Executive Employment Agreement, dated February 28, 2014, by and between Alexander Harrington and PeerStream, Inc. (incorporated by reference to Exhibit 10.21 to the Post-Effective Amendment No. 4 to the Registration Statement on Form S-1 of the Company filed on March 25, 2014 by the Company with the SEC).
- 10.15† First Amendment to Executive Employment Agreement, effective as of March 19, 2015, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on March 25, 2015 by the Company with the SEC).
- 10.16† Second Amendment to Executive Employment Agreement, effective as of October 13, 2015, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on October 14, 2015 by the Company with the SEC).
- 10.17† Third Amendment to Executive Employment Agreement, effective as of March 3, 2016, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on March 7, 2016 by the Company with the SEC).
- 10.18† Fourth Amendment to Executive Employment Agreement, dated October 7, 2016, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.19† Option Cancellation and Release Agreement, effective as of October 13, 2015, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of the Company filed on October 14, 2015 by the Company with the SEC).
- 10.20† Nonqualified Stock Option Agreement, dated as of October 13, 2015, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of the Company filed on October 14, 2015 by the Company with the SEC).
- 10.21† Nonqualified Stock Option Agreement, dated as of April 13, 2017, by and between PeerStream, Inc. and Alexander Harrington (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on April 19, 2017 by the Company with the SEC).
- 10.22† Executive Employment Agreement, dated October 7, 2016, by and between PeerStream, Inc. and Jason Katz (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.23† Executive Employment Agreement, dated November 14, 2016, by and between PeerStream, Inc. and Judy Krandel (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on November 16, 2016 by the Company with the SEC).

- 10.24† Employment Agreement, dated October 7, 2016, by and between PeerStream, Inc. and Clifford Lerner (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.25† Restricted Stock Award Agreement, dated as of December 14, 2011, by and between PeerStream, Inc. and Clifford Lerner (incorporated by reference to Exhibit 99.1 to the Amendment No. 1 to Schedule 13D of Mr. Lerner filed on December 19, 2011 by Mr. Lerner with the SEC).
- 10.26† Restricted Stock Cancellation and Release Agreement, dated as of March 3, 2016, by and between Clifford Lerner and PeerStream, Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed on March 7, 2016 by the Company with the SEC).
- 10.27† Restricted Stock Award Agreement, dated as of March 3, 2016, by and between Clifford Lerner and PeerStream, Inc. (incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K filed March 14, 2016 by the Company with the SEC).
- 10.28† First Amendment to Restricted Stock Award Agreement, dated October 7, 2016, by and between PeerStream, Inc. and Clifford Lerner (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.29† First Amendment to Restricted Stock Award Agreement, dated October 7, 2016, by and between PeerStream, Inc. and Clifford Lerner (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.30† Employment Agreement, dated May 5, 2017, by and between PeerStream, Inc. and Eric Sackowitz (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on May 11, 2017 by the Company with the SEC).
- 10.31† Option Cancellation and Release Agreement, dated May 5, 2017, by and between PeerStream, Inc. and Eric Sackowitz (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed on May 11, 2017 by the Company with the SEC).
- 10.32 Exchange Agreement, dated July 13, 2016, by and among PeerStream, Inc., Sigma Opportunity Fund II, LLC and Sigma Capital Advisors, LLC (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 10.33 Subordinated Multiple Advance Term Note, dated July 18, 2016, by and between PeerStream, Inc. and A.V.M. Software, Inc. (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 10.34 Security Agreement, dated July 18, 2016, by and between PeerStream, Inc. and A.V.M. Software, Inc. (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of the Company filed on August 11, 2016 by the Company with the SEC).
- 10.35 Escrow Agreement, dated October 7, 2016, by and among PeerStream, Inc., Jason Katz and Corporate Stock Transfer, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.36 Registration Rights Agreement, dated October 7, 2016, by and between PeerStream, Inc. and Clifford Lerner (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed on October 11, 2016 by the Company with the SEC).
- 10.37† Form of Indemnification Agreement executed by Jason Katz, Alexander Harrington, Yoram “Rami” Abada, Lance Laifer, Clifford Lerner, Michael Levit and John Silberstein. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on February 15, 2017 by the Company with the SEC).
- 10.38 Securities Purchase Agreement, dated December 19, 2017, by and between PeerStream, Inc. and Hershey Strategic Capital, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed on December 20, 2017 by the Company with the SEC).

- 10.39 Agreement of Lease, dated February 4, 2015 by and between PeerStream, Inc. and 320 W 37 LLC (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of the Company filed on March 5, 2015 by the Company with the SEC).
- 10.40 Lease Cancellation Agreement, dated as of March 3, 2017, by and between PeerStream, Inc. and 320 W 37 LLC (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of the Company filed on May 11, 2017 by the Company with the SEC).
- 10.41\* Technology Services Agreement, dated as of March 21, 2018, by and between PeerStream, Inc. and ProximaX Limited.
- 21.1\* Subsidiaries of the Company.
- 23.1\* Consent of Marcum LLP.
- 31.1\* Certification of the Chief Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of the Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of the Chief Executive Officer and Chief Financial Officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Stockholders' (Deficit) Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Financial Statements.
- 
- # Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. PeerStream, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.
- † Management contract or compensatory plan arrangement.
- \* Filed herewith.
- \*\* The certification attached as Exhibit 32.1 is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of PeerStream, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of the Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

## ITEM 16. FORM 10-K SUMMARY

Not applicable.

## SIGNATURES

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

Dated: March 22, 2018

**PEERSTREAM, INC.**

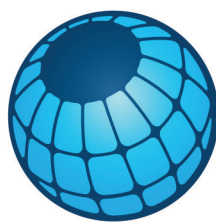
By: /s/ Alexander Harrington

Alexander Harrington  
Chief Executive Officer  
(Principal Executive Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Alexander Harrington</u> Alexander Harrington	Chief Executive Officer and Director (Principal Executive Officer)	March 22, 2018
<u>/s/ Judy Krandel</u> Judy Krandel	Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)	March 22, 2018
<u>/s/ Jason Katz</u> Jason Katz	President, Chief Operating Officer, Chairman Of the Board, Director	March 22, 2018
<u>/s/ Yoram "Rami" Abada</u> Yoram "Rami" Abada	Director	March 22, 2018
<u>/s/ Michael Jones</u> Michael Jones	Director	March 22, 2018
<u>/s/ Lance Laifer</u> Lance Laifer	Director	March 22, 2018
<u>/s/ Clifford Lerner</u> Clifford Lerner	Director	March 22, 2018
<u>/s/ Michael Levit</u> Michael Levit	Director	March 22, 2018
<u>/s/ John Silberstein</u> John Silberstein	Director	March 22, 2018





**PEERSTREAM**

[www.peerstream.com](http://www.peerstream.com)

**PeerStream, Inc**

122 E. 42nd St., Suite 2600

New York, NY 10168

[IR@peerstream.com](mailto:IR@peerstream.com)