

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2019

Remark Holdings

Commission File Number 001-33720
Remark Holdings, Inc.

Delaware
State of Incorporation

33-1135689
IRS Employer Identification Number

3960 Howard Hughes Parkway, Suite 900
Las Vegas, NV 89169

Address, including zip code, of principal executive offices

702-701-9514

Registrant's telephone number, including area code

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value per share	MARK	The NASDAQ Stock Market LLC

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 8, 2019, a total of 49,055,159 shares of our common stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q include “forward-looking statements” about the plans, strategies, objectives, goals or expectations of Remark Holdings, Inc. and subsidiaries (“Remark”, “we”, “us”, “our”). You will find forward-looking statements principally in the sections entitled [Risk Factors](#) and [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#). Such forward-looking statements are identifiable by words or phrases indicating that Remark or management “expects,” “anticipates,” “plans,” “believes,” or “estimates,” or that a particular occurrence or event “will,” “may,” “could,” “should,” or “will likely” result, occur or be pursued or “continue” in the future, that the “outlook” or “trend” is toward a particular result or occurrence, that a development is an “opportunity,” “priority,” “strategy,” “focus,” that we are “positioned” for a particular result, or similarly-stated expectations. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report or such other report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this report and other periodic reports filed with the Securities and Exchange Commission (“SEC”), there are many important factors that could cause actual results to differ materially. Such risks and uncertainties include general business conditions, changes in overall economic conditions, our ability to integrate acquired assets, the impact of competition and other factors which are often beyond our control.

This should not be construed as a complete list of all of the economic, competitive, governmental, technological and other factors that could adversely affect our expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business, operations, liquidity, financial condition and prospects. We undertake no obligation to update or revise our forward-looking statements to reflect developments that occur or information that we obtain after the date of this report.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REMARK HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(dollars in thousands, except share and per share amounts)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	<u>(Unaudited)</u>	
Assets		
Cash and cash equivalents	\$ 656	\$ 1,410
Trade accounts receivable, net	3,792	5,762
Prepaid expense and other current assets	6,233	7,907
Notes receivable, current	—	100
Assets of disposal group, current	—	28,966
Total current assets	<u>10,681</u>	<u>44,145</u>
Property and equipment, net	1,591	2,075
Operating lease assets	5,294	—
Investment in unconsolidated affiliates	1,920	2,005
Intangibles, net	752	1,010
Other long-term assets	1,245	450
Assets of disposal group, long-term	—	44,123
Total assets	<u>\$ 21,483</u>	<u>\$ 93,808</u>
Liabilities and Stockholders' Deficit		
Accounts payable	\$ 7,585	\$ 5,675
Accrued expense and other current liabilities	12,861	16,812
Contract liability	312	132
Note payable	3,000	3,000
Loans payable, current, net of unamortized discount and debt issuance cost	11,632	35,314
Liabilities of disposal group, current	—	41,648
Total current liabilities	<u>35,390</u>	<u>102,581</u>
Operating lease liabilities, long-term	5,436	—
Warrant liability	881	1,383
Other liabilities	—	2,934
Liabilities of disposal group, long-term	—	34
Total liabilities	<u>41,707</u>	<u>106,932</u>
Commitments and contingencies (Note 14)		
Preferred stock, \$0.001 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 48,430,159 and 39,053,312 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	48	39
Additional paid-in-capital	317,732	308,018
Accumulated other comprehensive income	(224)	32
Accumulated deficit	(337,780)	(321,213)
Total stockholders' deficit	<u>(20,224)</u>	<u>(13,124)</u>
Total liabilities and stockholders' deficit	<u>\$ 21,483</u>	<u>\$ 93,808</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

REMARK HOLDINGS, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss
(dollars in thousands, except per share amounts)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	\$ 686	\$ 1,755	\$ 4,760	\$ 7,468
Cost and expense				
Cost of revenue (excluding depreciation and amortization)	189	1,231	3,323	5,778
Sales and marketing	736	1,108	2,282	3,165
Technology and development	752	1,459	2,910	3,550
General and administrative	3,052	3,760	8,483	25,410
Depreciation and amortization	229	520	814	1,657
Other operating expense	—	47	6	93
Total cost and expense	<u>4,958</u>	<u>8,125</u>	<u>17,818</u>	<u>39,653</u>
Operating loss	(4,272)	(6,370)	(13,058)	(32,185)
Other income (expense)				
Interest expense	(457)	(345)	(1,397)	(1,017)
Other income (expense), net	(24)	—	23	44
Change in fair value of warrant liability	(160)	3,525	502	22,190
Other gain (loss), net	(28)	(16)	(27)	507
Total other income (expense), net	<u>(669)</u>	<u>3,164</u>	<u>(899)</u>	<u>21,724</u>
Loss from continuing operations before income taxes	(4,941)	(3,206)	(13,957)	(10,461)
Benefit from income taxes	—	442	—	1,437
Loss from continuing operations	\$ (4,941)	\$ (2,764)	\$ (13,957)	\$ (9,024)
Loss from discontinued operations, net of tax (Note 17)	—	(1,001)	(2,610)	(5,415)
Net loss	<u>\$ (4,941)</u>	<u>\$ (3,765)</u>	<u>\$ (16,567)</u>	<u>\$ (14,439)</u>
Other comprehensive income (loss)				
Foreign currency translation adjustments	(289)	(82)	(256)	(67)
Comprehensive loss	<u>\$ (5,230)</u>	<u>\$ (3,847)</u>	<u>\$ (16,823)</u>	<u>\$ (14,506)</u>
Weighted-average shares outstanding, basic and diluted	<u>46,282</u>	<u>35,463</u>	<u>43,085</u>	<u>33,608</u>
Net loss per share, basic and diluted				
Continuing operations	\$ (0.11)	\$ (0.08)	\$ (0.32)	\$ (0.27)
Discontinued operations	—	(0.03)	(0.06)	(0.16)
Consolidated	<u>\$ (0.11)</u>	<u>\$ (0.11)</u>	<u>\$ (0.38)</u>	<u>\$ (0.43)</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

REMARK HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Deficit
(in thousands, except number of shares)

Three Months Ended September 30, 2019

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at June 30, 2019	46,130,159	\$ 46	\$ 315,829	\$ 65	\$ (332,839)	\$ (16,899)
Net loss	—	—	—	—	(4,941)	(4,941)
Share-based compensation	—	—	65	—	—	65
Common stock sales	2,300,000	2	1,838	—	—	1,840
Other	—	—	—	(289)	—	(289)
Balance at September 30, 2019	48,430,159	\$ 48	\$ 317,732	\$ (224)	\$ (337,780)	\$ (20,224)

Three Months Ended September 30, 2018

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at June 30, 2018	33,145,199	\$ 33	\$ 293,164	\$ 130	\$ (310,329)	\$ (17,002)
Net loss	—	—	—	—	(3,765)	(3,765)
Share-based compensation	—	—	844	—	—	844
Common stock sales	3,308,812	3	9,965	—	—	9,968
Equity instrument exercises	14,685	—	33	—	—	33
Other	—	—	—	(82)	—	(82)
Balance at September 30, 2018	36,468,696	\$ 36	\$ 304,006	\$ 48	\$ (314,094)	\$ (10,004)

Nine Months Ended September 30, 2019

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2018	39,053,312	\$ 39	\$ 308,018	\$ 32	\$ (321,213)	\$ (13,124)
Net loss	—	—	—	—	(16,567)	(16,567)
Share-based compensation	—	—	379	—	—	379
Common stock sales	9,374,597	9	9,331	—	—	9,340
Equity instrument exercises	2,250	—	4	—	—	4
Other	—	—	—	(256)	—	(256)
Balance at September 30, 2019	48,430,159	\$ 48	\$ 317,732	\$ (224)	\$ (337,780)	\$ (20,224)

Nine Months Ended September 30, 2018

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2017	28,406,026	\$ 28	\$ 220,117	\$ 115	\$ (299,848)	\$ (79,588)
Net loss	—	—	—	—	(14,439)	(14,439)
Effect of adopting new revenue recognition policy	—	—	—	—	193	193
Share-based compensation	—	—	13,079	—	—	13,079
Common stock sales	3,308,812	3	9,965	—	—	9,968
Equity instrument exercises	4,753,858	5	60,887	—	—	60,892
Reclassification of liability-classified stock-based compensation	—	—	(12)	—	—	(12)
Other	—	—	(30)	(67)	—	(97)

Balance at September 30, 2018	36,468,696	\$	36	\$	304,006	\$	48	\$	(314,094)	\$	(10,004)
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REMARK HOLDINGS, INC. AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows
(dollars in thousands)

	Nine Months Ended September 30,	
	2019	2018
Net cash used in continuing operating activities	\$ (10,748)	\$ (16,963)
Net cash used in discontinued operating activities	(7,159)	(1,728)
Net cash used in operating activities	(17,907)	(18,691)
Cash flows from investing activities:		
Proceeds from sale of business	30,000	—
Proceeds from disposition of assets	—	629
Purchases of property, equipment and software	(5)	(396)
Payment of payroll costs capitalized to software in progress	(127)	(346)
Acquisition of unconsolidated affiliate	—	(480)
Net cash provided by (used in) continuing investing activities	29,868	(593)
Net cash used in discontinued investing activities	(18,396)	(1,986)
Net cash provided by (used in) investing activities	11,472	(2,579)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	9,344	10,951
Payment of loan fees and debt issuance cost	(2,275)	(1,526)
Repayments of debt	(25,526)	—
Payment of contingent consideration in business acquisitions	—	(900)
Net cash provided by (used in) financing activities	(18,457)	8,525
Net change in cash, cash equivalents and restricted cash	(24,892)	(12,745)
Cash, cash equivalents and restricted cash:		
Beginning of period, including cash in disposal group	25,548	34,302
End of period	\$ 656	\$ 21,557
Supplemental cash flow information:		
Cash paid for interest	\$ 2,211	\$ 3,426
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock upon warrant exercise	\$ —	\$ 59,907
Capitalization of interest to debt principal	\$ 555	\$ —
Common stock subscription payable	\$ —	\$ 520
Increase in loan payable	\$ 1,103	\$ —

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. ORGANIZATION AND BUSINESS

Organization and Business

Remark Holdings, Inc. and subsidiaries (“Remark”, “we”, “us”, or “our”), which include its consolidated variable-interest entities (“VIEs”), are primarily technology-focused. Our KanKan data intelligence platform serves as the basis for our development and deployment of artificial-intelligence-based solutions for businesses in many industries and geographies. We also own and operate digital media properties that deliver relevant, dynamic content and e-commerce solutions. Our common stock is listed on the Nasdaq Capital Market under the ticker symbol MARK.

Going Concern

During the nine months ended September 30, 2019, and in each fiscal year since our inception, we have incurred net losses which have resulted in an accumulated deficit of \$337.8 million as of September 30, 2019. Additionally, our operations have historically used more cash than they have provided. Net cash used in continuing operating activities was \$10.7 million during the nine months ended September 30, 2019. As of September 30, 2019, our cash and cash equivalents balance was \$0.7 million, and we had a negative working capital balance of \$24.7 million.

On March 29, 2019, we entered into a common stock purchase agreement (the “2019 Aspire Purchase Agreement”) with Aspire Capital Fund, LLC (“Aspire Capital”), which provides that, upon the terms and subject to the conditions and limitations set forth therein, we have the right to direct Aspire Capital to purchase up to an aggregate of \$30.0 million of shares of our common stock over the 30-month term of the 2019 Aspire Purchase Agreement. The 2019 Aspire Purchase Agreement, which we describe in more detail in [Note 15](#), terminated and replaced the common stock purchase agreement we had entered into with Aspire Capital on July 2, 2018 (the “2018 Aspire Purchase Agreement”).

Concurrently with entering into the 2019 Aspire Purchase Agreement, we also entered into a registration rights agreement with Aspire Capital, in which we agreed to file with the Securities and Exchange Commission (the “SEC”) one or more registration statements, as necessary, and to the extent permissible and subject to certain exceptions, to register under the Securities Act of 1933, as amended, the sale of the shares of our common stock that may be issued to Aspire Capital under the 2019 Aspire Purchase Agreement. We have filed with the SEC a prospectus supplement to our effective shelf Registration Statement on Form S-3 (File No. 333-225448) registering all of the shares of common stock that may be offered to Aspire Capital from time to time under the 2019 Aspire Purchase Agreement.

As of September 30, 2019, we have issued to Aspire Capital a total of 2,504,370 shares of our common stock under the 2019 Aspire Purchase Agreement. During the nine months ended September 30, 2019, we issued a total of 9,374,597 shares of our common stock to private investors and to Aspire Capital under the 2018 Aspire Purchase Agreement and the 2019 Aspire Purchase Agreement in exchange for approximately \$9.3 million plus Aspire Capital’s commitment to participate in the 2019 Aspire Purchase Agreement.

We are a party to a financing agreement dated as of September 24, 2015 (as amended, the “Financing Agreement”) with certain of our subsidiaries as borrowers (together with Remark, the “Borrowers”), certain of our subsidiaries as guarantors (the “Guarantors”), the lenders from time to time party thereto (the “Lenders”) and MGG Investment Group LP (“MGG”), in its capacity as collateral agent and administrative agent for the Lenders, pursuant to which the Lenders extended credit to the Borrowers consisting of a term loan in the aggregate principal amount of \$35.5 million (the “Loan”). The terms of the Financing Agreement, the amendments thereto, and related documents effective as of September 30, 2019 are described in [Note 12](#), which also describes our ongoing events of default relating to our failure to make certain required payments under the Financing Agreement as well as certain other ongoing events of default.

On May 15, 2019, we completed the sale of all of the issued and outstanding membership interests of Vegas.com, LLC (“Vegas.com”), pursuant to a Membership Interest Purchase Agreement, dated as of March 15, 2019, with VDC-MGG Holdings LLC, an affiliate of MGG, for an aggregate purchase price of \$30 million (the “VDC Transaction”). The cash proceeds of the VDC Transaction were used to pay amounts due under the Financing Agreement, of which approximately \$10 million remained outstanding after giving effect to the application of such cash proceeds.

Our history of recurring operating losses, working capital deficiencies and negative cash flows from operating activities, in conjunction with the ongoing events of default under the Financing Agreement, give rise to substantial doubt regarding our ability to continue as a going concern.

We intend to fund our future operations and meet our financial obligations through revenue growth in our Technology and Data Intelligence segment; however, we cannot provide assurance that revenue, income and cash flows generated from our businesses will be sufficient to sustain our operations in the twelve months following the filing of this Form 10-Q (including but not limited to payment of the amounts required under the Financing Agreement). As a result, we are actively evaluating strategic alternatives including debt refinancing and potential sales of investment assets or operating businesses. However, we may need to obtain additional capital through equity financing.

Conditions in the debt and equity markets, as well as the volatility of investor sentiment regarding macroeconomic and microeconomic conditions, will play primary roles in determining whether we can successfully obtain additional capital. Additionally, pursuant to the Financing Agreement, we are subject to certain limitations on our ability and the ability of our subsidiaries to, among other things, incur additional debt and transfer, sell or otherwise dispose of assets, without the consent of the Lenders. We cannot be certain that we will be successful at raising additional capital.

A variety of factors, many of which are outside of our control, affect our cash flow; those factors include regulatory issues, competition, financial markets and other general business conditions. Based on financial projections, we believe that we will be able to meet our ongoing requirements for at least the next 12 months (including the amounts required under the Financing Agreement, based on the current status of discussions with the Lenders regarding ongoing events of default) with existing cash, cash equivalents and cash resources, and based on the probable success of one or more of the following plans:

- monetize existing assets
- refinance our debt
- obtain additional capital through equity issuances, including but not limited to equity issuances to Aspire Capital under its existing purchase commitment (which equity issuances may dilute existing stockholders)

However, projections are inherently uncertain and the success of our plans is largely outside of our control. As a result, there is substantial doubt regarding our ability to continue as a going concern, and we may fully utilize our cash resources prior to November 12, 2020.

Comparability

We have reclassified certain amounts in our September 30, 2018 unaudited condensed consolidated financial statements to conform to the current presentation as of September 30, 2019. Specifically, we have changed how we present operating expense to better reflect the activities that generate such expense. Neither total stockholders' deficit as of September 30, 2018 nor net loss or cash flows for the three and nine months ended September 30, 2018 changed because of the reclassifications.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We prepared the accompanying unaudited Condensed Consolidated Balance Sheet as of September 30, 2019, with the audited Consolidated Balance Sheet amounts as of December 31, 2018 presented for comparative purposes, and the related unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss, the Condensed Consolidated Statements of Cash Flows and the Condensed Consolidated Statements of Stockholders' Deficit in accordance with the instructions for Form 10-Q. In compliance with those instructions, we have omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

Our results of operations and our cash flows as of the end of the interim periods reported herein do not necessarily indicate the results we may experience for the remainder of the year or for any other future period.

Management believes that we have included all adjustments (including those of a normal, recurring nature) considered necessary to fairly present our unaudited Condensed Consolidated Balance Sheet and our unaudited Condensed Consolidated Statement of Stockholders' Deficit, each as of September 30, 2019, as well as our unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss and Condensed Consolidated Statements of Cash Flows for all periods presented. You should read our unaudited condensed consolidated interim financial statements and footnotes in conjunction with our consolidated financial statements and footnotes included within the Annual Report on Form 10-K (the "2018 Form 10-K").

Consolidation

We include all of our subsidiaries, which include the variable-interest entities ("VIEs") for which we are the primary beneficiary, in our condensed consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

To comply with China's laws which restrict foreign ownership of entities that operate within industries deemed sensitive by the Chinese government, we employ what we believe is a commonly-used organizational structure consisting of a wholly-foreign owned enterprise ("WFOE") and the VIEs to operate our KanKan business. We own 100% of the equity of the WFOE, while the VIEs are companies formed in China under local laws which are owned by members of our management team. We funded the registered capital and operating expenses of the VIEs by extending loans to the VIEs' owners. We are the primary beneficiary of the VIEs because the relationships between the VIEs and our WFOE are governed by contractual agreements, including in each case an Exclusive Call Option Agreement, an Exclusive Business Cooperation Agreement, a Proxy Agreement and an Equity Pledge Agreement, which give us control over the operations of the VIEs.

Use of Estimates

We prepare our consolidated financial statements in conformity with GAAP. While preparing our unaudited condensed consolidated financial statements, we make estimates and assumptions that affect amounts reported and disclosed in the unaudited condensed consolidated financial statements and accompanying notes. Accordingly, actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable, intangible assets, the useful lives of property and equipment, stock-based compensation, the fair value of the warrant liability, income taxes, and inventory reserve, among other items.

Changes to Significant Accounting Policies - Leases

We adopted Accounting Standards Codification Topic 842, *Leases* ("ASC 842"), as of January 1, 2019. When adopting ASC 842 we elected several practical expedients permitted under the transition guidance within ASC 842, which, among other things, allowed us to carry forward the historical lease classification and to avoid recording leases that had expired prior to the date of adoption. We also elected to combine the lease and non-lease components of our leases for office space (which represent the largest portion of our operating lease assets and liabilities) and not to record leases with initial terms of 12 months or less (short-term leases) on the balance sheet. We amortize the cost of short-term leases on a straight-line basis over the lease term.

As of January 1, 2019, our adoption of ASC 842 added \$4.9 million of operating lease assets, \$1.1 million of current operating lease liabilities (reported in Accrued expense and other current liabilities) and \$5.7 million of long-term operating lease liabilities to our balance sheet, and it removed \$3.3 million of previously-recorded deferred rent and early lease termination liabilities; it had no effect on consolidated net loss or consolidated cash flows.

Recently Issued Accounting Pronouncements

We have reviewed all recently issued accounting pronouncements. The pronouncements that we have already adopted, except as noted above for leases, did not have a material effect on our financial condition, results of operations, cash flows or reporting thereof, and except as otherwise noted above, we do not believe that any of the pronouncements that we have not yet adopted will have a material effect upon our financial condition, results of operations, cash flows or reporting thereof.

NOTE 3. REVENUE

We are not required to include disclosures related to remaining performance obligations because substantially all of our contracts with customers have an original expected duration of one year or less.

Disaggregation of Revenue

The following table presents a disaggregation of our revenue by major category (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Data platform services:				
FinTech services	\$ —	\$ 363	\$ —	\$ 3,739
AI-based products and services	549	676	3,439	1,852
Advertising and other	137	716	1,321	1,877
Revenue	\$ 686	\$ 1,755	\$ 4,760	\$ 7,468

Significant Judgments

We make certain judgments when accounting for revenue, such as whether we act as a principal or as an agent in transactions or whether our contracts with customers fall within the scope of ASC 606, that affect the determination of the amount and timing of our revenue from contracts with customers. Based on the current facts and circumstances related to our contracts with customers, none of the judgments we make involve an elevated degree of qualitative significance or complexity such that further disclosure is warranted in terms of their potential impact on the amount and timing of our revenue.

Contract Assets and Contract Liabilities

We do not currently generate material contract assets. During the nine months ended September 30, 2019, our contract liability related to continuing operations changed only as a result of routine business activity.

During the nine months ended September 30, 2019, we did not recognize material amounts of revenue which were included in the beginning balance of Contract liability at January 1, 2019, while we recognized \$0.3 million of revenue during the nine months ended September 30, 2018 which was included in the beginning balance of Contract liability at January 1, 2018.

During the nine months ended September 30, 2019 and 2018, we did not recognize revenue from performance obligations within the scope of ASC 606 that were satisfied in previous periods.

NOTE 4. FAIR VALUE MEASUREMENTS

Liabilities Related to Warrants to Purchase Common Stock

At the end of each reporting period, we use the Monte Carlo Simulation model to estimate and report the fair value of liabilities related to certain outstanding warrants to purchase common stock. As of September 30, 2019, our outstanding liability-classified warrants include the warrants we issued or that we are obligated to issue as part of the consideration for our acquisition (the “CBG Acquisition”) of assets of China Branding Group Limited (“CBG”) in September 2016 (the “CBG Acquisition Warrants”) and warrants we issued as a result of an amendment to the Financing Agreement related to the acquisition (the “CBG Financing Warrants”).

The following table presents the quantitative inputs, which we classify in Level 3 of the fair value hierarchy, used in estimating the fair value of the warrants:

	September 30, 2019	December 31, 2018
CBG Financing Warrants		
Expected volatility	85.00%	70.00%
Risk-free interest rate	1.75%	2.52%
Expected remaining term (years)	0.98	1.73
CBG Acquisition Warrants		
Expected volatility	75.00%	70.00%
Risk-free interest rate	1.56%	2.46%
Expected remaining term (years)	3.97	4.72

In addition to the quantitative assumptions above, we also consider whether we would issue additional equity and, if so, the price per share of such equity. At September 30, 2019, we estimated that two future equity financing events would potentially occur within the subsequent twelve months.

Our estimate of expected volatility and our stock price tend to have the most significant impact on the estimated fair value of the CBG Financing Warrants and the CBG Acquisition Warrants. If we added or subtracted five percentage points with regard to our estimate of expected volatility, or if our stock price increased or decreased by five percent, our estimates of fair value would change approximately as follows (in thousands):

	Increase	Decrease
Change in volatility		
CBG Financing Warrants	\$ 40	\$ 40
CBG Acquisition Warrants	230	175
Change in stock price		
CBG Financing Warrants	\$ 40	\$ 40
CBG Acquisition Warrants	60	60

The following table presents the change in the liability balance associated with our liability-classified warrants (in thousands):

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018
Balance at beginning of period	\$ 1,383	\$ 89,169
Warrant exercises	—	(59,907)
Decrease in fair value	(502)	(27,879)
Balance at end of period	\$ 881	\$ 1,383

At January 1, 2018, our outstanding liability-classified warrants included warrants we issued in connection with our acquisition of all of the outstanding equity interests in Vegas.com in September 2015 (the “VDC Acquisition”) and the financing related thereto (the “VDC Acquisition Warrants” and the “VDC Financing Warrants”, respectively). On January 8, 2018, holders of VDC Acquisition Warrants with respect to 2,416,996 shares of our common stock exercised such warrants. Because the VDC Acquisition Warrants provided that such warrants were exercisable on a cashless basis only, we issued a total of 750,102 shares of common stock in settlement of such warrants without receiving any proceeds from the exercise thereof.

On January 10, 2018, we exercised our right to exercise all remaining VDC Acquisition Warrants and VDC Financing Warrants (which right became effective when the closing price of our common stock reached \$14.00), exercising VDC Acquisition Warrants with respect to 6,184,414 shares of our common stock and VDC Financing Warrants with respect to 3,117,148 shares of our common stock. Because the VDC Acquisition Warrants and VDC Financing Warrants provided that such warrants were exercisable on a cashless basis only, we issued a total of 2,236,915 and 1,385,396 shares of common stock to the holders of the VDC Acquisition Warrants and the VDC Financing Warrants, respectively, in settlement of such warrants without receiving any proceeds from the exercise thereof.

Contingent Consideration Issued in Business Acquisition

We used the discounted cash flow valuation technique to estimate the fair value of the liability related to certain cash payments stipulated in the VDC Acquisition that were contingent upon the performance of Vegas.com in the years ended December 31, 2016, 2017, and 2018 (the “Earnout Payments”). The significant unobservable inputs that we used, which we classify in Level 3 of the fair value hierarchy, were projected earnings before interest, taxes, depreciation and amortization (“EBITDA”), the probability of achieving certain amounts of EBITDA, and the rate used to discount the liability.

The following table presents the change during the nine months ended September 30, 2019 in the balance of the liability associated with the Earnout Payments (in thousands):

Balance at beginning of period	\$ 990
Payments	(8)
Change in fair value of contingent consideration (included in Other loss)	10
Interest accrued on unpaid balance	75
Balance at end of period	\$ 1,067

On the Condensed Consolidated Balance Sheets, we included the liability for contingent consideration as a component of Accrued expense and other current liabilities.

NOTE 5. TRADE ACCOUNTS RECEIVABLE

	September 30, 2019	December 31, 2018
Gross accounts receivable balance	\$ 4,666	\$ 5,891
Allowance for bad debt	(874)	(129)
Accounts receivable, net	\$ 3,792	\$ 5,762

Generally, it is not unusual for Chinese entities to pay their vendors on longer timelines than the timelines typically observed in U.S. commerce. Trade receivables related to our AI projects (exclusive of FinTech) represent 71% of our gross trade receivables. Substantially all of our remaining gross trade receivables balance resulted from the FinTech service we have discontinued. The delay in collection of the FinTech-related balance is related to the processes our customer must follow to properly shut down the short-term loan business in which they previously participated before they can finally pay all their vendors, but we have no evidence that full collection of such balance is at risk.

NOTE 6. INVESTMENT IN UNCONSOLIDATED AFFILIATES

In 2009, we co-founded a U.S.-based venture, Sharecare, Inc. (“Sharecare”), to build a web-based platform that simplifies the search for health and wellness information. The other co-founders of Sharecare were Dr. Mehmet Oz, HARPO Productions, Discovery Communications, Jeff Arnold and Sony Pictures Television. As of September 30, 2019, we owned approximately 4.6% of Sharecare’s issued stock and maintained representation on its Board of Directors.

During June 2018, one of our consolidated VIEs acquired a 20% interest in Beijing All-in-one Cloud Net Technology, Co. Ltd. (“AIO”), a Chinese technology company which provides consulting and data services to the Chinese film industry, in exchange for \$1.0 million, a portion of which was paid by September 30, 2019, and a license to use our proprietary KanKan data intelligence platform in China. Based on our evaluation of the facts and circumstances related to the transaction, we determined that we will account for such transaction using the equity method of accounting. We recognize our equity in the net earnings or losses relating to AIO on a one-quarter reporting lag in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss. For the three months ended September 30, 2019, the amount of our equity in AIO’s net earnings for their quarter ended June 30, 2019 was not material.

NOTE 7. PREPAID EXPENSE AND OTHER CURRENT ASSETS

The following table presents the components of prepaid expense and other current assets (in thousands):

	September 30, 2019	December 31, 2018
Other receivables	\$ 3,625	\$ 4,607
Prepaid expense	840	1,076
Deposits	1,282	1,395
Inventory, net	225	587
Other current assets	261	242
Total	\$ 6,233	\$ 7,907

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands, except estimated lives):

	Estimated Life (Years)	September 30, 2019	December 31, 2018
Computers and equipment	3	999	1,004
Furniture and fixtures	3	23	20
Software	3	4,856	4,918
Software development in progress		1,010	924
Leasehold improvements	10	303	310
Total property, equipment and software		\$ 7,191	\$ 7,176
Less accumulated depreciation		(5,600)	(5,101)
Total property, equipment and software, net		\$ 1,591	\$ 2,075

For the nine months ended September 30, 2019 and 2018, depreciation (and amortization of software) expense was \$0.6 million and \$1.1 million, respectively.

NOTE 9. LEASES

We lease office space and equipment under contracts we classify as operating leases. None of our leases are financing leases. Several of our leases include one or more options to renew; however, as of September 30, 2019, we are not reasonably certain that we will exercise the renewal options and we have not included such renewal options in the lease liabilities or disclosures herein.

As of September 30, 2019, the current portion of our operating lease liability was \$1.5 million and was reported in Accrued expense and other current liabilities on our Unaudited Condensed Consolidated Balance Sheet.

The following table presents the detail of our lease expense, net of sublease income, which is reported in General and administrative expense (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease expense	\$ 492	\$ 1,195
Short-term lease expense	67	231
Less: Sublease income	(94)	(172)
Lease expense	\$ 465	\$ 1,254

We reported within continuing operating cash flows for the nine months ended September 30, 2019 \$1.5 million of cash paid for amounts included in the measurement of operating lease liabilities.

As of September 30, 2019, our operating leases had a weighted-average remaining lease term of approximately 48 months, and we used a weighted-average discount rate of 13% to measure our operating lease liabilities.

Maturity of Lease Liabilities

The following table presents information regarding the maturities of our undiscounted remaining operating lease payments, with a reconciliation to the amount of the liabilities representing such payments as presented in our September 30, 2019 Unaudited Condensed Consolidated Balance Sheet (in thousands).

Operating lease liabilities maturing during the next:

One year	\$	2,319
Two years		2,183
Three years		1,976
Four years		1,780
Five years		752
Thereafter		—
Total undiscounted cash flows	\$	9,010
Present value of cash flows	\$	6,941

Lease liabilities on balance sheet:

Short-term	\$	1,505
Long-term		5,436
Total lease liabilities	\$	6,941

Significant Judgments

When accounting for our leases, we make certain judgments, such as whether a contract contains a lease or what discount rate to use, that affect the determination of the amount of our lease assets and liabilities. Based on the current facts and circumstances related to our contracts, none of the judgments we make involve an elevated degree of qualitative significance or complexity such that further disclosure is warranted.

NOTE 10. INTANGIBLE ASSETS

The following table summarizes intangible assets by category (in thousands):

	September 30, 2019			December 31, 2018		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Finite-lived intangible assets						
Domain names	\$ 1,256	\$ (856)	\$ 400	\$ 1,256	\$ (801)	\$ 455
Media content and broadcast rights	1,350	(1,125)	225	1,350	(923)	427
Other intangible assets	68	(68)	—	68	(68)	—
	<u>\$ 2,674</u>	<u>\$ (2,049)</u>	<u>\$ 625</u>	<u>\$ 2,674</u>	<u>\$ (1,792)</u>	<u>\$ 882</u>
Indefinite-lived intangible assets						
License to operate in China	127		127	128		128
Total intangible assets	<u>\$ 2,801</u>		<u>\$ 752</u>	<u>\$ 2,802</u>		<u>\$ 1,010</u>

Total amortization expense was \$0.3 million and \$0.5 million for the nine months ended September 30, 2019 and 2018, respectively.

NOTE 11. INCOME TAX

Our effective tax rate (“ETR”) from continuing operations was 0.0% for the nine months ended September 30, 2019. The quarterly ETR has not significantly differed from our historical annual ETR because we continue to maintain a full valuation allowance against our existing deferred tax assets.

NOTE 12. DEBT**Short-Term Debt**

On April 12, 2017, we issued a short-term note payable in the principal amount of \$3.0 million to a private lender in exchange for cash in the same amount. The agreement, which does not have a stated interest rate, required us to repay the note plus a fee of \$115 thousand on the maturity date of June 30, 2017. The note is accruing interest at \$500 per day on the unpaid principal until we repay the note in full.

Other Debt

The following table presents debt (in thousands) as of:

	September 30, 2019	December 31, 2018
Loan payable to MGG	\$ 11,632	\$ 35,500
Unamortized original issue discount	—	(1,418)
Unamortized debt issuance cost	—	(18)
Carrying value of Loan	11,632	34,064
Exit fee payable in relation to Loan	—	1,250
Total long-term debt	\$ —	\$ 35,314
Less: current portion	—	(35,314)
Long-term debt, less current portion and net of debt issuance cost	\$ —	\$ —

On September 24, 2015, we entered into the Financing Agreement, pursuant to which the Lenders provided us with the \$27.5 million Loan. We entered into Amendment No. 1 to Financing Agreement on September 20, 2016 which, among other changes, increased the Loan by \$8.0 million to a total aggregate principal amount of \$35.5 million. As of September 30, 2019, after amendments and other events described below, the Loan bore interest at three-month LIBOR (with a floor of 2%) plus 11% per annum, payable monthly, and had a maturity date of May 15, 2020. As of September 30, 2019, the applicable interest rate on the Loan was approximately 13% per annum.

In connection with the Financing Agreement, we also entered into a security agreement dated as of September 24, 2015 (the "Security Agreement") with the other Borrowers and the Guarantors for the benefit of MGG, as collateral agent for the Secured Parties referred to therein, to secure the obligations of the Borrowers and the Guarantors under the Financing Agreement. The Security Agreement provides for a first-priority lien on, and security interest in, all assets of Remark and our subsidiaries, subject to certain exceptions.

On April 30, 2018, we entered into Amendment No. 4 and Waiver to Financing Agreement (the "Fourth Financing Amendment"), which provided for, among other things, (i) a reduction in the interest rate on the remaining amount outstanding under the Financing Agreement to three-month LIBOR plus 8.5% per annum, (ii) an extension of the maturity date under the Financing Agreement to September 30, 2020, (iii) a modification of certain of our covenants under the Financing Agreement, including covenants regarding capital expenditures, minimum value of certain of our assets, consolidated EBITDA of Vegas.com and its subsidiaries, and revenue generated by KanKan, (iv) an increase in the amount we are permitted to invest in our non-U.S. subsidiaries operating our KanKan business, (v) a waiver by the Lenders of certain events of default under the Financing Agreement, and (vi) prepayment by the Borrowers of \$8.0 million principal amount outstanding and \$3.5 million of exit fees under the Financing Agreement within 60 days following the date of the Fourth Financing Amendment. In consideration for the Lenders' entry into the Fourth Financing Amendment, we also paid a closing fee of approximately \$413 thousand.

Effective as of June 29, 2018, we entered into Amendment No. 5 and Waiver to Financing Agreement (the "Fifth Financing Amendment") pursuant to which the Lenders agreed, among other things, to extend the due date of the prepayments required by the Fourth Financing Amendment for up to three months, provided that we made extension payments on the first business day of each such month. The extension payments were \$250,000 for each of the first two months and \$500,000 for the third month, with the final extension period ending on September 28, 2018. We made the extension payments required by the Fifth Financing Amendment to extend the due date of the prepayments required by the Fourth Financing Amendment to September 28, 2018; however, we failed to prepay the \$8.0 million principal amount and \$3.5 million of exit fees due on such date. Such failure to make the required payments constituted an event of default under the Financing Agreement and as a result, from September 28, 2018, the Loan bore interest at three-month LIBOR plus 11.0%, the default interest rate.

On May 15, 2019, we completed the VDC Transaction and used the cash proceeds of \$30 million to pay amounts due under the Financing Agreement, of which approximately \$10 million remained outstanding after giving effect to the application

of such cash proceeds. On the same date, in connection with the closing of the VDC Transaction, we entered into Amendment No. 6 and Waiver to Financing Agreement (the “Sixth Financing Amendment”), pursuant to which, among other things, (i) the Lenders waived all events of default under the Financing Agreement existing as of the date of the Sixth Financing Amendment, (ii) MGG released any and all liens in the equity interests of Vegas.com and its subsidiaries and their assets and properties, (iii) the Borrowers may add the amount of any accrued and unpaid interest to the outstanding principal amount of the Loan, (iv) the remaining principal amount outstanding under the Financing Agreement accrues interest at a rate equal to the three-month LIBOR (with a floor of 2%) plus 8.5% per annum, (v) the continuing Loan has a maturity date of May 15, 2020, (vi) covenants with respect to capital expenditures and revenue generated by our KanKan business were eliminated and covenants regarding the minimum value of certain of our assets, our minimum liquidity and the amount we are permitted to invest in our non-U.S. subsidiaries were modified, and (vii) we were required to commence a sale process with respect to our equity in Sharecare within five business days of the effective date of the Sixth Financing Amendment, and to use the net cash proceeds of such sale to pay in full our outstanding obligations under the Financing Agreement the (“Sharecare Covenant”).

The Financing Agreement contains certain affirmative and negative covenants, including but not limited to a covenant requiring us to maintain a minimum of \$1.0 million in unrestricted cash in designated bank accounts. As of September 30, 2019, we were not in compliance with such minimum cash covenant. We were also not in compliance with certain other covenants under the Financing Agreement, including a covenant requiring us to obtain and pay for a tail directors’ and officers’ liability insurance policy (the “Tail Policy”) by June 4, 2019 in connection with the VDC Transaction, and a covenant requiring us to make the final Earnout Payment by June 14, 2019. Additionally, although we have actively taken steps to monetize our ownership interest in Sharecare, we did not comply with certain procedural requirements stipulated by the Sharecare Covenant. Our non-compliance with such covenants constitutes events of default under the Financing Agreement. In addition, in June 2019, the Lenders paid the \$1.1 million of premium under the Tail Policy on our behalf and such amount was added to the amount of principal due under the Financing Agreement.

NOTE 13. OTHER LIABILITIES

The following table presents the components of other liabilities (in thousands):

	December 31, 2018
Deferred rent	\$ 1,583
Accrued early lease termination liability	1,137
Deferred tax liability, net	214
Total	<u>\$ 2,934</u>

NOTE 14. COMMITMENTS AND CONTINGENCIES

At September 30, 2019, we had no material commitments outside the normal course of business.

Contingencies

We are neither a defendant in any material pending legal proceeding nor are we aware of any material threatened claims against us; therefore, we have not accrued any contingent liabilities, exclusive of the liability for the Earnout Payment related to the VDC Acquisition.

NOTE 15. STOCKHOLDERS' EQUITY, STOCK-BASED COMPENSATION AND NET LOSS PER SHARE

Equity Issuances

On March 29, 2019, we entered into the 2019 Aspire Purchase Agreement with Aspire Capital, which provides that, upon the terms and subject to the conditions and limitations set forth therein, we have the right to direct Aspire Capital to purchase up to an aggregate of \$30.0 million of shares of our common stock over the 30-month term of the 2019 Aspire Purchase Agreement. On April 5, 2019, the conditions necessary for purchases under the 2019 Aspire Purchase Agreement to commence were satisfied and the 2018 Aspire Purchase Agreement was terminated under the terms of the 2019 Aspire Purchase Agreement. We issued 629,370 shares of our common stock to Aspire Capital upon commencement of the 2019 Aspire Purchase Agreement.

Under the 2019 Aspire Purchase Agreement, on any trading day over the 30-month term of such agreement, we have the right, in our sole discretion, to present Aspire Capital with a purchase notice (each, a "Purchase Notice") directing Aspire Capital to purchase up to 50,000 shares of our common stock per trading day, up to an aggregate of \$30.0 million under the 2019 Aspire Purchase Agreement, at a per share price (the "Purchase Price") equal to the lesser of (i) the lowest sale price of our common stock on the purchase date or (ii) the arithmetic average of the three lowest closing sale prices for our common stock during the 10 consecutive trading days ending on the trading day immediately preceding the purchase date.

The aggregate purchase price payable by Aspire Capital on any one purchase date may not exceed \$250,000, unless otherwise mutually agreed. The parties may mutually agree to increase the number of shares of our common stock that may be purchased per trading day pursuant to the terms of the 2019 Aspire Purchase Agreement to 3,000,000 shares.

In addition, on any trading day on which we submit a Purchase Notice to Aspire Capital to purchase at least 50,000 shares, we also have the right, in our sole discretion, to present Aspire Capital with a volume-weighted average price purchase notice (each, a "VWAP Purchase Notice") directing Aspire Capital to purchase an amount of our common stock equal to up to 30% of the aggregate shares of our common stock traded on the next trading day (the "VWAP Purchase Date"), subject to a maximum number of shares we may determine, and a minimum purchase price threshold equal to the greater of (i) 80% of the closing price of our common stock on the trading day immediately preceding the VWAP Purchase Date or (ii) a higher price that may be determined by us. The purchase price per share pursuant to such VWAP Purchase Notice will be equal to the lesser of (i) the closing sale price of our common stock on the VWAP Purchase Date, or (ii) 97% of the volume-weighted average price for our common stock traded on its principal market on the VWAP Purchase Date, subject to certain exceptions.

We may deliver multiple Purchase Notices and VWAP Purchase Notices to Aspire Capital from time to time during the term of the 2019 Aspire Purchase Agreement, so long as the most recent purchase has been completed.

In addition, Aspire Capital will not be required to buy any shares of our common stock pursuant to a Purchase Notice that is received by Aspire Capital on any trading day on which the last closing trade price of our common stock is below \$0.25. There are no trading volume requirements or restrictions under the 2019 Aspire Purchase Agreement, and we will control the timing and amount of sales of our common stock to Aspire Capital. Aspire Capital has no right to require any sales by us, but is obligated to make purchases from us as directed by us in accordance with the 2019 Aspire Purchase Agreement. There are no limitations on use of proceeds, financial or business covenants, restrictions on future fundings, rights of first refusal, participation rights, penalties or liquidated damages in the 2019 Aspire Purchase Agreement. The 2019 Aspire Purchase Agreement may be terminated by us at any time, at our discretion, without any cost to us. Aspire Capital has agreed that neither it nor any of its agents, representatives and affiliates will engage in any direct or indirect short-selling or hedging our common stock during any time prior to the termination of the 2019 Aspire Purchase Agreement.

The 2019 Aspire Purchase Agreement provides that the total number of shares that may be issued pursuant to such agreement is limited to 8,140,373 shares (the "Exchange Cap"), or 19.99% of our shares of common stock outstanding as of the date of the 2019 Aspire Purchase Agreement, unless stockholder approval is obtained in accordance with the rules of the Nasdaq Stock Market. If stockholder approval is not obtained, such limitation will not apply after the Exchange Cap is reached if at all times thereafter the average purchase price paid for all shares issued under the 2019 Aspire Purchase Agreement is equal to or greater than \$1.85 per share. The 2019 Aspire Purchase Agreement also provides that at no time will Aspire Capital (together with its affiliates) beneficially own more than 19.99% of our outstanding shares of common stock.

As of September 30, 2019, we have issued to Aspire Capital a total of 2,504,370 shares of our common stock under the 2019 Aspire Purchase Agreement. During the nine months ended September 30, 2019, we issued a total of 9,374,597 shares of

our common stock to private investors and to Aspire Capital under the 2018 Aspire Purchase Agreement and the 2019 Aspire Purchase Agreement in exchange for \$9.3 million plus Aspire Capital's commitment to participate in the 2019 Aspire Purchase Agreement.

Stock-Based Compensation

We are authorized to issue equity-based awards under our 2010 Equity Incentive Plan, our 2014 Incentive Plan, and our 2017 Incentive Plan, each of which our stockholders have approved. We also award cash bonuses ("China Cash Bonuses") to our employees in China, which grants are not subject to a formal incentive plan and which can only be settled in cash. We grant such awards to attract, retain and motivate eligible officers, directors, employees and consultants. Under each of the plans, we have granted shares of restricted stock and options to purchase common stock to our officers and employees with exercise prices equal to or greater than the fair value of the underlying shares on the grant date.

Stock options and China Cash Bonuses generally expire 10 years from the grant date. All forms of equity awards and China Cash Bonuses vest upon the passage of time, the attainment of performance criteria, or both. When participants exercise stock options, we issue any shares of our common stock resulting from such exercise from new authorized and unallocated shares available at the time of exercise.

The following table summarizes activity under our equity incentive plans related to equity-classified stock option grants as of September 30, 2019, and changes during the nine months then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2019	10,874,849	\$ 4.36		
Granted	755,250	0.69		
Exercised	(2,250)	1.99		
Forfeited, cancelled or expired	(158,117)	3.70		
Outstanding at September 30, 2019	11,469,732	\$ 4.12	6.3	\$ 285
Options exercisable at September 30, 2019	10,853,295	\$ 4.32	6.1	\$ 44

The following table summarizes activity under our equity incentive plans related to the China Cash Bonuses as of September 30, 2019, and changes during the nine months then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2019	1,464,750	\$ 5.60		
Granted	152,000	1.56		
Forfeited, cancelled or expired	(723,250)	4.94		
Outstanding at September 30, 2019	893,500	\$ 5.36	8.2	\$ —
Bonuses exercisable at September 30, 2019	496,250	\$ 5.39	7.8	\$ —

During the nine months ended September 30, 2019, we did not award restricted stock under our equity incentive plans.

During the three months ended September 30, 2019 and 2018, we incurred share-based compensation expense of \$0.1 million and \$0.8 million, respectively, and we incurred share-based compensation expense of \$0.3 million and \$12.5 million, respectively, during the nine months ended September 30, 2019 and 2018.

Net Loss per Share

For the three and nine months ended September 30, 2019 and 2018, there were no reconciling items related to either the numerator or denominator of the loss per share calculation.

Securities which would have been anti-dilutive to a calculation of diluted earnings per share for the three and nine months ended September 30, 2019 and 2018 include the outstanding stock options described above; the outstanding CBG Acquisition Warrant, which may be exercised to purchase 40,000 shares of our common stock at a per-share exercise price of \$10.00 (we are also committed to the future issuance of additional CBG Acquisition Warrants at the same per-share exercise price as the CBG Acquisition Warrant that has already been issued); and the outstanding CBG Financing Warrants, which may be exercised to purchase 3,808,423 shares of our common stock at an exercise price of \$3.86 per share.

NOTE 16. SEGMENT INFORMATION

As a result of our disposal of the previously-reported Travel and Entertainment segment, we currently report one segment: our Technology & Data Intelligence segment, which provides services to our customers based upon the data collected and processed by our proprietary data intelligence software.

Our chief operating decision maker uses Adjusted EBITDA as the primary measure of profitability for evaluating the operational performance of our reportable segment. Adjusted EBITDA represents operating income (loss) plus depreciation and amortization expense, share-based compensation expense, impairments and net other income, less other loss. We do not allocate certain types of shared expense, such as legal and accounting, to our reportable segment; such costs are included in Corporate Entity and Other.

The following table presents certain financial information regarding our reportable segment and other entities for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Technology & Data Intelligence	Corporate Entity and Other	Consolidated
Three Months Ended September 30, 2019			
Revenue	\$ 549	\$ 137	\$ 686
Adjusted EBITDA	\$ (1,556)	\$ (2,445)	\$ (4,001)
Three Months Ended September 30, 2018			
Revenue	\$ 1,039	\$ 716	\$ 1,755
Adjusted EBITDA	\$ (1,674)	\$ (3,428)	\$ (5,102)
Nine Months Ended September 30, 2019			
Revenue	\$ 3,439	\$ 1,321	\$ 4,760
Adjusted EBITDA	\$ (4,559)	\$ (7,372)	\$ (11,931)
Nine Months Ended September 30, 2018			
Revenue	\$ 5,591	\$ 1,877	\$ 7,468
Adjusted EBITDA	\$ (5,166)	\$ (12,292)	\$ (17,458)

The following table reconciles Adjusted EBITDA to Loss before income taxes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Adjusted EBITDA	\$ (4,001)	\$ (5,102)	\$ (11,931)	\$ (17,458)
Depreciation and amortization	(229)	(520)	(814)	(1,657)
Share-based compensation expense	(94)	(764)	(317)	(12,519)
Other expense (income), net	24	—	(23)	(44)
Other loss (gain)	28	16	27	(507)
Operating loss	\$ (4,272)	\$ (6,370)	\$ (13,058)	\$ (32,185)
Other income (expense)				
Interest expense	(457)	(345)	(1,397)	(1,017)
Other income (expense), net	(24)	—	23	44
Change in fair value of warrant liability	(160)	3,525	502	22,190
Other gain (loss), net	(28)	(16)	(27)	507
Total other income (expense), net	\$ (669)	\$ 3,164	\$ (899)	\$ 21,724
Loss from continuing operations before income taxes	\$ (4,941)	\$ (3,206)	\$ (13,957)	\$ (10,461)

The following table presents total assets for our reportable segment and the corporate and other entities (in thousands):

	September 30,	December 31, 2018
	2019	
Technology & Data Intelligence segment	\$ 12,905	\$ 15,563
Corporate entity and other business units	8,578	5,156
Consolidated	\$ 21,483	\$ 20,719

Capital expenditures for our Technology & Data Intelligence segment were de minimus during the three months ended September 30, 2019 and totaled \$0.1 million during the three months ended September 30, 2018. During the nine months ended September 30, 2019 and 2018, capital expenditures for our Technology & Data Intelligence segment totaled \$0.1 million and \$0.6 million, respectively.

NOTE 17. DISCONTINUED OPERATIONS

On May 15, 2019, we completed the VDC Transaction for an aggregate purchase price of \$30 million. The business we sold in the VDC Transaction formerly comprised our Travel and Entertainment segment. In discontinued operations, we recognized a gain on the VDC Transaction of \$6.5 million.

The following table presents the carrying amounts of the major classes of assets and liabilities associated with the disposed Travel and Entertainment segment (in thousands):

	May 15, 2019	December 31, 2018
Cash and cash equivalents (including restricted cash)	\$ 18,011	\$ 24,138
Other current assets	4,753	4,828
Current assets	<u>\$ 22,764</u>	<u>\$ 28,966</u>
Property and equipment, net	7,331	8,495
Goodwill and other intangibles, net	28,977	35,434
Other assets	1,856	194
Total assets	<u><u>\$ 60,928</u></u>	<u><u>\$ 73,089</u></u>
Accounts payable, accrued expense and other current liabilities	\$ 22,749	\$ 33,053
Deferred merchant booking	7,358	4,664
Contract liability	5,381	3,931
Current liabilities	<u>\$ 35,488</u>	<u>\$ 41,648</u>
Other liabilities	1,938	34
Total liabilities	<u><u>\$ 37,426</u></u>	<u><u>\$ 41,682</u></u>

The following table presents the major classes of line items constituting the pretax profit or loss of the disposed Travel and Entertainment segment (in thousands):

	Three Months Ended September 30,		January 1, 2019 through May 15, 2019	Nine Months Ended September 30, 2018
	2019	2018		
Revenue	\$ —	\$ 17,596	\$ 27,432	\$ 49,320
Cost of revenue (excluding depreciation and amortization)	—	3,162	4,016	8,779
Selling, general and administrative	—	9,793	18,383	29,107
Technology and development	—	2,185	3,280	6,640
Depreciation, amortization and impairments	—	2,236	8,007	6,563
Other operating expense	—	264	384	711
Other expense (income) and loss (gain), net	—	957	(3,814)	2,935
Loss from discontinued operations before income taxes	—	(1,001)	(2,824)	(5,415)
Benefit from income taxes	—	—	214	—
Loss from discontinued operations	<u><u>\$ —</u></u>	<u><u>\$ (1,001)</u></u>	<u><u>\$ (2,610)</u></u>	<u><u>\$ (5,415)</u></u>

Depreciation, amortization and impairments includes \$4.8 million of impairments of goodwill and intangible assets resulting from our decision to dispose of the previously-reported Travel and Entertainment segment.

For the nine months ended September 30, 2019, we allocated \$2.7 million of interest expense to discontinued operations. We made such allocations based on the amount of debt specifically attributable to the discontinued operations.

NOTE 18. SUBSEQUENT EVENTS

On October 7, 2019, we sold 625,000 shares of our common stock to Aspire Capital under the 2019 Aspire Purchase Agreement in exchange for \$0.5 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read our discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2019 in conjunction with our unaudited condensed consolidated financial statements and notes thereto set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q. Such discussion and analysis includes forward-looking statements that involve risks and uncertainties and that are not historical facts, including statements about our beliefs and expectations. You should also read "[Special Note Regarding Forward-Looking Statements](#)" in the section following the table of contents of this report.

OVERVIEW

We are a diversified global technology company with leading artificial intelligence ("AI") and data-analytics solutions, as well as a portfolio of digital media properties.

Remark AI Business

Through our proprietary data and AI platform, our Remark AI business (currently known in the Asia-Pacific region as KanKan, and which we report as our Technology & Data Intelligence segment) generates our data platform services revenue by delivering AI-based vision products, computing devices and software-as-a-service ("SaaS") solutions for businesses in many industries. Our technology is becoming noted for its performance. In June 2019, in addition to other recent successes on other testing platforms, our facial-recognition algorithms received a top ranking in the National Institute of Standards and Technology's Wild Image Accuracy Test, a widely-recognized, global facial-recognition-testing platform. In addition to the other work that we have ramped up, we continue partnering with top universities on research projects targeting algorithm, artificial neural network and computing architectures which we believe keeps us among the leaders in technology development. Though we currently focus our KanKan business on the Asia-Pacific region, we have initiated marketing activities in Europe and the United States and are continuing to launch several proof-of-concept projects.

We have been introducing Remark AI's innovative AI-based solutions into the retail, "smart city", public safety, and workplace markets.

Retail Solutions. Utilizing a client's existing cameras and strategic sensors placed throughout the store, Remark AI's retail solutions swiftly analyze real-time customer shopping behavior, such as time of store entry and shelf-browsing habits, and provides managers with a customer heatmap that reflects traffic patterns. Purchase history is also analyzed, leading to relevant offers for future purchase conversions, and customers for their continued loyalty through a special VIP status that brings customized promotions and coupons along with attentive customer service. Remark AI's retail solutions allow retailers and store managers to make better data-driven decisions regarding store layout, item placement, and pricing strategy, all while anonymizing customers' identities to protect their privacy.

Urban Life Cycle Solutions. We offer and have installed several solutions in what we call the urban life cycle category. Our urban life cycle solutions include our AI community system which assists in building "smart" communities by enhancing community security and safety. We also have AI solutions that help to make schools "smart" by (i) providing an accurate and convenient method for student check-in and check-out, (ii) providing an autonomous method of campus monitoring that enhances students' safety by, for example, detecting trespassers, dangerous behaviors or physical accidents that could result in injury, and (iii) monitoring the school kitchen for safety violations.

In traffic management, our solutions assist in monitoring traffic for various violations by automatically detecting, capturing, and obtaining evidence regarding violations such as speeding, running red lights, driving against the flow of traffic and even using counterfeit registration plates. Additionally, our solutions provide constant road-condition monitoring, providing control centers with real-time information on traffic conditions such as areas of congestion or other traffic anomalies.

Workplace and Food Safety Solutions. The monitoring and detection capabilities of our solutions ensure that workers are practicing established food safety protocols, wearing the proper safety gear, and complying with local health codes. From commercial kitchens to construction work zones, our safety-compliance algorithms manage regulatory functions, review hygienic and equipment status while checking and alerting management regarding violations.

Other Business

In addition to AI and data-analytics solutions, we maintain a digital media portfolio which, in addition to operating businesses, includes approximately 4.6% ownership in the issued stock of Sharecare, Inc., an established health and wellness platform with more than 100 million users, which has now raised in excess of \$425 million of total capital. We continue to evaluate opportunities to monetize and maximize the value of this asset for our shareholders. In addition to Data Platform Services revenue from our Remark AI business, activities such as online merchandise sales at our other operating businesses also contributed to our consolidated revenue in the current-year and prior-year periods, while advertising also contributed to revenue in prior-year periods.

Overall Business Outlook

Our innovative AI and data-analytics solutions continue to gain worldwide awareness and recognition through media exposure, comparative testing, product demonstrations and word of mouth resulting from positive responses and increased acceptance. We intend to continue expanding our business, particularly in the Asia-Pacific region, where we believe there are greater market opportunities for our solutions. However, we may continue to face challenges in 2019 due to continuing economic and geopolitical conditions in some international regions. We continue to pursue large business opportunities, but it is difficult to anticipate how long it will take to close these opportunities, or if they will ever ultimately come to fruition. It is also difficult to determine whether our software solutions will be accepted as viable in the market segments we have identified, which include a number of large, well-known competitors. The continued expansion of our business is expected to cause increases in our operating expenses in the future.

Business Developments During 2019

On May 15, 2019, we completed the sale of Vegas.com, which allowed us to use the resulting proceeds to significantly reduce our debt and also further our near-complete focus on data analytics and AI technology. We continued to work closely with a diverse group of clients and executed on various stages of AI product deployment, including a project that installed KanKan's taxi-safety-monitoring system in more than 2,000 taxis in the Chinese city of Xi'an. Our installation of 5,000 terminals of our AI-driven pharmacy-patient terminal system in 2018 led to an additional contract to install in 2019 an additional 15,000 terminals in pharmacies in additional Chinese cities, a project which is ongoing. With partner Hanvon Technology, we won a contract to transform one of the world's largest telecom provider's 17,800 corporate stores in China into "smart" retail stores. The first phase of the partnership with Hanvon is expected to bring us \$50.0 million of revenue over the three-year life of the project.

Results during the third quarter were affected by several factors, including working capital constraints. Celebrations of the 70th anniversary of the founding of the People's Republic of China caused a country-wide slowdown in business for several weeks as corporate management put off decisions and work stopped while the celebrations occurred. Also, the trade war between the United States and China has affected us by disrupting supply chain management and making the transfer of capital to our China-based subsidiaries more difficult. Finally, as AI is a new frontier in the business world, we and our partners, as well as our customers, are "learning on the job" as we identify new opportunities and ramp up the implementation of our contracts. Our projects often involve extended testing and customer customization requests that occur throughout a project's life, which can slow the speed of full delivery and, therefore, slow revenue recognition.

The following table presents our revenue categories as a percentage of total consolidated revenue during the three and nine months ended September 30, 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Data platform services:				
FinTech services	—%	39%	—%	50%
AI-based products and services	80%	20%	72%	25%
Advertising and other	20%	41%	28%	25%

Matters Affecting Comparability of Results

We disposed of the subsidiaries comprising our formerly-reported Travel and Entertainment segment and we have reported such former segment as discontinued operations in our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss. Unless otherwise noted therein, the Results of Operations section below only discusses our continuing operations.

We have changed how we present operating expense to better reflect the activities that generate such expense. As a result, the operating expense line items in our results of operations for the three and nine months ended September 30, 2018 were reclassified to conform to the current presentation as of September 30, 2019.

CRITICAL ACCOUNTING POLICIES

During the three and nine months ended September 30, 2019, we made no material changes to our critical accounting policies as we disclosed them in Part II, Item 7 of our 2018 Form 10-K.

RESULTS OF OPERATIONS

The following discussion summarizes our operating results for the three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018.

Reportable Segment Results

Technology & Data Intelligence

(dollars in thousands)

	Three Months Ended September 30,		Change	
	2019	2018	Dollars	Percentage
Revenue	\$ 549	\$ 1,039	\$ (490)	(47)%
Cost of revenue	62	612	(550)	(90)%
Sales and marketing	170	306	(136)	(44)%
Technology and development	686	1,363	(677)	(50)%
General and administrative	1,168	468	700	150 %
Depreciation and amortization	119	169	(50)	(30)%
Other operating expense	—	47	(47)	(100)%

(dollars in thousands)

	Nine Months Ended September 30,		Change	
	2019	2018	Dollars	Percentage
Revenue	\$ 3,439	\$ 5,591	\$ (2,152)	(38)%
Cost of revenue	2,666	5,004	(2,338)	(47)%
Sales and marketing	615	706	(91)	(13)%
Technology and development	2,688	3,210	(522)	(16)%
General and administrative	2,022	1,658	364	22 %
Depreciation and amortization	424	486	(62)	(13)%
Other operating expense	6	93	(87)	(94)%

Revenue and Cost of Revenue. During the three and nine months ended September 30, 2019, we generated revenue as a result of passing proof-of-concept tests on projects and beginning the deployment and implementation phases. Such projects deliver fully-integrated AI solutions which combine our proprietary technology with third-party hardware and software products to meet end-user specifications. In the prior-year periods, large portions of our revenue resulted from providing loan candidates under then-existing FinTech contracts, a service we have since discontinued due to regulatory changes resulting from the industry-wide audit in China in 2018. As described earlier, in addition to our decision to discontinue our FinTech contract services, our revenue during the three months ended September 30, 2019 was also affected by a country-wide slowdown in business due to anniversary celebrations in China, the ongoing U.S.-China trade war, and extended project testing and customizations on our larger projects.

During the three and nine months ended September 30, 2019, we recognized approximately \$0.3 million and \$1.1 million, respectively, of revenue on projects delivered in prior periods and the cost of revenue was recognized in prior periods. We could not, however, recognize the revenue in the prior periods because uncertainty regarding the timing of collection prevented us from determining that collectability of all amounts payable to us under the contracts was probable.

Our cost of revenue decreased for the three and nine months ended September 30, 2019 primarily due to our decision to discontinue the FinTech contract services, the effect of which was partially offset in the nine months ended September 30, 2019 by an increase in cost of revenue related to more AI projects in the current year-to-date period.

Technology and development. Our technology and development expense decreased primarily as a result of headcount reduction, which led to decreases of approximately \$0.4 million in payroll and related costs in the three and nine months ended September 30, 2019. Additionally, during the three months ended September 30, 2019, decreases of approximately \$0.1 million each in stock-based compensation expense and in data storage costs contributed to the overall decrease.

General and administrative. The increase in general and administrative expense for the three and nine months ended September 30, 2019 resulted due to an increase of approximately \$0.8 million in our allowance for doubtful accounts because we identified an increased risk in the third quarter of 2019 that we may not fully collect on certain trade receivables related to our AI projects. The increase in the bad debt expense during the year-to-date period of 2019 was not as large as the increase in such expense during the third quarter of 2019 because the year-to-date period of the prior year included the recording of approximately \$0.3 million of allowance for doubtful accounts during the first six months of 2018.

Generally, it is not unusual for Chinese entities to pay their vendors on longer timelines than the timelines typically observed in U.S. commerce. Trade receivables related to our AI projects (exclusive of FinTech) represent 71% of our gross trade receivables. Substantially all of our remaining gross trade receivables balance resulted from the FinTech service we have discontinued. The delay in collection of the FinTech-related balance is related to the processes our customer must follow to properly shut down the short-term loan business in which they previously participated before they can finally pay all their vendors, but we have no evidence that full collection of such balance is at risk.

Consolidated Results

(dollars in thousands)

	Three Months Ended September 30,		Change	
	2019	2018	Dollars	Percentage
Revenue	\$ 686	\$ 1,755	\$ (1,069)	(61)%
Cost of revenue	189	1,231	(1,042)	(85)%
Sales and marketing	736	1,108	(372)	(34)%
Technology and development	752	1,459	(707)	(48)%
General and administrative	3,052	3,760	(708)	(19)%
Depreciation and amortization	229	520	(291)	(56)%
Other operating expense	—	47	(47)	(100)%
Interest expense	(457)	(345)	(112)	32 %
Other expense	(24)	—	(24)	
Change in FV of warrant liability	(160)	3,525	(3,685)	(105)%
Other loss	(28)	(16)	(12)	75 %
Benefit from income taxes	—	442	(442)	(100)%

(dollars in thousands)

	Nine Months Ended September 30,		Change	
	2019	2018	Dollars	Percentage
Revenue	\$ 4,760	\$ 7,468	\$ (2,708)	(36)%
Cost of revenue	3,323	5,778	(2,455)	(42)%
Sales and marketing	2,282	3,165	(883)	(28)%
Technology and development	2,910	3,550	(640)	(18)%
General and administrative	8,483	25,410	(16,927)	(67)%
Depreciation and amortization	814	1,657	(843)	(51)%
Other operating expense	6	93	(87)	(94)%
Interest expense	(1,397)	(1,017)	(380)	37 %
Other income	23	44	(21)	(48)%
Change in FV of warrant liability	502	22,190	(21,688)	(98)%
Other gain (loss)	(27)	507	(534)	(105)%
Benefit from income taxes	—	1,437	(1,437)	(100)%

In addition to the results of operations of our reportable segment that we described above, the following items impacted our consolidated results of operations:

Revenue and Cost of Revenue. During the three months ended September 30, 2019, revenue from our Remark Entertainment business decreased \$0.5 million and associated cost of revenue decreased \$0.3 million due to contracts that ended in the prior year that we did not renew. We also experienced a small decrease in e-commerce cost of sales.

During the nine months ended September 30, 2019, advertising revenue decreased \$0.8 million because we sold Banks.com and the tax-related businesses during 2018, which had generated such revenue in the prior year. The decrease in advertising revenue was partially offset by an increase of \$0.3 million in e-commerce revenue due to increased site traffic resulting from more efficient marketing efforts.

Sales and marketing. The decrease in sales and marketing expense for the three and nine months ended September 30, 2019 primarily resulted from a decrease in headcount in certain of our businesses, which caused approximate decreases of \$0.2 million and \$0.6 million, respectively, in payroll and related costs. The nine months ended September 30, 2019 also saw a decrease of approximately \$0.2 million in other marketing costs which resulted from more efficient use of marketing dollars.

General and administrative. The decrease in general and administrative expense incurred by our non-reportable-segment businesses in the third quarter of 2019 from the corresponding 2018 period was affected by the following:

- Stock-based compensation decreased approximately \$0.6 million because all awards outstanding vested in full during the second quarter of 2019. Also, prior to 2019, our most recent company-wide grant of stock options (which vest over a two-year period) had occurred in 2017 and contributed nine months of expense to the 2018 year-to-date period, but only six months of expense to the 2019 year-to-date period.
- Consulting fees decreased approximately \$0.3 million, primarily as a result of decreased use of temporary external consultants.
- Individual immaterial decreases in several other expense categories that were not representative of any significant trends.

The decrease in general and administrative expense incurred by our non-reportable-segment businesses in the nine months ended September 30, 2019 from the corresponding 2018 period was affected by the following:

- Stock-based compensation expense decreased approximately \$12.4 million primarily because in January 2018, we immediately recognized \$11.6 million of expense related to a grant of an option to purchase 1.3 million shares of our common stock at an exercise price of \$7.81 per share to our Chief Executive Officer. We did not make a similar grant in the current year. Also, prior to 2019, our most recent company-wide grant of stock options (which vest over a two-year period) had occurred in 2017 and contributed nine months of expense to the 2018 year-to-date period, but only six months of expense to the 2019 year-to-date period.
- Rent expense decreased \$2.3 million almost exclusively because, in March 2018, we recognized a liability on the early abandonment of a lease. No similar transactions occurred during the first half of the current year-to-date period.
- Consulting fees decreased approximately \$0.9 million, primarily as a result of decreased use of temporary external consultants.
- Payroll and related costs, excluding bonuses, decreased approximately \$0.5 million as a result of headcount reductions in finance and administration.
- We reduced business travel in 2019, resulting in a decrease of approximately \$0.5 million in travel expense.
- Approximately \$0.3 million of one-time bonuses were paid in 2018 that were not repeated during 2019.

Depreciation and amortization. The decrease in depreciation and amortization for the three and nine months ended September 30, 2019 was the result of long-lived assets which were being depreciated or amortized in the prior-year periods which were no longer being depreciated in the current year periods, either as a result of impairments and write offs or as a result of such assets being fully depreciated or amortized before, or during the early part of, the current year periods.

Interest expense. The increase in interest expense for the nine months ended September 30, 2019 was primarily related to our recognition of previously-unamortized debt discount and debt fees as a result of our prepayment of a portion of our debt when we completed the VDC Transaction. Such prepayment of debt also partially offset the increase from the accelerated amortization of debt discount and debt fees because of the lower debt principal amount generating interest expense.

Other gain. While we only recorded de minimis amounts of Other gain during the three and nine months ended September 30, 2019, the comparable prior-year periods included approximately \$0.6 million of gain on the disposal of the IRS.com domain.

Change in fair value of warrant liability. The fair value of our warrant liability maintains a direct relationship with the price of our common stock, such that the increase in our common stock price between June 30, 2019 and September 30, 2019 resulted in a corresponding increase in the fair value of our warrant liability. The increase in our common stock price was much smaller in scale than the decrease in our common stock price between June 30, 2018 and September 30, 2018 and, as a result, we recognized only a small loss in the current period compared to the large gain we recognized during the same period of 2018.

The decrease in our common stock price between December 31, 2018 and September 30, 2019 was much smaller in scale than the decrease in our common stock price between December 31, 2017 and September 30, 2018; therefore, during the nine months ended September 30, 2019, we recognized less of a gain than during the same period of 2018. Also contributing to the decreases in the change in the fair value of the warrant liability was the one-year decrease in the amount of time the warrants are expected to be outstanding. In both the quarter-to-date and year-to-date periods of 2019, the amount of the decrease from the same periods in 2018 in the recognized change in the fair value of the warrant liability that resulted from stock price changes and the decrease in expected term of the warrants was partially offset by increases in the estimated fair values of the warrant liability that resulted because we increased our estimate of stock price volatility as an input to the model we use for fair value estimation.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the nine months ended September 30, 2019, and in each fiscal year since our inception, we have incurred net losses which have resulted in an accumulated deficit of \$337.8 million as of September 30, 2019. Additionally, our operations have historically used more cash than they have provided. Net cash used in continuing operating activities was \$10.7 million during the nine months ended September 30, 2019. As of September 30, 2019, our cash and cash equivalents balance was \$0.7 million, and we had a negative working capital balance of \$24.7 million.

We are a party to the Financing Agreement, pursuant to which the Lenders have extended credit to the Borrowers consisting of the Loan in the original aggregate principal amount of \$35.5 million. As of September 30, 2019, the Loan bore interest at three-month LIBOR (with a floor of 2%) plus 11% per annum, payable monthly, and had a maturity date of May 15, 2020. The material terms of the Financing Agreement, the amendments thereto, and related documents effective as of September 30, 2019 are described in [Note 12](#) in the Notes to Unaudited Condensed Consolidated Financial Statements. As of September 30, 2019, \$11.6 million of aggregate principal remained outstanding under the Loan, which bore an applicable interest rate of approximately 13% per annum. Our available cash and other liquid assets are not sufficient to pay our obligations under the Financing Agreement in full.

The Financing Agreement contains certain affirmative and negative covenants, including but not limited to a covenant requiring us to maintain a minimum of \$1.0 million in unrestricted cash in designated bank accounts. As of September 30, 2019, we were not in compliance with such minimum cash covenant. We were also not in compliance with certain other covenants under the Financing Agreement, including a covenant requiring us to obtain and pay for the Tail Policy by June 4, 2019 in connection with the VDC Transaction, and a covenant requiring us to make the final Earnout Payment by June 14, 2019. Additionally, although we have actively taken steps to monetize our ownership interest in Sharecare, we did not comply with certain procedural requirements stipulated by the Sharecare Covenant. Our non-compliance with such covenants constitutes events of default under the Financing Agreement. In addition, in June 2019, the Lenders paid the \$1.1 million of premium under the Tail Policy on our behalf and such amount was added to the amount of principal due under the Financing Agreement.

On April 12, 2017, we issued a short-term note payable in the principal amount of \$3.0 million to a private lender in exchange for cash in the same amount. The agreement, which does not have a stated interest rate, required us to repay the note

plus a fee of \$115 thousand on the maturity date of June 30, 2017. The note is accruing interest at \$500 per day on the unpaid principal until we repay the note in full.

Pursuant to the terms of the purchase agreement we entered into in connection with the VDC Acquisition, we were obligated to make an Earnout Payment of \$1.0 million based upon the performance of Vegas.com in the year ended December 31, 2018, but we have not yet made such payment.

On March 29, 2019, we entered into the 2019 Aspire Purchase Agreement with Aspire Capital, which provides that, upon the terms and subject to the conditions and limitations set forth therein, we have the right to direct Aspire Capital to purchase up to an aggregate of \$30.0 million of shares of our common stock over the 30-month term of the 2019 Aspire Purchase Agreement. On April 5, 2019, the conditions necessary for purchases under the 2019 Aspire Purchase Agreement to commence were satisfied and the 2018 Aspire Purchase Agreement was terminated under the terms of the 2019 Aspire Purchase Agreement. We issued 629,370 shares of our common stock to Aspire Capital upon commencement of the 2019 Aspire Purchase Agreement. Purchases under the 2019 Aspire Purchase Agreement, which is described in more detail in [Note 15](#) in the Notes to Unaudited Condensed Consolidated Financial Statements, are made at prices calculated in accordance with the terms of the 2019 Aspire Purchase Agreement at the time of our submission to Aspire Capital of a purchase notice specifying such number of shares to be purchased, subject to maximum dollar and share amounts for sales on any one date unless the parties mutually agree otherwise. Additionally, the total number of shares that may be issued pursuant to the 2019 Aspire Purchase Agreement is limited to the Exchange Cap, unless stockholder approval is obtained in accordance with the rules of the Nasdaq Stock Market. If stockholder approval is not obtained, such limitation will not apply after the Exchange Cap is reached if at all times thereafter the average purchase price paid for all shares issued under the 2019 Aspire Purchase Agreement is equal to or greater than \$1.85 per share.

Our history of recurring operating losses, working capital deficiencies and negative cash flows from operating activities, in conjunction with the ongoing events of default under the Financing Agreement, give rise to substantial doubt regarding our ability to continue as a going concern.

We intend to fund our future operations and meet our financial obligations through revenue growth in our Technology and Data Intelligence segment; however, we cannot provide assurance that revenue, income and cash flows generated from our businesses will be sufficient to sustain our operations in the twelve months following the filing of this Form 10-Q (including but not limited to payment of the amounts required under the Financing Agreement). As a result, we are actively evaluating strategic alternatives including debt refinancing and potential sales of investment assets or operating businesses. However, we may need to obtain additional capital through equity financing.

Conditions in the debt and equity markets, as well as the volatility of investor sentiment regarding macroeconomic and microeconomic conditions, will play primary roles in determining whether we can successfully obtain additional capital. Additionally, pursuant to the Financing Agreement, we are subject to certain limitations on our ability and the ability of our subsidiaries to, among other things, incur additional debt and transfer, sell or otherwise dispose of assets, without the consent of the Lenders. We cannot be certain that we will be successful at raising additional capital.

A variety of factors, many of which are outside of our control, affect our cash flow; those factors include regulatory issues, competition, financial markets and other general business conditions. Based on financial projections, we believe that we will be able to meet our ongoing requirements for at least the next 12 months following this report, (including repayment of our existing debt as it matures) with existing cash, cash equivalents and cash resources, and based on the probable success of one or more of the following plans:

- monetize existing assets
- refinance our debt
- obtain additional capital through equity issuances, including but not limited to under the 2019 Aspire Purchase Agreement (which issuances may dilute existing stockholders)

However, projections are inherently uncertain and the success of our plans is largely outside of our control. As a result, there is substantial doubt regarding our ability to continue as a going concern, and we may fully utilize our cash resources prior to November 12, 2020.

Cash Flows - Continuing Operating Activities

During the nine months ended September 30, 2019, we used \$6.2 million less cash in continuing operating activities than we did during the same period of the prior year. The decrease in cash used in continuing operating activities is a result of the timing of payments related to elements of working capital.

Cash Flows - Continuing Investing Activities

During the nine months ended September 30, 2019, we received \$30.0 million in proceeds from the VDC Transaction, while no similar transaction occurred in the prior year.

Cash Flows - Financing Activities

During the nine months ended September 30, 2019, we received \$9.3 million from sales of shares of our common stock, whereas the same period of 2018 included stock sale proceeds of \$10.0 million and proceeds from stock option exercises of \$1.0 million. We also paid \$27.8 million in debt fees and debt principal in the current year, compared to payments for debt fees during the same period of 2018 of \$1.5 million, and we made a \$0.9 million Earnout Payment in the prior-year period that we have not yet made in the current year.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

Please refer to [Note 2](#) in the Notes to Unaudited Condensed Consolidated Financial Statements included in this report for a discussion regarding recently issued accounting pronouncements which may affect us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that the information we must disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We designed our disclosure controls with the objective of ensuring we accumulate and communicate this information to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and principal financial officer, concluded that, because of the material weaknesses in our internal control over financial reporting related to: (i) insufficient documentary evidence that we had reviewed information underlying manual journal entries at a sufficient level of

detail, (ii) insufficient documentation of our consideration of appropriate revenue recognition criteria for certain contracts arising from our Technology and Data Intelligence segment, and (iii) an aggregation of deficiencies in our monitoring and activity-level controls related to processes in our Technology and Data Intelligence segment including accounts payable, accrued liabilities, payroll and fixed assets, all of which we described in our 2018 Form 10-K, our disclosure controls and procedures were not effective at a reasonable assurance level as of September 30, 2019.

Changes in Internal Control over Financial Reporting

In our 2018 Form 10-K, we disclosed that management had determined that material weaknesses in our internal control over financial reporting (described above) existed. As of the date of this report, we are implementing procedural changes that we believe will remediate the material weaknesses, but not all such changes are complete and those changes that have been implemented have not operated for a sufficient time to be evaluated for their effectiveness; therefore, there was no change in our internal control over financial reporting during such period that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 21, 2018, we initiated a legal proceeding (the “CBG Litigation”) against CBG, Adam Roseman, and CBG’s Joint Official Liquidators (the “JOLs”) arising from the CBG Acquisition. The CBG Litigation was filed in the United States District Court for the District of Nevada and is captioned as Remark Holdings, Inc., et al. v. China Branding Group, Limited (In Official Liquidation), et al., Case No. 2:18-cv-00322. In the CBG Litigation, we sought a declaration from the court that we are entitled to rescission of the CBG Purchase Agreement and all transactions related to the CBG Acquisition, a declaration that the CBG Purchase Agreement and the transactions consummated pursuant thereto be rescinded and void ab initio, a declaration that we are not required to deliver the remaining CBG Acquisition Warrants allowing for the purchase of 5,710,000 shares of common stock at a per-share exercise price of \$10.00, an order directing release to us of any consideration held in escrow in connection with the CBG Acquisition, and disgorgement of all consideration paid by us in connection with the CBG Acquisition. We alleged that the defendants fraudulently misrepresented and concealed material information regarding the companies we acquired in the CBG Acquisition.

We entered into a settlement agreement with Mr. Roseman to settle all claims against him, and we dismissed those claims on May 13, 2019. The Plaintiffs, CBG, and the JOLs entered into a Stipulation for Settlement dated January 15, 2019, which sets forth the binding terms of their settlement agreement (the “Stipulation for Settlement”). Pursuant to the Stipulation for Settlement, we shall issue fully-transferable warrants on a non-diluted basis allowing for the purchase of 5,710,000 shares of our common stock at a per-share exercise price of \$6.00, which warrants are exercisable for a period of five years from the date of the Stipulation for Settlement, and which we have the right to cause the warrant holders to exercise if the closing price of our common stock is \$8.00 or greater on any five non-consecutive days in any consecutive thirty-day trading window. The parties to the Stipulation for Settlement also agreed to negotiate anti-dilution provisions for the warrants. In exchange for the foregoing consideration, the parties to the Stipulation for Settlement agreed to release their claims against each other and enter into a written definitive settlement agreement. After entering into the Stipulation for Settlement, the JOLs demanded the warrants also include an exchange right. We rejected this request and filed a motion to enforce the Stipulation for Settlement on March 12, 2019. Magistrate Judge Hoffman issued a report and recommendation on August 2, 2019, which the District Judge affirmed on September 24, 2019, requiring the JOLs to submit the written definitive settlement agreement (without an exchange right) to the Grand Court of the Cayman Islands overseeing CBG’s liquidation for approval. We intend to vigorously protect our rights under the Stipulation for Settlement and the Court’s orders enforcing it.

ITEM 1A. RISK FACTORS

Not applicable

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On September 13, 2019, we issued 2,300,000 shares of our common stock to an accredited investor in a private placement in exchange for \$1.8 million.

We made the offer and sale of securities in the above-described private placement in reliance upon an exemption from registration requirements pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended, based upon representations made to us by the investor in purchase agreement we entered into with the investor.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of September 30, 2019, we did not comply with a covenant in the Financing Agreement that required us to maintain a minimum of \$1.0 million in unrestricted cash in designated bank accounts. We were also not in compliance with a covenant requiring us to obtain and pay for the Tail Policy by June 4, 2019, and a covenant requiring us to make the final Earnout Payment by June 14, 2019. Additionally, although we have actively taken steps to monetize our ownership interest in Sharecare, we did not comply with certain procedural requirements stipulated by the Sharecare Covenant. These and other matters described herein constitute events of default under the Financing Agreement for which we have not received a waiver as of the date of this report. As of the date of this report, \$11.6 million of aggregate principal amount remained outstanding under the Loan.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated Herein By Reference To		
		Document	Filed On	Exhibit Number
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.			
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.			
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.			
101.INS	XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.			
101.SCH	XBRL Taxonomy Extension Schema Document			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			

SIGNATURES

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

REMARK HOLDINGS, INC.

Date: November 12, 2019

By: /s/ Kai-Shing Tao

Kai-Shing Tao

Chairman and Chief Executive Officer

(principal executive, financial and accounting officer)

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

I, Kai-Shing Tao (the registrant's principal executive officer), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Remark Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

By: /s/ Kai-Shing Tao

Kai-Shing Tao

Chief Executive Officer and Chairman

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kai-Shing Tao, the registrant's principal executive, financial and accounting officer, certify that, to my knowledge:

1. the accompanying Quarterly Report on Form 10-Q for the period ended September 30, 2019 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Remark Holdings, Inc. at the dates and for the periods indicated.

Date: November 12, 2019

/s/ Kai-Shing Tao

Kai-Shing Tao

Chief Executive Officer and Chairman

