Adaptive Medias, Inc.
Form 10-Q
May 24, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal quarter ended **March 31, 2016**

or

[ ] **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________.to _______________.

Commission file number 000-54074

ADAPTIVE MEDIAS, INC.

(Exact name of Registrant as specified in its charter)

Nevada	**26-0685980**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

47 Discovery Suite 220

Irvine, CA 92618

(Address of principal executive offices - Zip Code)

Registrant's telephone number, including area code: 949-525-4634

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock**

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes [ ] No [X]

As of May 20, 2016, there were 33,459,841 shares of the Registrant’s common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ADAPTIVE MEDIAS, INC.

Consolidated Balance Sheets

(Unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash	$695	$359
Accounts receivable, net	253,818	742,194
Prepaid expenses	740,000	845,000
Total Current Assets	994,513	1,587,553
Furniture and fixtures, net	38,430	46,132
Intangible assets, net	258,370	295,405
Deposits	17,114	17,114
Total Assets	$1,308,427	1,946,204
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable and accrued expenses	$4,604,791	$4,624,916
Convertible note payable, net	655,454	675,172
Related party note payable	-	46,795
Derivative liability	3,892,315	1,481,278
Total Liabilities	9,152,560	6,828,161
Stockholders' Deficit		
Preferred stock, $0.001 par value, 50,000,000 shares authorized; none outstanding	-	-
Common stock, $0.001 par value, 300,000,000 shares authorized; 29,925,134 and 22,923,526 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	29,952	22,924
Additional paid-in capital	55,923,920	53,395,785
Accumulated deficit	(63,798,005)	(58,300,666)
Total Stockholders' Deficit	(7,844,133)	(4,881,957)
Total Liabilities and Stockholders' Deficit	$1,308,427	$1,946,204

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

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ADAPTIVE MEDIAS, INC.

Consolidated Statement of Stockholders' Deficit

(Unaudited)

	Three Months Ended March 31, 2016	2015
Revenue	$173,087	$1,167,719
Cost of revenue	117,523	970,359
Gross Profit	55,564	197,360
Operating expenses:		
Legal and professional fees	64,373	353,419
Research and development	-	156,972
General and administrative expenses	519,694	1,752,127
Selling expenses	25,506	275,187
Depreciation and amortization	44,738	655,562
Stock compensation expense	2,535,625	3,941,118
Total operating expenses	3,189,936	7,134,385
Loss from operations	(3,134,372)	(6,937,025)
Other income (expense):		
Interest expense	(570,857)	(25,577)
Gain (loss) on extinguishment of debt	16,427	-
Excess fair market value of derivative liabilities	(2,684,803)	-
Change in fair value of derivative liability	834,266	-
Other income	42,000	3,942
Total other income (expense)	(2,362,967)	(21,635)
Net loss	$(5,497,339)	$(6,958,660)
Basic and dilutive loss per common share	$(0.21)	$(0.50)
Weighted average number of common shares outstanding - basic and diluted	26,808,484	13,906,033

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

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ADAPTIVE MEDIAS, INC.

Consolidated Statement of Stockholders' Deficit

(Unaudited)

	Common Stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Paid-In Capital	Deficit	Equity
Balance December 31, 2015	22,923,526	$22,924	$53,395,785	$(58,300,666)	$(4,881,957)
Shares issued for services	4,535,608	4,562	2,381,771	-	2,386,333
Shares issued for debt	2,466,000	2,466	102,073	-	104,539
Stock option expense	-	-	44,291	-	44,291
Net loss	-	-	-	(5,497,339)	(5,497,339)
Balance March 31, 2016	29,925,134	$29,952	$55,923,920	$(63,798,005)	$(7,844,133)

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

ADAPTIVE MEDIAS, INC.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(5,497,339)	$(6,958,660)
Adjustments to reconcile from net loss to net cash used in operating activities:		
Depreciation and amortization	44,738	655,562
Allowance for bad debts	93,542	72,847
Stock compensation for services and options expense	2,535,625	577,633
Amortization of debt discount	523,095	-
Change in fair value of derivative liability	1,850,537	-
Changes in operating assets and liabilities		
Accounts receivable	394,834	369,014
Prepaid expenses	-	18,081
Deposits	-	24,050
Accounts payable and accrued expenses	(20,127)	3,295,788
Net cash used in operating activities	(75,095)	(1,945,685)
Cash flows from investing activities:		
Purchases of property and equipment	-	(4,860)
Purchases and development of intangibles	-	(95,788)
Net cash used in investing activities	-	(100,648)
Cash flows from financing activities:		
Proceeds from notes payable	562,400	-
Repayments of notes payable	(486,969)	-
Net cash provided by financing activities	75,431	-
Net increase (decrease) in cash	336	(2,046,333)
Cash, beginning of period	359	2,255,784
Cash, end of period	$695	$209,451
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$29,906	$19,708
Income taxes	$-	$-
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock for repayment of convertible note payable	$49,039	$-
Issuance of common stock in connection with issuance of convertible note payable	$55,500	$-

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

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 1 - Organization and Nature of Business

Adaptive Medias, Inc., formerly known as “Mimvi, Inc.” and prior to that as “Fashion Net, Inc.” (“Adaptive Medias” or the “Company”), was formed on August 7, 2007 under the laws of the State of Nevada. The Company, through its core content monetization platform and technology, provides app developers, publishers and video content developers one of the only end-to-end monetization platforms driven by programmatic algorithms. The Company provides these unique capabilities to monetize content efficiently across multiple marketing channels, including mobile, video and online display advertising.

Pursuant to votes of the majority of the Board of Directors and shareholders, effective on November 6, 2013, the Company changed its name to Adaptive Medias, Inc. in order to better and more fully demonstrate the Company’s emphasis on providing a supply-side platform for mobile, video and online display advertising. In connection with the name change, effective on November 6, 2013, the Company’s ticker symbol was changed to ADTM.

The Company is a programmatic audience and content monetization company for website owners, app developers and video publishers who want to more effectively optimize content through advertising. Adaptive Medias provides a foundation for publishers and developers looking to engage brand advertisers through a multi-channel approach that delivers integrated, engaging and impactful ads across multiple devices. The Company meets the needs of its publishers with an emphasis on maintaining user experience, while delivering timely and relevant ads through its multi-channel ad delivery and content platform.

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

<u>Basis of Presentation</u>

The accompanying consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles in the United States of America, and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, consisting of normal recurring adjustments, which management believes are necessary to fairly present the financial position, results of operations and cash flows of the Company.

On April 14, 2014, the shareholders of the Company authorized its Board of Directors to effectuate a reverse stock split, in the Board's discretion (the "Reverse Stock Split"), which was ultimately declared effective by the Board of Directors as of the close of business on July 14, 2014. As a result of the Reverse Stock Split, every thirty (30) issued and outstanding shares of the Company's common stock was changed and converted into one (1) share of common stock. Following the Reverse Stock Split, the Company continues to have 300,000,000 shares of common stock authorized for issuance, but the number of outstanding shares of the Company's common stock was reduced from 192,364,735 shares to 6,412,225 shares. As required by the Financial Accounting Standards Board's (FASB") Accounting Standards Codification ("ASC") Topic 260-10-55-12 "*Earnings per Share*" all share and per-share computations presented in these condensed consolidated financial statements are based on the new number of shares after the Reverse Stock Split.

Principles of Consolidation

The consolidated financial statements include the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Going Concern

The Company's unaudited condensed consolidated financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenue sufficient to cover its operating costs and allow it to continue as a going concern. As of March 31, 2016, the Company had an accumulated deficit of $$63,790,633 . The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease or reduce its operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. The Company will continue to raise funds through the sale of its equity securities or issuance of notes payable to obtain additional operating capital. The Company is dependent upon its ability, and will continue to attempt, to secure additional equity and/or debt financing until the Company can earn revenue and realize positive cash flow from its operations. There are no assurances that the Company will be successful in earning revenue and realizing positive cash flow from its operations. Without sufficient financing it would be unlikely that the Company will continue as a going concern.

Based on the Company's current rate of cash outflows, cash on hand and proceeds from the prior sale of equity securities and issuance of convertible notes, management believes that its current cash will not be sufficient to meet the anticipated cash needs for working capital for the next 12 months. The Company's plans with respect to its liquidity issues include, but are not limited to, the following:

1) Continue to issue restricted stock for compensation due to consultants and for its legacy accounts payable in lieu of cash payments; and

2) Seek additional capital in the public equity markets to continue its operations as it rolls out its current products in development, responds to competitive pressures, develops new products and services, and supports new strategic partnerships. The Company is currently evaluating additional debt or equity financing opportunities and may execute them when appropriate. However, there can be no assurances that the Company can consummate such a transaction, or consummate a transaction at favorable pricing.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and achieve profitable operations. These condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

Reclassifications

Certain reclassifications have been made to amounts in prior periods to conform to the current period presentation. All reclassifications have been applied consistently to the periods presented.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue when earned and related costs of sales and expenses when incurred. The Company recognizes revenue in accordance with FASB ASC Topic 605-10-599, *Revenue Recognition, Overall, SEC Materials* ("Section 605-10-599"). Section 605-10-599 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. Cost of revenue consists of the cost of the purchased goods and labor related to the corresponding sales transaction. When a right of return exists, the Company defers revenues until the right of return expires. The Company recognizes revenue from services at the time the services are completed.

Accounts Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable primarily consist of trade receivables. The Company records an allowance for doubtful accounts that is based on historical trends, customer knowledge, any known disputes, and the aging of the accounts receivable balances combined with management's estimate of future potential recoverability. Receivables are written off against the allowance after all attempts to collect a receivable have failed. The Company believes its allowance for doubtful accounts as of March 31, 2016 and December 31, 2015 is adequate, but actual write-offs could exceed the recorded allowance.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Intangible assets

Intangible assets consisting of websites, customer lists, content and publisher relationships, developed technology and trade names are stated at cost. Expenditures of costs incurred to renew or extend the term of a recognized intangible asset and materially extend the useful life are capitalized. When assets are sold or otherwise written off due to asset impairment, the cost and the related accumulated amortization are removed from the accounts and any realized gain or loss is recognized at that time. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

Internal Use Software Development Costs

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post implementation phases of development as research and development expense. The Company capitalizes costs when preliminary efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and will be used as intended. Costs incurred for enhancements that are expected to result in additional material functionality are capitalized.

Convertible Debt and Warrants Issued with Convertible Debt

Convertible debt is accounted for under the guidelines established by ASC 470, *Debt with Conversion and Other Options* and ASC 740, *Beneficial Conversion Features*. We record a beneficial conversion feature (“BCF”) when convertible debt is issued with conversion features at fixed or adjustable rates that are below market value when issued. If, however, the conversion feature is dependent upon a condition being met or the occurrence of a specific event, the BCF will be recorded when the related contingency is met or occurs. The BCF for the convertible instrument is recorded as a reduction, or discount, to the carrying amount of the convertible instrument equal to the fair value of the conversion feature. The discount is then amortized to interest over the life of the underlying debt using the effective interest method.

We calculate the fair value of warrants issued with the convertible instruments using the Black-Scholes valuation method, using the same assumptions used for valuing employee options for purposes of ASC 718, *Compensation – Stock Compensation*, except that the contractual life of the warrant is used. Under these guidelines, we allocate the value of the proceeds received from a convertible debt transaction between the conversion feature and any other detachable instruments (such as warrants) on a relative fair value basis. The allocated fair value is recorded as a debt discount or premium and is amortized over the expected term of the convertible debt to interest expense. For a conversion price change of a convertible debt issue, the additional intrinsic value of the debt conversion feature, calculated as the number of additional shares issuable due to a conversion price change multiplied by the previous conversion price, is recorded as additional debt discount and amortized over the remaining life of the debt.

For modifications of convertible debt, we record the modification that changes the fair value of an embedded conversion feature, including a BCF, as a debt discount which we amortize to interest expense over the remaining life of the debt. If modification is considered substantial (i.e. greater than 10% of the carrying value of the debt), an extinguishment of debt is deemed to have occurred, resulting in the recognition of an extinguishment gain or loss.

<u>Fair Value of Financial Instruments</u>

We utilize ASC 820-10, Fair Value Measurement and Disclosure, for valuing financial assets and liabilities measured on a recurring basis. Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of our Company. Unobservable inputs are inputs that reflect our Company's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

As of March 31, 2016 and December 31, 2015, we did not have any level 3 assets or liabilities. As of March 31, 2016 and December 31, 2015, the derivative liabilities are considered level 2 items.

Net Income (Loss) Per Share

Basic earnings per share is calculated by dividing income available to common stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of common and dilutive common share equivalents outstanding during the period.

Stock Based Compensation

The Company recognizes stock-based compensation in accordance with FASB ASC Topic 718 *Stock Compensation*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to an employee stock purchase plan based on the estimated fair values.

For non-employee stock-based compensation, the Company applies FASB ASC Topic 505 *Equity-Based Payments to Non-Employees*, which requires stock-based compensation related to non-employees to be accounted for based on the fair value of the related stock or options or the fair value of the services on the grant date, whichever is more readily determinable in accordance with FASB ASC Topic 718.

Income Taxes

The Company accounts for its income taxes in accordance with Income Taxes Topic of the FASB ASC 740, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

The Company also follows ASC 740-10-25, which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with ASC Topic 740, "*Accounting for Income Taxes*". ASC 740-10-25 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company believes it is no longer subject to income tax examinations for the years prior to 2011.

Recently Issued Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board jointly issued ASU No. 2014-9, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU, as amended, is effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption is not permitted under U.S. GAAP and retrospective application is permitted, but not required. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial position and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statement-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which provides guidance under U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The ASU is effective for all entities and for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU No. 2014-15 is not expected to have a significant impact on the Company's consolidated financial statements and related disclosures.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 3 – Intangible Assets

The following table summarizes the intangible assets as of March 31, 2016 and December 31, 2015.

	March 31, 2016	December 31, 2015
Websites	$11,297	$11,297
Customer lists	306,505	306,505
Developed technology	3,995,098	3,995,098
Trade names	71,235	71,235
	4,384,135	4,384,135
Less: accumulated amortization	$(4,125,765)	$(4,088,730)
Intangible assets, net	258,370	295,405

Amortization commences when the software for internal use is ready for its intended use and the amortization period is the estimated useful life of the related asset, which is generally three years. Amortization expense totaled $37,035 and $650,218 for the three months ended March 31, 2016 and 2015, respectively.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 4 – Convertible Notes Payable

The following tables describes the Company's convertible notes payable as of March 31, 2016 and December 31, 2015.

	March 31, 2016		December 31, 2015	
	Principal	Accrued Interest	Principal	Accrued Interest
Convertible notes				
September 2015 convertible notes	$1,221,815	$-	$1,470,588	$-
Convetible note #1	-	-	245,000	-
Convertible note #2	60,961	8,800	110,000	8,800
Convertible note #3	245,000	3,061	-	-
Convertible note #4	60,500	716	-	-
Convertible note #5	335,000	-	-	-
Convertible note #6	40,000	175	-	-
Debt Discount	(1,307,822)	-	(1,150,417)	
Subtotal convertible notes net	655,454	12,752	675,172	8,800
Related party promissory note				
Related party promissory note #1	-	-	46,795	-
Total	655,454	12,752	721,967	8,800
Current portion	655,454	12,752	721,967	8,800
Long-term portion	$-	$-	$-	$-

Issuance and Repayments of Convertible Promissory Notes

In September 2015, the Company raised $1,250,000 in gross proceeds from the sale of a discount convertible debenture offering in the aggregate principal amount of $1,470,588 with a maturity date of September 4, 2016. The noteholders also received warrants to purchase 3,676,470 shares of common Stock, exercisable at $.50 per share through September 3, 2020. The placement agent received $100,000 in cash. The total principal amount of the debentures is issued with a 117.65% premium to the purchase price. The debentures have a maturity date of September 3, 2016, until which the debentures may be convertible any time into shares of the Company's common stock at a conversion price equal to $0.30 per share. At any time while these notes are outstanding, the Company shall sell or grant any option to purchase, or sell or grant any right to reprice, reset, "ratchet down" be entitled to receive shares of Common Stock at an effective price per share that is less than the conversion price. According to ASC 815, the Company recorded a derivative liability and valued the conversion feature of the notes using a multi-nomial model. The following were used to determine to the value: volatility of 168.71%, risk free rate of .36%.

The holders of these September 2015 discount convertible debentures also received warrants to purchase an aggregate of 3,676,470 shares of the Company's common stock, par value $0.0001 per share, for an exercise price of $0.50 per share for a period of five (5) years beginning March 3, 2016, or six (6) months from the date of issuance. At any time while these warrants are outstanding, the Company shall sell or grant any option to purchase, or sell or grant any right to reprice, reset, "ratchet down" be entitled to receive shares of Common Stock at an effective price per share that is less than the Exercise Price. According to ASC 815, the Company recorded a derivative liability and valued the warrant using a multi-nomial model. The following were used to determine to the value: volatility of 168.71%, risk free rate of 1.47%.

On October 7, 2015, the Company entered into a short term note payable with John B. Strong in exchange for $75,000. The note bears interest at 6% per annum and is due and payable on January 7, 2016. The Company made payments of $28,205 before the due date and then extended the note upon the due date under the same terms of 90 days and 6% per annum. This note was paid in full on 3/28/16.

On October 26, 2015, the Company entered into convertible promissory note #1 with an outside investor for a principal amount of $245,000 in exchange for $200,000 with a maturity date of April 25, 2016. The note is convertible at a conversion price of 60% of the lowest trading price of the Company's common stock for the previous 20 trading days prior to the conversion date. The note bears no interest unless an event of default occurs under which it would bear an interest rate of 22% per annum. This note was repaid with cash in full on February 22, 2016.

On November 13, 2015, the Company entered into a convertible promissory note #2 with an outside investor for a principal amount of $110,000 in exchange for $100,000 with a maturity date of May 31, 2016. The note is convertible at a conversion price lessor of $.30 or 60% of the lowest trading price of the Company's common stock for the previous 25 trading days prior to the conversion date. The note bears no interest unless an event of default occurs under which it would bear an interest rate of 22% per annum. According to ASC 815, the Company recorded a derivative liability and valued the conversion feature of the notes using a multi-nomial model. The following were used to determine to the value: volatility of 203.6%, risk free rate of .31%.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

The holder of convertible promissory note #2 also received warrants to purchase an aggregate of 294,118 shares of the Company's common stock, par value $0.0001 per share, for an exercise price of $0.50 per share for a period of five (5) years. At any time while these warrants are outstanding, the Company shall sell or grant any option to purchase, or sell or grant any right to reprice, reset, "ratchet down" be entitled to receive shares of Common Stock at an effective price per share that is less than the Exercise Price. According to ASC 815, the Company recorded a derivative liability and valued the warrant using a multi-nomial model. The following were used to determine to the value: volatility of 280.4%, risk free rate of 1.67%.

On February 22, 2016, the Company entered into convertible promissory note #3 with an outside investor for a principal amount of $245,000 in exchange for $220,400 with a maturity date of November 19, 2016. The note is convertible at a conversion price lessor of 60% of the lowest trading price of the Company's common stock for the previous 20 trading days prior to the execution date or conversion date. The note bears 12% interest per annum. According to ASC 815, the Company recorded a derivative liability and valued the conversion feature of the notes using the Black-Scholes model. The following were used to determine to the value: volatility of 246.15%, risk free rate of .51%.

The holder of convertible promissory note #3 also received warrants to purchase an aggregate of 2,543,605 shares of the Company's common stock, par value $0.0001 per share, for an exercise price of $.60 per share for a period of five (5) years. At any time while these warrants are outstanding, the Company shall sell or grant any option to purchase, or sell or grant any right to reprice, reset, "ratchet down" be entitled to receive shares of Common Stock at an effective price per share that is less than the Exercise Price. According to ASC 815, the Company recorded a derivative liability and valued the warrant using the Black Sholes model. The following were used to determine to the value: volatility of 246.2%, risk free rate of .92%.

On February 24, 2016, the Company entered into convertible promissory note #4 with an outside investor for a principal amount of $60,500 in exchange for $55,000 with a maturity date of February 23, 2018. The note is convertible at a conversion price lessor of $.48 per share or 60% of the lowest trading price of the Company's common stock for the previous 25 trading days prior to the conversion date. The note bears no interest per annum. According to ASC 815, the Company recorded a derivative liability and valued the conversion feature of the notes using the Black-Scholes model. The following were used to determine to the value: volatility of 245.9%, risk free rate of .75%.

On March 3, 2016, the Company entered into convertible promissory note #5 with an outside investor for a principal amount of $335,000 in exchange for $253,000 with a maturity date of September 3, 2016. The holder was also issued 150,000 shares of the company common stock in connection with this note. The note is convertible at a conversion price lessor of 60% of the lowest trading price of the Company's common stock for the previous 20 trading days prior to the conversion date. The note bears no interest and is not convertible until an event of default occurs under which it would bear an interest rate of 22% per annum.

The holder of convertible promissory note #5 also received warrants to purchase an aggregate of 652,597 shares of the Company's common stock, par value $0.0001 per share, for an exercise price of $.50 per share for a period of five (5) years. At any time while these warrants are outstanding, the Company shall sell or grant any option to purchase, or sell or grant any right to reprice, reset, "ratchet down" be entitled to receive shares of Common Stock at an effective price per share that is less than the Exercise Price. According to ASC 815, the Company recorded a derivative liability and valued the warrant using the Black Sholes model. The following were used to determine to the value: volatility of 248%, risk free rate of .98%.

On March 15, 2016, the Company entered into convertible promissory note #6 with an outside investor for a principal amount of $40,000 in exchange for $34,000 with a maturity date of March 15, 2017. The note is convertible at a conversion price of 58% of the lowest trading price of the Company's common stock for the previous 20 trading days prior to the conversion date. The note bears no interest per annum. According to ASC 815, the Company recorded a derivative liability and valued the conversion feature of the notes using the Black-Scholes model. The following were used to determine to the value: volatility of 248%, risk free rate of .98%.

Please refer to Note 5 for derivative valuations of the above notes and warrants.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 5 – Derivative Financial Instruments

The Company applies the provisions of ASC Topic 815-40, Contracts in Entity's Own Equity ("ASC Topic 815-40"), under which convertible instruments, which contain terms that protect holders from declines in the stock price, may not be exempt from derivative accounting treatment. As a result, embedded conversion options (whose exercise price is not fixed and determinable) in convertible debt (which is not conventionally convertible due to the exercise price not being fixed and determinable) are initially recorded as a liability and are revalued at fair value at each reporting date using the Black Sholes Model.

The following table describes the Derivative liability as of March 31, 2016 and December 31, 2015.

	Initial derivative valuation	Revaluation at December 31, 2015	(Gain)/Loss for Three Months Ended March 31, 2016	Revaluation at March 31, 2016
Convertible notes				
September 2015 convertible notes	$1,487,822	$519,575	$203,739	$723,314
Convetible note #1	-	-	-	-
Convertible note #2	121,986	153,813	20,070	79,995
Convertible note #3	1,504,118	-	(635,012)	869,106
Convertible note #4	234,412	-	(121,611)	112,801
Convertible note #5	-	-	-	-
Convertible note #6	42,100	-	27,861	69,961
Warrants attached to convertible notes				
September 2015 warrants	1,631,357	747,965	296,520	1,044,485
Convertible note #2 warrants	87,851	59,925	(70,225)	83,588
Convertible note #3 warrants	1,213,554	-	(490,153)	723,401
Convertible note #5 warrants	251,119	-	(65,455)	185,664
Total	6,574,319	1,481,278	(834,266)	3,892,315

Note 6 – Stockholders' Deficit

Preferred Stock

The Company's articles of incorporation authorize the Company to issue up to 50,000,000 preferred shares of $0.001 par value, having preferences to be determined by the Board of Directors for dividends, and liquidation of the Company's assets. As of March 31, 2016 and December 31, 2015, the Company had no preferred shares outstanding.

Common Stock

We are authorized to issue 300,000,000 shares of $0.001 par value common stock. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders and are not entitled to cumulate their votes in the election of directors. The holders of common stock are entitled to any dividends that may be declared by the Board of Directors out of funds legally available therefore subject to the prior rights of holders of any outstanding shares of preferred stock and any contractual restrictions against the payment of dividends on common stock. In the event of liquidation or dissolution of our Company, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive or other subscription rights and no right to convert their common stock into any other securities.

Issuance of Common Stock

During the three months ended March 31, 2016, the Company issued 4,535,6080 shares of its common stock to various employees and consultants in exchange for services rendered with an aggregate fair value of $2,386,334. The Company also issued shares in connected with debt of 2,466,000 for an aggregate fair value of $1,213,500. The total number of shares outstanding as of March 31, 2016 was 29,925,134.

During the three months ended March 31, 2015, the Company issued 179,960 shares of its common stock to various employees and consultants in exchange for services rendered with an aggregate fair value of $577,633. The total number of shares outstanding as of March 31, 2015 was 14,049,731.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 7 – Warrants and Options

Stock Option Plans

The Company's shareholders approved the Company's 2010 Stock Incentive Plan (the "2010 Plan") on November 2, 2010. The Plan provides for the grant of non-statutory or incentive stock options, stock appreciation rights, restricted stock, restricted stock units, and other stock-based awards to the Company's employees, Officers, Directors or consultants. The Company's Board of Directors administers the 2010 Plan, selects the individuals to whom options will be granted, determines the number of options to be granted, and the term and exercise price of each option. Stock options granted pursuant to the terms of the 2010 Plan generally cannot be granted with an exercise price of less than 100% of the fair market value on the date of the grant. The term of the options granted under the 2010 Plan cannot be greater than 10 years. Options vest at varying rates generally over three to five years along with performance based options.

In September 2013, the Company approved the increase in the number of shares issuable pursuant to the 2010 Plan to 15,000,000. In December 2013, the Company's Board of Directors approved an amendment to the Amended and Restated 2010 Stock Incentive Plan which increased the number of shares issuable pursuant to the Plan by 15,000,000 to 30,000,000 shares. Both amendments were approved by the Company's shareholders. Upon completion of the Reverse Stock Split on April 14, 2014, the Company continues to have 30,000,000 shares issuable pursuant to the 2010 Plan.

On February 5, 2013 the Company's Board of Directors adopted the 2013 Consultant Stock Plan (the "2013 Plan") and reserved 2,000,000 shares of the Company's common stock for issuance thereunder. During the year ended December 31, 2013, all 2,000,000 shares were issued under this 2013 Plan.

The following table reflects the option activity during the three months ended March 31, 2016:

	Common Shares	Average Exercise Price

Outstanding as of December 31, 2015	393,875	$ 0.65
Granted	50,000	0.59
Exercised	-	-
Forfeited, cancelled, expired	-	-
Outstanding as of March 31, 2016	443,875	$ 0.64

As of March 31, 2016 28,169,022 shares were available for future grants.

Warrants

The following table reflects warrant activity during the three months ended March 31, 2016:

	Warrants for Common Shares	Weighted Average Exercise Price
Outstanding and exercisable as of December 31, 2015	8,539,909	$ 4.00
Granted	3,196,202	0.58
Exercised – cash	-	-
Exercised - cash-less exercise	-	-
Forfeited, cancelled, expired	-	-
Outstanding as of March 31, 2016	11,736,111	$ 3.07

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ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 7 – Income Taxes

The Company had net operating loss carryforwards (“NOLs”) as of December 31, 2015 of approximately $42.1 million for federal and state tax purposes, portions of which are expiring at various years through 2035. The Company may be able to utilize its NOLs to reduce future federal and state income tax liabilities. However, these NOLs are subject to various limitations under Internal Revenue Code (“IRC”) Section 382. IRC Section 382 limits the use of NOLs to the extent there has been an ownership change of more than 50 percentage points. In addition, the NOL carryforwards are subject to examination by the taxing authority and could be adjusted or disallowed due to such exams. Although the Company has not undergone an IRC Section 382 analysis, it is possible that the utilization of the NOLs could be significantly limited.

Note 8 – Income (Loss) Per Share

Net income (loss) per share is provided in accordance with FASB ASC 260-10, *“Earnings per Share”*. Basic net income (loss) per common share (“EPS”) is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average shares outstanding, assuming all dilutive potential common shares were issued, unless doing so is anti-dilutive. The numerators and denominators used to calculate basic and diluted income (loss) per share are as follows for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Numerator for income (loss) per share:		
Net income (loss) attributable to common shareholders	$(5,497,339)	$(6,958,660)
Numerator for diluted income (loss) per share	$(5,497,339)	$(6,958,660)
Denominator for income (loss) per share:		
Weighted average common shares	26,808,484	13,906,033
Convertible note payable	-	-
Options	-	-
Warrants	-	-
Denominator for diluted income (loss) per share	26,808,484	13,906,033

The following shares are not included in the computation of diluted income (loss) per share, because their conversion prices exceeded the average market price or their inclusion would be anti-dilutive:

	Three Months Ended March 31,	
	2016	2015
Convertible notes	11,254,810	-
Options	443,875	1,477,977
Warrants	11,736,111	2,879,627
Total anti-dilutive weighted average shares	23,434,796	4,357,604

If all dilutive securities had been exercised at March 31, 2016 the total number of common shares outstanding would be as follows:

Common shares	29,925,134
Convertible notes	11,254,810
Options	443,875
Warrants	11,736,111
Total potential shares	53,359,930

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 9 – Concentrations

The following table reflects the concentration of revenue during the years ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016	2015
Customer 1	25%	0 %
Customer 2	23%	3 %
Customer 3	13%	2 %
Customer 4	0 %	19 %
Customer 5	0 %	13 %

Customers in excess of 10% or more as included in the table above represent $93,847 and $309,073 of gross accounts receivable as of March 31, 2016 and 2015, respectively.

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ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

Note 10 – Commitments and Contingencies

Office Lease Agreements

On September 22, 2015 the Company signed a lease for office space in Irvine, California, and subsequently moved its operation to this location. This lease expires in September 2018 and carries a current monthly rent of approximately $5,350.

Legal Proceedings

1. ***Adaptive Medias, Inc. v. Vdopia, Inc***.,

   Alameda County Superior Court, Case No. RG16806402. On March 4, 2016, Adaptive filed suit against Vdopia for recovery of over $177,246 owed. Vdopia has not yet responded to the Complaint.

2. ***Open X Technologies, Inc. v. Adaptive Medias, Inc***.,

   American Arbitration Association (AAA), Case No. 01-15-0006-0657. On December 16, 2015, Open X filed a demand with AAA for arbitration of a dispute over $58,701 allegedly owed by Adaptive, plus claimed interest, attorney's fees, and costs, etc. The Company has denied all allegations. An Arbitration trial is scheduled for July 8, 2016.

3. ***Viewster, AG v. Adaptive Medias, Inc.***,

   Orange County Superior Court, Case No. 30-2015-00809444-CU-BC-CJC. On September 14, 2015, Viewster, AG, a Swiss corporation, sued Adaptive. A default judgment was entered and Adaptive filed a motion to set it aside. In January 2015, while that motion was pending, the parties entered into a settlement agreement, pursuant to which Adaptive would make installment payments totaling $58,592. Adaptive was not able to make all the installment payments, and the judgment is now enforceable but it has been reduced by a prior payment. On January 16, 2016 the Company entered into a settlement agreement with a vendor to settle $55,137 in payables for $58,593 including fees and costs.

4. ***Shandy Media, Inc. v. Adaptive Medias, Inc.***,

Los Angeles County Superior Court, Case No. BC588554. On or about July 20, 2015, Shandy Media sued Adaptive for $83,655, which Shandy claimed Adaptive owed pursuant to a service agreement. The Company denied all allegations. On or about April 7, 2016, the parties entered into a settlement agreement pursuant to which Adaptive agreed to pay Shandy $40,000 by June 1, 2016, in full settlement and release of all claims, and if Adaptive fails to pay the settlement amount by June 1, 2016, then a judgment will be entered against Adaptive for $83,655.

5.*2Blue Media Group, LLC v. Adaptive Medias, Inc.*,

Orange County Superior Court, Case No. 30-2015-00806086-CU-CL-CJC. On August 24, 2015, 2Blue Media Group, LLC filed a lawsuit claiming that Adaptive owed $25,825 for services. The Company has denied all allegations. A settlement conference is scheduled for May 6, 2016 , and trial is scheduled for June 20, 2016.

6.*Khoi Senderowicz v. Kasian Franks, Andrew Linton, Mimvi, Inc.*,

Alameda County Superior Court, Case No. RG13689457. On July 29, 2013, Plaintiff Khoi Senderowicz sued the Company's founder and former officer, Kasian Franks. The lawsuit also named as defendants the Company and an alleged shareholder. Senderowicz claimed that Company was responsible for two residential properties she rented to Franks. Senderowicz sought over $353,983 in claimed unpaid rent, property damages, and lost rent. Senderowicz also sought to redeem 50,000 shares of restricted common stock that Franks issued to her children in March of 2011, and she claimed she was entitled to an another 250,000 shares that Franks allegedly promised. The Company denied all allegations. In June 2015, the Company agreed to settle Senderowciz's claims in exchange for payment of $26,000 and cooperation in removing the restrictions on the 50,000 shares. Senderowicz later claimed that the settlement should be set aside. A hearing on whether the settlement should be set aside is scheduled for April 29, 2016 .

7.*Amanda Besemer v. Adaptive Medias, Inc., Mimvi, Inc.*,

Los Angeles County Superior Court, Case No. SC 123934. On February 27, 2014, Amanda Besemer sued the Company for alleged breach of an Advisory Board Member Agreement that she claimed she entered into with the Company's founder and former officer, Kasian Franks. The lawsuit was filed in the Santa Clara County Superior Court (San Jose), but on or about March 20, 2015, the lawsuit was transferred and re-filed in the Los Angeles County Superior Court (Santa Monica). Besemer received over $100,000 worth of stock. She alleged that the Member Agreement entitled her to an additional 800,000 shares which she claims were worth $704,000. The Company denied all allegations. In March 2016, the parties entered into a settlement agreement, pursuant to which the Company agreed to pay a total of $75,000 in monthly installments, the last of which is due in January 2017. Under the agreement, if the Company defaults on the payments a judgment may be entered against Adaptive for $100,000, less any prior payments.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

8. ***Mario Wilson v. Mimvi, Inc.***,

San Francisco County Superior Court, Case No. CPF-12-512012. On February 16, 2012, a judgment for $62,141 was entered in favor of a former employee, Mario Wilson. By the end of 2014, the judgment had grown with interest, costs, and attorney fees to $76,694. Adaptive settled the judgment and satisfied it.

9. ***iii-interactive, LLC, d/b/a 3 Interactive and d/b/a Division-D v. Adaptive Medias, Inc.***,

Circuit Court of Boone County, Missouri, Case No. 15BA-CV02525. On July 29, 2015, iii-Interactive filed a lawsuit in Missouri claiming that the Company owed $29,341 and a default judgment was entered. In October 2015, the Company agreed to settle the matter for $20,000, and that settlement was paid.

10. ***Phunware, Inc. adv. Adaptive Medias, Inc.***

Phunware, Inc. has asserted a claim against Adaptive for $6,133.

11. ***E.J. Hilbert adv. Adaptive Medias, Inc.***

E.J. Hilbert has asserted claims against Adaptive for alleged breaches and/or alleged failures to grant him 500,000 shares of restricted stock and 500,000 stock options.

12. ***Crowdgather, Inc. adv. Adaptive Medias, Inc.***

Crowd Gather has asserted a claim against Adaptive for $10,987.

13. ***Eric Rice v. Mimvi, Inc.***,

Los Angeles County Superior Court, Case No. LC100816. On September 20, 2013, Eric Rice sued for alleged breaches and alleged termination based on claimed false pretexts, and he sought over $180,000. In December 2014, the case was transferred to attorney David Fisher of Fisher & Wolfe LLP. It is my understanding that the matter was settled.

14. ***Felix Chan v. Adaptive Medias, Inc.***,

San Francisco County Superior Court, Case No. CPF-15-514104. On or about May 6, 2015, judgment was entered confirming a AAA arbitration award against Adaptive and in favor of Chan for $358,387. In or about June 2015, the parties entered into a settlement agreement, pursuant to which Adaptive agreed to resolve the matter by making payments. I do not know if all the payments were made. I believe attorney David Fisher of Fisher & Wolfe LLP would have more information.

15. ***OneScreen, Inc. v. Patel***

Orange County Superior Court Case No. 30-2014-00699812. OneScreen initiated the lawsuit against Atul Patel ("Mr. Patel"). Mr. Patel subsequently filed a cross-complaint asserting claims against numerous cross-defendants, including the Company. Mr. Patel asserted various claims in his Second Amended Cross-Complaint against the Company, including claims for conversion, fraudulent transfers, and successor liability. On October 21, 2015, the court heard the Company's demurrer to Mr. Patel's Second Amended Cross-Complaint. Adaptive reached a confidential settlement on this matter on February 16, 2016.

16. AdOn Network, LLC v. OneScreen, Inc., et al.,

San Francisco Superior Court Case No. CGC-14-542878. AdOn Network, LLC ("AdOn") originally filed suit against OneScreen arising out of an alleged settlement agreement that OneScreen entered into with AdOn on March 14, 2014. AdOn asserts that OneScreen breached the settlement and asserts various contractual and quasi-contractual claims against OneScreen. AdOn is seeking damages of approximately $429,000. In its First Amended Complaint, Plaintiff also sued the Company for successor liability for OneScreen's alleged debts. The Company demurred to the First Amended Complaint, but the court denied the demurrer. The Company has answered the First Amended Complaint and intends to vigorously defend against the claims. Adaptive filed a summary judgement motion which is set for hearing on July 28, 2016.

17. MeetMe, Inc. v. Beanstock Media, Inc., et al., Philadelphia Court of Common Pleas

On September 29, 2015, MeetMe, Inc. ("MeetMe") filed suit against Beanstock Media, Inc. ("Beanstock") and the Company. MeetMe asserts breach of contract claims regarding an alleged debt that it claims it is owed by Beanstock. MeetMe also claims that the Company allegedly guaranteed Beanstock's debt through a subsequent agreement. The parties are exploring settlement of the matter, but Adaptive intends to vigoursly defend against the claims if a settlement is not reached. On January 5, 2016, Beanstock was put into involuntary bankruptcy. Beanstock's bankruptcy has resulted in a stay of the proceedings of the case, and the Court recently denied MeetMe's motion to sever the claims against Adaptive. Since the case is in its preliminary stages and currently stayed, and no discover has been take, it is impossible to determine the exact likelihood of success on MeetMe's claims. The parties are exploring potential settlement of the matter.

ADAPTIVE MEDIAS, INC.

Notes to the Consolidated Financial Statements

18. **<u>Adaptive Medias, Inc. v. Beanstock Media, Inc, et al.</u>**

On September 28, 2015, Adaptive filed suit against MeetMe, Inc ("MeetMe"), Jim Waltz, ("Waltz) and Beanstock Media, Inc, ("Beanstock") in Orange County Superior court. Adaptive's lawsuit, among other things, asserts that Beanstock and Waltz fraudulently induced Adaptive into making a payment to MeetMe on behalf of Beanstock in the amount of $600,000, and that Waltz and Beanstock fraudulently induced Adaptive's President to sign a purported guarantee of certain Beanstock payment obligation to MeetMe. Adaptive also asserts that Waltz breached his fiduciary duties to Adaptive, and that MeetMe aided and abetted those breaches. Adaptive seeks an amount of damages to be proved a trial, declaratory relief, recession, and punitive damages. On January 5, 2016, Beanstock was put into involuntary bankruptcy. Beanstock's bankruptcy has resulted in a stay of the proceedings. Because MeetMe and Waltz have not yet answered the Complaint, the case is currently stayed, and no discovery has been taken, it is impossible to determine the exact likelihood of success on these claims. The parties are exploring potential settlement of the matter.

19. **<u>Adaptive Medias, Inc. v. Jim Waltz, et al., Orange County Superior Court Case No. 30-2015-00812007-CU-FR-CJC</u>**

On September 28, 2015, the Company filed suit against former director Jim Waltz ("Mr. Waltz"), Beanstock and MeetMe, Inc. The Company asserts various claims relating to Mr. Waltz' self-dealing as a director of the Company , including fraudulent conduct that resulted in Adaptive Medias paying and allegedly guaranteeing obligations incurred by Beanstock. Among other relief, the Company seeks to recover the monies that were paid to MeetMe, and it seeks to void and/or rescind the obligations Adaptive Medias allegedly incurred as a result of Mr. Waltz' fraudulent conduct and breaches of his fiduciary duties. None of the defendants have yet responded to the Complaint.

Note 11 – Subsequent Events

Loan transactions

On April 18, 2016, the Company entered into a convertible promissory note with an outside investor for a principal amount of $169,500 in exchange for $150,000 with a maturity date of April 18, 2017. The note is convertible at a conversion price of 60% of the lowest trading price of the Company's common stock for the previous 20 trading days prior to the conversion date. The note bears interest at 12% per annum.

On April 14, 2016, the Company issued 1,450,000 shares of common stock for services valued at $362,355.

On May 10, 2016, the Company issued 1,587,254 shares of common stock for services valued at $166,662.

ADAPTIVE MEDIAS, INC.

Management Discussion & Analysis

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including, "could" "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "poter negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this Annual Report.

Business Overview

We are a leader in programmatic, real time bidding ("RTB") advertising across mobile, video and display, as well as a provider of a business-to-business digital video content management platform SaaS. The Company, through its core content monetization platform and technology, provides app developers, publishers and video content developers one of the only end-to-end monetization platforms driven by programmatic algorithms. The Company provides these unique capabilities to monetize content efficiently across multiple marketing channels and devices, including mobile, video and online display advertising.

The Company is a programmatic audience and content monetization company for website owners, app developers and video publishers who want to more effectively optimize content through advertising. The Company provides a foundation for publishers and developers looking to engage brand advertisers through a multi-channel approach that delivers integrated, engaging and impactful ads across multiple devices. The Company meets the needs of its publishers with an emphasis on maintaining user experience, while delivering timely and relevant ads through its multi-channel ad delivery and content platform. Our corporate headquarters are located at 47 Discovery Suite 220, Irvine CA, 92618. Our website address is www.adaptivem.com. The information contained on, or that may be obtained from, our website is not, and shall not be deemed to be, a part of this report.

On the supply side, the Company provides each publishing client with unique capabilities to distribute and monetize its content across multiple channels or operating systems, where it can serve a piece of content on a laptop, a tablet and a phone without any additional cost or license. The optimization modules in our technology can be deployed across multiple channels on the platform to provide capabilities such as ad serving, RTB, ad revenue waterfall management and video content management, and enabling necessities like the video player itself. We help mobile app developers, publishers and video content developers monetize their ad inventory through our proprietary ad-delivery and optimization platform. The Company provides these unique capabilities to monetize content efficiently across multiple marketing channels, including mobile, video and online display advertising. Our relationships span across health, sports, entertainment, auto, fashion, news, tech and luxury verticals.

On the demand side, the Company's programmatic technology stack is advertiser-friendly; the platform provides advertisers with a brand-safe and transparent marketplace for buying media across mobile, video and display. This is essential for big brand advertisers and brand-direct ecommerce companies that require a high level of safety, context and relevance for their advertisements.

On June 16, 2014, the Company launched its marketplace to enable publishers a seemingly simple marriage of quality content, users and monetization opportunities side-by-side with advertising partners who drive demand. This is accomplished through a complex set of discovery technology solutions, driven by patents, and efficient algorithmic data that cohesively interact in any digital marketing environment where advertising, audience and content must come together.

Factors Affecting Our Performance

We believe that the growth of our business and our future success depend on various opportunities, challenges and other factors, including the following:

Investment in Growth

During 2015, Adaptive invested in additional features and technology such as data visualization and insights and optimization tools that will further increase the value of the platform to current and future customers. We also intend to continue investing in research and development related to further streamlining the content marketplace service. The goal of these development efforts will be to maximize market penetration across our multiple streams of income within the video and mobile landscapes while improving the user experience. We also believe that as both our publisher and demand side sales teams becomes more seasoned, we will experience an increase in sales productivity.

ADAPTIVE MEDIAS, INC.

Management Discussion & Analysis

Technology Enhancements and Customer Satisfaction

We will continue to make improvements to our technology platform. We will be focusing our development efforts in two main categories. The first effort will be to increase performance for our publishing partners through improved efficiency, higher fill rates and reduced Cost Per Thousand ("CPM") impressions. The second effort will be a collaborative solution with the agencies and advertisers that could include planning, content monetization and strategic partnership opportunities. Both of these efforts will have the overarching goal of increasing our customer satisfaction and thus increasing our customer retention.

Ability to Increase Penetration in All Channels and All Devices

Our future performance is dependent on our continued ability to penetrate and grow our revenue in mobile and video channels but to also serve the needs of our customers that need help with display advertising. These revenues will come from both the publisher side through our RTB platform driving inventory monetization and through direct agency and advertiser contracts. Video and mobile represent the fastest growing channels currently, but we also see a significant opportunity in rich media and high impact display ads. Mobile device growth is eclipsing desktop growth. We are seeing an increase in requests for cross device targeting. We are working on a unique, non-Personal Identity Identifier ("PII") solution based on our data store that will allow us to successfully identify users regardless of which device they are on.

Seasonality

In the advertising industry, companies commonly experience seasonal fluctuations in revenue. For example, many advertisers allocate the largest portion of their budgets to the fourth quarter of the calendar year to coincide with increased holiday purchasing. Historically, the fourth quarter of the year reflects our highest level of advertising activity, and the first quarter reflects the lowest level of such activity. We expect our revenue to continue to fluctuate based on seasonal factors that affect the advertising industry as a whole.

Competition

There are many fractional players in this space. There are those who provide video players like Ooyala, BrightCove and Kaltura. Others provide advertising network services like BrightRoll, Grab and TubeMogul. A final group provides ad serving and demand services including RocketFuel, LiveRail or FreeWheel. These providers and their fragmented solutions only complicate the choices that a publisher, app developer or video content provider must make to participate in today's market for audiences and advertising revenue. We believe that AOL is the only other company that can claim to provide an end-to-end solution. It has a video player and ad serving capabilities through Adap.tv, CMS and CDN capabilities through 5min Media and a wealth of inventory and demand through legacy AOL properties and exchange integration.

Despite AOL's size, we believe that we our business model has advantages that will allow us to compete in this space. The first advantage pertains to AOL's legacy inventory source. While AOL benefits from many domains under its control, it is also hampered by the responsibility to fill advertising through these domains first. Our advantage is that we are inventory agnostic. If advertisers want and can benefit from our direct publisher inventory, we are happy to provide it. If advertisers want to take advantage of efficiencies through RTB exchange inventory, we can provide that as well. The Company is less restricted and, as a result, we believe that we can provide better optimization choices than AOL.

The second advantage is in pricing. AOL's legacy properties have high floor inventory costs. While AOL addresses this issue by explaining that its inventory is "premium", this claim is generally made by most, if not all, inventory sources. Our inventory flexibility and existing monetization contracts allow us to deliver advertising, which we believe has the same quality as AOL's advertising, but at a lower cost per impression. We believe that this allows us an edge in negotiating onto advertising campaigns where we don't have an existing track record.

Business Development

Our business development efforts are focused on three main areas. The first is signing content providers to syndication and monetization deals. The second is signing publishers onto our platform. The third area of focus is driving advertising demand or fulfillment through our platform. This translates to revenue generation in the following forms: 1) Encoding fees for uploading content; 2) Revenue share from platform publishers consuming the content; 3) Content streaming bandwidth fees from publishers consuming content; 4) Ad server fees from publishers consuming ads within the platform; 5) Content storage fees for housing content within the platform; and 6) Percentage of revenue from advertisers attaching content to their video ads. In 2013, we added approximately 50 publishers. The direct impact of which was operationally minimal as the platform lends itself extremely simplified workflows. Our overall content contracted in 2013 as we began to remove underperforming partners and categories. We expect all content categories to grow in 2015 as we move toward stabilization of our platform and expansion of our technical capabilities while onboarding premium content providers through focused business development efforts. During the year ended December 31, 2015, our efforts to streamline our operations and processes led to the successful acquisition and retention of quality publishers and content relationships. New relationships included premium publishers and content producers, all of whom are leaders in their respective categories.

Today our advertiser campaign demand initiatives are consistently fulfilling and scaling at sustainable rates for our growing publisher base. We have over 350,000 rights cleared pieces of video content across all interest categories. We have recently expanded our publisher base to include Latin On, Webisaba, Sovrn Holdings, Techno Buffalo.

ADAPTIVE MEDIAS, INC.

Management Discussion & Analysis

Engaging more publishers will increase our platform utilization and SaaS income. It will increase the consumption and utilization of our content partners resulting in higher income. It will also allow for greater reach for our demand partners and advertising agencies leading to higher advertising revenues.

Results of Operations – Three months ended March 31, 2016 and 2015

Revenues, Cost of Revenues, and Gross Profit

	Three Months Ended March 31,		
	2016	2015	Change
Revenue	$173,087	$1,167,719	$(994,632)
Cost of revenue	117,523	970,359	(852,836)
Gross Profit	55,564	197,360	(141,796)
Total as a percentage of revenues	32.1 %	16.9 %	15.2 %

Gross revenues decreased in the first quarter of 2016 due to a reduction of staffing and sales forces and general focus on merger activities.

Operating Expenses

	Three Months Ended March 31,		
	2016	2015	Change
Legal and professional fees	$64,373	$353,419	$(289,046)
Total as a percentage of revenues	37.2 %	30.3 %	6.9 %

Legal and professional fees decreased from the prior comparable period due to the gradual resolution of on-going litigation, primarily related to matters from previously completed acquisitions. Also, our suits against Meetme, Jim Waltz, and Beanstalk Media were stayed by the courts when Beanstalk filed for Bankruptcy. In the remainder of 2016, we expect the litigation efforts to continue but decrease as we address them accordingly.

	Three Months Ended March 31,		
	2016	2015	Change
Research and development	$-	$156,972	$(156,972)
Total as a percentage of revenues	0.0%	13.4 %	-13.4 %

Research and development costs incurred decreased from the prior comparable period primarily due to a reduction in staff compared to the prior comparable period. Currently no research and development projects are being developed.

	Three Months Ended March 31,		
	2016	2015	Change
General and administrative expenses	$519,694	$1,752,127	$(1,232,433)
Total as a percentage of revenues	300.3 %	150.0 %	150.2 %

General and administrative expenses decreased from the prior comparable period primarily due to cost cutting initiatives which began in May 2015 that came to full realization during the current period. We had 14 employees at the end of Q1 2016 as opposed to 52 employees at the beginning of Q1 2015. We continue to anticipate lower general and administrative expenses in future periods.

	Three Months Ended March 31,		
	2016	2015	Change
Selling expenses	$25,506	$275,187	$(249,681)
Total as a percentage of revenues	14.7 %	23.6 %	-8.8 %

Selling expenses decreased from the comparable period primarily due to streamlining our sales and marketing personnel and related resources. We continue to anticipate lower selling expenses in future periods.

	Three Months Ended March 31,		
	2016	2015	Change
Depreciation and amortization	$44,738	$655,562	$(610,824)
Total as a percentage of revenues	25.8 %	56.1 %	-30.3 %

ADAPTIVE MEDIAS, INC.

Management Discussion & Analysis

Depreciation and amortization decreased from the prior comparable period primarily due to the impairment of intangibles during the year ended 2015. Therefore were far fewer intangible assets to amortize in Q1 2016.

	Three Months Ended March 31,		
	2016	2015	Change
Stock compensation expense	$2,535,625	$3,941,118	$(1,405,493)
Total as a percentage of revenues	1464.9 %	337.5 %	1127.4 %

Stock compensation expense increased from the prior comparable period as a result of cash conserving measures that put an emphasis on payment for services via shares.

Other income (expense)

	Three Months Ended March 31,		
	2016	2015	Change
Interest expense	$(570,857)	$(25,577)	$(545,280)
Total as a percentage of revenues	-329.8 %	-2.2 %	-327.6 %

Interest expense increased from the prior comparable period primarily as a result of the amortization of debt discounts associated with the convertible notes offerings.

	Three Months Ended March 31,		
	2016	2015	Change
Other income	$42,000	$3,942	$38,058
Total as a percentage of revenues	24.3 %	0.3 %	23.9 %

Other income increased from the prior comparable period due to a one time refund of $42,000 in fees expensed in 2015 for investor relations services.

Net Loss

For the three months ended March 31, 2016, we incurred a net loss of $5,489,967 or $.20 per basic and diluted share compared to a net loss of $6,958,660 or $.50 per basic and diluted share for three months ended March 31, 2015. The increase in the net loss is described above.

Liquidity and Capital Resources

The following table describes our current assets and liabilities as of March 31, 2016:

Current Assets		Current Liabilities	
Cash	$695	Accounts payable and accrued expenses	$4,604,791
Accounts receivable, net	253,818	Convertible note payable, net	655,454
Prepaid expenses	740,000	Related party note payable	-
		Derivative liability	3,892,315
Total Current Assets	994,513	Total Liabilities	9,152,560

We have limited funds to pay our currently due debts and liabilities. Should one or more of our creditors seek or demand payment, we are not likely to have the resources to pay or satisfy any such claims. Thus, we face risk of defaulting on our obligations to our creditors with consequential legal and other costs which would adversely impact our ability to continue our existence as a corporate enterprise.

Our insolvent financial condition also may create a risk that we may be forced to file for protection under applicable bankruptcy laws or state insolvency statutes. We also may face the risk that a receiver may be appointed. We face that risk and other risks resulting from our current financial condition.

For these and other reasons, we anticipate that unless we can obtain sufficient capital from outside sources and do so in the very near future, we may be unable to continue to operate as a corporation, continue to meet our filing obligations under the Securities Exchange Act of 1934, or otherwise satisfy our obligations to our vendors, stock transfer agent, our accountants, our legal counsel, our EDGAR filing agent, and many others.

For these and other reasons, our management recognizes the adverse difficulties and continuing severe challenges we face. Apart from the funds that we have received to date, there can be no assurance that we will receive any additional financing or funding from any source or if any financing should be obtained, that existing shareholders will not incur substantial, immediate, and permanent dilution of their existing investment.

ADAPTIVE MEDIAS, INC.

Management Discussion & Analysis

The following is a summary of the Company's cash flows provided by (used in) operating, investing, and financing activities for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Net cash used in operating activities	$(75,095)	$(1,945,685)
Net cash used by investing activities	-	(100,648)
Net cash provided by financing activities	75,431	-
Change in cash	$336	$(2,046,333)

Going Concern Uncertainties

As of March 31, 2016, we do not have an adequate source of operating revenue to cover our operating costs, and have only limited working capital with which to pursue our business plan. The amount of capital required to sustain operations until we achieve positive cash flow from operations is subject to future events and uncertainties. It will be necessary for us to secure additional working capital through sales of our common stock and/or debt financing, and there can be no assurance that such funding will be available in the future. These conditions raise substantial doubt about our ability to continue as a going concern.

It may be necessary for us to secure additional working capital through loans or sales of common stock, and there can be no assurance that such funding will be available in the future. These conditions raise substantial doubt about our ability to continue as a going concern. Our independent registered public accounting firm has issued a "going concern" qualification as part of their report on our consolidated financial statements for the year ended December 31, 2015, which is contained within the Annual Report on Form 10-K.

Capital Expenditures

For the three months ended March 31, 2016, we have not incurred any material capital expenditures.

Commitments and Contractual Obligations

As a "smaller reporting company", the Company is not required to provide this information.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be considered material to investo

ADAPTIVE MEDIAS, INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a "smaller reporting company", the Company is not required to provide information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principle Executive Offer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, our Chief Executive Officer and our Principal Accounting Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Principal Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Remediation

To remediate the material weaknesses, as identified above, in internal control over financial reporting, management has taken or will take the following actions as the financial resources become available:

We have retained additional accounting personnel, and continue to enhance our internal finance and accounting organizational structure.

We have hired a third party consultant who has the required background and experience in accounting principles generally accepted in the United States of America and with SEC rules and regulations.

We are in the process of further enhancing the supervisory procedures to include additional levels of analysis and quality control reviews within the accounting and financial reporting functions.

We are in the process of strengthening our internal policies and enhancing our processes for ensuring consistent treatment and recording of accounting estimates and ensuring the validation of our conclusions regarding significant accounting policies and their application to our business transactions are carried out by personnel with an appropriate level of accounting knowledge, experience and training.

We will build our procedures to effectively control our financial closing activities.

We will improve and automate the preparation of our audit schedules to include a systematic audit of all the figures presented in the financial statements.

We believe that the foregoing actions will improve our internal control over financial reporting, as well as our disclosure controls and procedures. We intend to perform such procedures and commit such resources as they become available and necessary to continue to allow us to overcome or mitigate the material weaknesses such that we can make timely and accurate quarterly and annual financial filings until such time as the material weaknesses are fully addressed and remediated.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ADAPTIVE MEDIAS, INC.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Please refer to Note 10 “Commitments and Contingencies” within the Notes to Consolidated Financial Statements within this document

Item 1A. Risk Factors.

We incorporate by reference from our Annual Report on Form 10-K the risk factors included at Item 1A.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended March 31, 2016, the Company issued 4,535,608 shares of its common stock to various employees and consultants in exchange for services rendered with an aggregate fair value of $2,386,334. The Company also issued shares in connected with debt of 2,466,000 for an aggregate fair value of $1,213,500. The total number of shares outstanding as of March 31, 2016 was 29,925,134.

No underwriters were involved in any of the issuances provided in this Item 2. The shares were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended (the “Act”) because the individuals either represented that they were “accredited investors” as such term is defined in the rules and regulations promulgated under the Securities Act or were employees of the Company and were in possession of the information that registration of the securities would provide them. The sale of the securities did not involve any form of general solicitation or general advertising.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

ADAPTIVE MEDIAS, INC.

Item 6. Exhibits

Number	**Exhibit**
31.1	Certification of the Company's Principal Executive Officer pursuant to 15d-15(e), under the Securities and Exchange Act of 1934.
31.2	Certification of the Company's Principal Financial Officer pursuant to 15d-15(e), under the Securities and Exchange Act of 1934.
32.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

ADAPTIVE MEDIAS, INC.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

ADAPTIVE MEDIAS, INC.
(Registrant)

May 23, 2016 By: */s/ John B. Strong*
John B. Strong
President and Chief Executive Officer
(Principal Executive Officer)

By: */s/ Omar Akram*
Omar Akram
Chief Financial Officer
(Principal Financial Officer)

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

May 23, 2016 By: */s/ John B. Strong*
John B. Strong
President and Chief Executive Officer and Director

By: */s/ Omar Akram*
Omar Akram
Chief Financial Officer and Director