Transcript of
Dolphin Entertainment
First Quarter 2019 Earnings Call
May 16, 2019

Participants

James Carbonara – Hayden IR
Bill O'Dowd – Chief Executive Officer
Mirta Negrini – Chief Financial Officer

Analysts

Jack Vander Aarde – Maxim Group
Austin Moldow – Canaccord Genuity
Jon Hickman – Ladenburg Thalmann

Presentation

Operator
Greetings, and welcome to Dolphin Entertainment's First Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference call is being recorded.

It is now my pleasure to introduce your host, Mr. James Carbonara. Thank you. You may begin.

James Carbonara – Hayden IR
Thank you. Good day, and once again welcome to Dolphin Entertainment's First Quarter 2019 Earnings Call. With me on the call are Bill O'Dowd, Chief Executive Officer, and Mirta Negrini, Chief Financial Officer.

I'd like to begin the call by reading the Safe Harbor statement. This statement is made pursuant to the safe harbor for forward-looking statements described in the Private Securities Litigation Reform Act of 1995. All statements made on this call, with the exception of historical facts, may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Although the company believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, it makes no assurances that such expectations or assumptions will prove to have been correct. Actual results may differ materially from those expressed or implied in forward-looking statements due to various risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those expressed or implied in the forward-looking statements, please see the risk factors detailed in the company's 2018 Annual Report on Form 10-K, those contained in subsequently filed quarterly reports on Form 10-Q, as well as in other reports that the company files from time to time with the Securities and Exchange Commission. Any forward-looking statements included in this earnings call are made only as of the date of this call. We do not undertake any obligation to update or supplement any forward-looking statements to reflect subsequent knowledge, events, or circumstances.

Now, I would like to turn the call over to Bill O'Dowd, Chief Executive Officer of Dolphin Entertainment. Bill, please proceed.

Bill O'Dowd – Chief Executive Officer

Thanks, James. Safe harbor never sounded so compelling. And good morning, everyone. In our normal order, I'll arrange my comments as follows. First, I'll highlight our financial results. Second, I'll spend some time providing operational updates. And third, I'll turn it over to Mirta to dive deeper into our financial results before having our Q&A.

As for the financial results, our total revenue increased 9% to $6.3 million. This total revenue growth was achieved despite both a decrease of $250,000 of sales revenue from *Max Steel* from our Content Production segment, since sales for that project are effectively completed, and the departure of three senior level publicists at 42West in June of last year, all of whom then were with the company in the first quarter of last year. Which makes us even more pleased that revenue in our core segment of Entertainment, Publicity, and Marketing increased 14% to a record $6.2 million, our highest ever quarterly revenue performance in this segment. This increase in Entertainment, Publicity, and Marketing revenue was attributable to growth in the movie and TV division of 42West, as well as the acquisitions of The Door and Viewpoint Creative, all of which more than offset the loss of revenues from the departure of the aforementioned publicists, as revenues in the segment increased for the quarter by nearly $800,000 year-over-year. As a reminder, this revenue diversification is a critical advantage of our acquisition strategy. Twelve months ago, the talent division of 42West represented over 40% of our Entertainment, Publicity, and Marketing revenue; today, it is less than 20%. And, one year from now, we don't expect any single division of our business being even 25% of our total revenues in the segment, including our successful movie and television division of 42West.

On an operational front, we are managing for revenue growth, and our unique Super Group of best-in-class entertainment and marketing companies each contributed to our strong first quarter results and are each doing great work now halfway through our second quarter. 42West had a successful awards season with a fantastic night at the 2019 Academy Awards; 47 nominations which were approximately 40% of all nominations; and 8 wins which were one-third of all awards handed out that night. Also, on the 42West front, we have continued to hire senior publicists in 2019, complementing the four seasoned talent publicists we hired in the second half of last year, as we advanced the process of replacing the revenues lost by the publicists' departures beginning last June.

Turning to our Lifestyle, Culinary, and Hospitality PR division, The Door announced in late March an expansion to its operations with the formation of a dedicated Consumer division. The vertical is led by managing director Nicole Lowe. Nicole is an expert in the consumer space with nearly two decades of experience executing strategic communications programs for respected brands, including Verizon, Unilever, Target, Sony, Intercontinental Hotels, and many, many others. The first quarter also saw remarkable PR campaigns for the opening of Hudson Yards in March, the $25 billion development in Manhattan for which The Door represents all food and beverage. And subsequent to the quarter ending, The Door was pleased to congratulate long-time clients, Chef Patrick O'Connell from The Inn At Little Washington, and Kevin Boehm and Rob Katz of Boka Restaurant Group on receiving James Beard Foundation Awards, also known as the Oscars of the food world. These annual awards are presented to recognize culinary professionals in the United States.

This seems like a good point to reiterate that The Door and 42West once again earned spots on the Observer's prestigious PR Power 50, a widely respected ranking of the 50 top public relations firms of any type in the nation. This marks the third year in a row that both firms made the list and the second year in a row they were both in the top 15.

Finally, moving to our boutique production and branding agency, Viewpoint Creative recently worked with Investigation Discovery to develop a brand campaign to reinforce that network's place as America's #1 true crime network. As a former producer, I can tell you this was a very cool campaign. Viewpoint used a continuous moving camera from an overhead aerial perspective to recreate various crime scenes throughout all on-air promo spots created. The client is thrilled and it wouldn't be surprise me if this campaign receives awards consideration in its own right. Anyways, you can imagine we are very pleased to have this original video production and branding capability in-house and have been dedicated to the cross-education of the various sales teams at 42West, The Door and Viewpoint. Original video production for the marketing of entertainment content is mandatory in today's environment. Digital marketing is only going to increasingly take bigger pieces of the marketing budgets and to market successfully on digital platforms, you need to be able to generate appealing commercial content, and appealing commercial content means predominantly video. Viewpoint was an enormously tactical acquisition for us and they are now fully included into the new sales pitches of The Door and, as appropriate, 42West.

In summary, we're thrilled to be reporting record revenues for the Entertainment, Publicity, and Marketing segment. Our Super Group is growing and will continue to do so as we add clients and cross-sell between divisions. With respect to growth through acquisition, with the integration of Viewpoint now effectively complete, we see a number of opportunities to further expand our entertainment and marketing Super Group. Adding to our capabilities will only increase our value among customers, resulting in higher sales and faster growth.

Thank you for your time and attention. At this point, I'll turn it over to Mirta for a more in-depth review of the financials.

Mirta Negrini – Chief Financial Officer
Thank you, Bill, and good day.

As Bill stated earlier, total revenue increased 9% to $6,317,089 from $5,784,925 in the same period of the prior year. We derive the majority of our revenues from our Entertainment, Publicity, and Marketing segment. Our Entertainment, Publicity, and Marketing revenue increased by 14% to $6,238,099 compared to $5,455,733 in the same period in the prior year. The increase was due to the revenues of The Door and Viewpoint, which were acquired on July 5, 2018, and October 31, 2018, respectively, which more than offset the loss of revenue caused by the departure of several publicists from 42West in June of 2018, as revenues for this segment increased by almost $800,000 for the quarter.

Revenues from our Content Production segment were $78,990 as compared to $329,192 for the same period in the prior year. The decrease is primarily due to the normal revenue cycle of our motion picture *Max Steel*.

Overall, expenses increased by approximately $1.4 million. Within that $1.4 million increase, direct costs increased by approximately $0.6 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. The increase is primarily due to the direct costs associated with the operations of Viewpoint. Also, within the $1.4 million increase in expenses, payroll expenses increased by approximately $0.7 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. The increase is primarily due to the Entertainment Publicity segment, including the payroll of The Door and Viewpoint, offset by a decrease in the payroll expense of 42West related to the departures of the senior publicists.

Our operating loss for the quarter of $825,161 included direct costs of $1,187,419 and non-cash items from depreciation and amortization of $481,642 compared to an operating loss of $98,924, which included direct costs of $571,336 and non-cash items from depreciation and amortization of $371,181 in the prior year.

Net income for the quarter was approximately $0.1 million or $0.01 per share based on 15,944,443 weighted average shares outstanding for basic earnings per share and a net loss of approximately $1.4 million or $0.08 per share based on 18,690,377 weighted average shares outstanding for fully diluted loss per share for the three months ended March 31, 2019. In comparison, our net income was approximately $0.8 million or $0.07 per share based on 12,517,660 weighted average shares outstanding for basic earnings per share, and $0.8 million or

$0.07 per share based on 12,786,065 weighted average shares outstanding on a fully diluted basis for the three months ended March 31, 2018.

In both Q1 2019 and Q1 2018 a substantial portion of such net income was attributable to the change in the fair value of the put rights.

That concludes my financial remarks. I will now ask the operator to open the phone lines for Q&A. Operator, can you please poll for questions?

Operator
Absolutely. At this time, we'll be conducting a question-and-answer session. [Operator instructions]. Our first question comes from Allen Klee with Maxim Group. Please proceed with your question.

Q: Hi, guys. This is Jack Vander Aarde speaking in for Allen Klee. Great quarter. I just had a few questions. Revenue growth for the quarter was very strong. It came in above what we estimated. Does this upside of performance suggest any changes to your internal pace of growth for the rest of the year?

Bill O'Dowd – Chief Executive Officer
Yes, thank you, great question. Well, we feel strongly that the consensus for the second quarter is probably pretty close to in line. There's a natural seasonality to the business where the second quarter is usually our lowest revenue quarter across the Entertainment, Publicity, and Marketing segment. We do feel that the year will beat analyst estimates, consensus estimates, as we guided after the 10-K. But, I wouldn't suggest increasing them more than they are now based on the second quarter being pretty in line.

Q: That's helpful. I think you mentioned 42West represents around 20% of revenue versus 40% historically. Is that correct?

Bill O'Dowd – Chief Executive Officer
Well, their talent division does. That's right. But, they have three divisions; movie and television being their largest.

Q: The Door made a strong contribution to the revenue outperformance this quarter. Is there any sense of color you can provide of what mix or where that mix is trending in terms of The Door's contribution to revenue?

Bill O'Dowd – Chief Executive Officer
Sure. The Door may be our fastest growing company at the moment. They are really doing well. Lois and Charlie, their co-CEOs, are managing tremendous growth and we expect it to actually accelerate with the formation of the consumer products division that we're investing in. We hired Nicole in the first quarter, also a full team of senior publicists joined for that division in the first quarter. So, that investment is part of what increased the payroll costs, but we expect the growth of that division to more than offset the increased payroll of course and we should see the benefits of that fully in the second half of the year.

Q: Great. And then, you spent some time discussing your outlook or plans to build this Super Group. Can you just expand on what do you see as most exciting in terms of near-term opportunity with the Super Group expectations?

Bill O'Dowd – Chief Executive Officer
Sure. We've stated our intention to buy at least one more company in calendar 2019 and hope we can be successful at that. It'd be great if we could buy two, just like we did last year. Some of the areas that we've mentioned before that we think would really complete services necessary for our leading PR firms would be digital

marketing/social media marketing. That would be a very good addition for sure. And, we may want to broaden our PR verticals to include one or two others that would be nice add-ons to our motion pictures and television as well as our culinary and live events that The Door gives us.

Q: Great. That's helpful. That's it for me. Thanks, guys.

Operator
Our next question comes from Austin Moldow with Canaccord Genuity. Please proceed with your question.

Q: Hi. Thanks for taking my questions. I'm wondering if there's any way to contextualize how you've been able to cross sales and adding more services under roof. Can you talk to a catch rate you have today on how many services are utilized by an average client versus what it was a year ago and maybe what you hope it could be?

Bill O'Dowd – Chief Executive Officer
Sure. Good morning, Austin. Well, a prime example as the Super Group is now up to three companies which will multiply—the examples will multiply when we get to four, five companie --, would be utilizing Viewpoint as a service provider to the PR firms. So, for context, this would be an example of including Viewpoint into client strategy meetings when video is a key component of a PR campaign.

To give a sense of that, let's take Nicole's Consumer Products division as a classic example. Insert here a Fortune 50 company has a desire to roll out a new product or service and they want to make the consumer aware of it through earned media. A classic PR campaign would probably need to include a digital and social media campaign and that campaign needs somebody to make videos. So, the idea that there would be a monthly fee for the PR services that would be paid to The Door would be complemented by a video production budget for a series of videos that either explain how the product works or simply could be as simple as testimonials or potential customers, or existing customers, excuse me. Or, it could be traditional promotional video of 30-second spot, 15-second spot that runs either in digital or in traditional television.

That type of cross-selling is not just traditional cross-selling when you have two sister companies able to provide two different services, but it informs the strategy of the campaign from the very beginning because as PR firms are hired to guide the client towards an effective campaign, increasingly video is a part of it from the very beginning. It's part of the toolset that is almost expected to be used, and then what the video's purpose is, is very much part of that strategy. It may be a series of videos.

So, I don't think in today's PR world you want to go to a client and say, here's some great ideas. Now we'll go outside of our company and we'll go look for the best vendor for this and see if we think they can execute it. It's much more powerful and much more effective to have that vendor in the meeting from the beginning and ideating with the client and with the PR company.

Was that helpful?

Q: Yes. Thank you. It brings me to my second question which is about Viewpoint. How many projects does Viewpoint complete in a given quarter or year and how do you expect that to change after say a full year under Dolphin's/42West ownership?

Bill O'Dowd – Chief Executive Officer
The number of projects is a difficult one to answer because both there could be one very large project that dominates a portion of the staff, but it also could be on how we quantify if a series of videos is one project or seven different projects, if you follow. What I could say, though, is that we do expect after a full year under 42West and The Door, the number of projects that Viewpoint would do we could see increasing by between 25%

and 50%, or be working on in any given month. I guess that would be the same way as delivering by the end of the quarter or the end of the year. And, we're starting to see that growth already in the second quarter from first quarter.

Q: Got it. My last question is around the current competitive environment. Can you share what your view is of your other PR competition and specifically in the movie-TV realm, given that your principal competitors are owned by an advertising holding company and those holding companies have faced some turmoil and have looked to shed some assets over the last year or two how that's changed things and maybe how the environment has changed and how you're able to win new business or even attract new talent?

Bill O'Dowd – Chief Executive Officer
Sure. That was a very good question I need to unpack a little. Yes, the large holding companies are legacy and they're fantastic and they, I think it's fair to say, are struggling for growth, certainly top line growth has been challenged as well. And so, that has allowed top talent to shake free. Quite frankly look at Nicole Lowe, coming to us from Weber Shandwick, is a tremendous talent, and the team we were able to build because of that. Now, that was Consumer Products and I know your area of interest was movie and television.

There, the challenge in the marketplace with so much content in the marketplace and this much or that much more to come, because as I like to remind people, Apple really hasn't entered the market yet and Disney+, Warner Streaming and NBC Universal are all coming. Then that number of new TV shows and film projects are an increase of original programming has never been seen before, I think, in the 100 years of the entertainment industry. I haven't phrased it that way before but as I sit here and think about it on the fly that's very true. The number of original scripted series have doubled in less than the last ten years, from 250 to 500, and we don't have those new streaming services on board.

So, what this means for reaching the consumer is vastly different and I don't know that we—I don't know how anyone would possibly expect to reach those consumers with paid media. I don't think there's enough money that could be devoted to it and I don't think those platforms want to spend advertising dollars on someone else's networks to reach a broad enough audience. So, it's going to rely heavily on earned media, PR and social media. As we compete for those projects, all I can say is it's a nice position to be in to have such a leading group like 42West with the success we can point to in the immediate past of this year's Academy Awards, this past year's Golden Globes, etc.

Q: Okay, thanks very much and congrats on the quarter.

Operator
Our next question comes from Jon Hickman with Ladenburg Thalmann. Please proceed with your question.

Q: Bill, good morning. Could you talk a little bit about your production side, in terms of production?

Bill O'Dowd – Chief Executive Officer
I'm sorry, Jon. It broke up there.

Q: Yes, I'd like you to talk about what your plans are.

Bill O'Dowd – Chief Executive Officer
Sure. So, we are complete with the development slate of scripts for both what we would call our larger budget independent films, our sports films that we've talked about in the past, as well as a streaming service-level budgeted films that we've developed in the past 12 months. If the larger budgets are between $5 million and $8 million, these budgets are probably between $2 million and $5 million, and we are rolling them out into the

marketplace now. I'm actually doing this call from Cannes, France, over here for the film festival, and with films very much on my mind.

We will be attaching directors after meetings both this week and in the ensuing few weeks, and expect to announce our first director attachment I would say in short order with the goal of being in production on the first project before the end of the year, or certainly in pre-production. We're just simply contingent on finding our matching financing to go on the first project. So, we're excited for this and ready to get started on the production side.

Q: Okay. And then, could you explain a little bit the jump in direct costs associated with Viewpoint when it seems like a lot versus the company that's doing a fairly modest amount of revenues right now?

Bill O'Dowd – Chief Executive Officer
Sure. Some of those direct costs—I'll let Mirta attack it—may also be related to The Door. Mirta, do you want to take that up?

Mirta Negrini – Chief Financial Officer
Sure. What Viewpoint does is they allocate some of their operating costs to the projects. So, that's why the direct costs go up so much. They take part of their rent, payroll of course for the people that are working on the projects, and a lot of the other SG&A expenses and they allocate them per project. So, that's why that direct cost line has jumped up.

Q: Okay. I get that. So, that line goes up with the number of projects they do, then?

Mirta Negrini – Chief Financial Officer
Correct.

Q: There's variable costs with each project.

Mirta Negrini – Chief Financial Officer
Correct. Right. But keep in mind that for instance when they allocate rent, rent is going to be the same. It may just move from SG&A to direct cost. So, it won't necessarily—it won't be that all the costs will go up; it's just where they're going to be classified.

Q: Okay.

Mirta Negrini – Chief Financial Officer
I think you'll see that unless we start hiring more people because the volume of projects increases, or we have to outsource some of the work, the costs in general for Viewpoint shouldn't change substantially even if we have an increase in sales. You may just see that some of the costs are going to be allocated or reallocated from SG&A and payroll into direct cost.

Q: Okay. Sorry, I haven't looked. Is the Q out?

Mirta Negrini – Chief Financial Officer
The Q is out. Yes.

Q: Okay. Thanks. That's it for me, appreciate it.

Operator

Our next question is from Rick Reiss with Georgica. Please proceed with your question.

Q: Hi. I have a series—I have the Q in front of me. I have a series of things that I just need clarification on. It's a pretty complicated balance sheet for a small company. But, essentially, my series of questions revolve around the following. One, it looks like you burned a lot of cash, or used a lot of cash in the first quarter. Two, there's an asset that materialized. It wasn't there at the end of last quarter called the right of use asset of almost $7 million. I'm going to run down these, you can just make a list of and comment on which ones you want.

Under liabilities, there's a significant current and long-term lease liability, which didn't exist before, which is well over $7 million. And, this is a rather small issue, on your earnings per share, where you earned, where you had positive net income of $0.01 per share, once you have positive net income, I don't understand how you go to negative earnings per share just by increasing the number of diluted shares. And the diluted share calculation is up huge; it's up almost 50%.

And as the person reported just before, there's a significant increase in revenues in the quarter but there's an equally significant or almost the same amount of increase in costs, whether they're direct or G&A. So, it's just hard to tell if you're making any money.

<u>Bill O'Dowd – Chief Executive Officer</u>
Well, let's unpack it. Hi, Rick. Good morning. I got those four questions. So, Mirta, would you address both the increase of the assets and the liability related to the lease and the new accounting rules for that?

<u>Mirta Negrini – Chief Financial Officer</u>
Sure. So that came about, the FASB came out with new accounting for leases, which now basically requires—you had to—

Q: Let's start at the beginning. What is a right to use asset of almost $7 million on your balance sheet?

<u>Mirta Negrini – Chief Financial Officer</u>
That's what the FASB has called it. Now what you have to do is you have to—any lease, any operating lease, or capital lease, that you have now has to be put on the balance sheet. FASB has changed their way of thinking and everything now is about control. So, if you control the asset, they consider that—or you control what you're leasing, they consider that it should be on your balance sheet. So, what you do is you have to, on the day of implementation, which for us is January 1, 2019, we had to fair value all of our operating leases and we had to put them on the balance sheet as an asset and then a corresponding liability.

Q: Got it. Thank you.

<u>Mirta Negrini – Chief Financial Officer</u>
This is something that we had from before.

Q: So, is it all basically property and equipment stuff?

<u>Mirta Negrini – Chief Financial Officer</u>
Correct. It's office leases. Typically what we have are office leases and some office machinery; that's it.

Q: Okay.

<u>Mirta Negrini – Chief Financial Officer</u>

If you go to our 10-Q, there's a footnote that explains all of the leases that we have and then it explains how we calculated the fair value and how we came up with the asset and the liabilities.

Q: Okay.

Mirta Negrini – Chief Financial Officer
The earnings per share—

Q: I'm really interested in cash.

Mirta Negrini – Chief Financial Officer
Okay.

Q: Am I right? It looks like you basically had cash flow—it basically looks like you burned a couple million dollars in cash in the first quarter.

Bill O'Dowd – Chief Executive Officer
Well, no. I don't think our operation did that at all.

Q: I'm looking at cash at the end of the year and cash currently.

Bill O'Dowd – Chief Executive Officer
Sure, but we were paying down those puts and debt with that cash, too, not operations.

Mirta Negrini – Chief Financial Officer
Right.

Q: Okay.

Bill O'Dowd – Chief Executive Officer
So, we're managing on the revenue growth and also towards positive EBITDA by the end of the year. But, the operating cash loss for the quarter was far, far less than $2 million. It was less than $400,000.

Mirta Negrini – Chief Financial Officer
Right. We also had the second installment of the acquisition of The Door, which was a chunk of that.

Bill O'Dowd – Chief Executive Officer
Yes, that was $1 million of it, Rick, the second of two installments to purchase The Door that we paid in January, as part of the use of proceeds from our fundraising last summer. Thank you for that reminder, Mirta.

Q: So that's acquisition of The Door?

Mirta Negrini – Chief Financial Officer
The acquisition of The Door was in two different installments. One of them was in July of 2018 when we closed, and then the second installment was January 2, 2019.

Q: Is that the 771 or the 361?

Mirta Negrini – Chief Financial Officer

The 771, because we had advanced to them $200,000 in October for their tax obligations. The closing was meant to be—it was $4 million, $2 million in cash and $2 million in stock, and it was split evenly between July and January. In October, we advanced—we paid them in July. We paid them the $1 million and we paid them the $1 million in shares. They requested an advance on the second installment so that they could meet their tax obligation in October. So, we advanced them $270,000 and then we made the second payment, which included an adjustment for working capital of $46,000. That's the 771 that you see in the quarter.

Q: Okay. At the bottom of that, it says cash, cash equivalents and restricted cash which is on your cash flow statement is down $200,000 but unless I'm misreading the balance sheet, it was down $2 million.

Mirta Negrini – Chief Financial Officer
Well, no, because—

Q: —what am I doing wrong here.

Mirta Negrini – Chief Financial Officer
No, the cash flow statement compares March 31, 2018 to March 31, 2019, where the balance sheet compares December 2018 to March 31, 2019. So, that's where you have that difference.

Q: I'm just thumbing through your Q for the first time. I mean it's sort of complicated here that there's no financial statement in your press release so you have to go to the Q.

Mirta Negrini – Chief Financial Officer
There's a balance sheet and income statement in the earnings release.

Q: We didn't see that. Not the one that we opened. Anyway, it is what it is. I don't want to spend a lot of time on this. It just strikes me that there is some things here which could have or should have been discussed on the press release to make some of this clearer. That would be my suggestion or big suggestion because there's just a lot of changes on the balance sheet. As I said, there are a lot of things that are just complicated and the last thing you need is people spending all their time on that if the business is doing well.

Mirta Negrini – Chief Financial Officer
Right.

Bill O'Dowd – Chief Executive Officer
Sure. Well, we could do an offline call with you, Rick, and get your suggestions on that.

Q: That's fine. Okay. Just one last thing. You did issue some common stock, and so that's the supplemental disclosures. You issued $1 million of common and then it says liability for contingent consideration for the acquisition, another 820. I'm looking for that supplemental disclosure of non-cash flow information.

Mirta Negrini – Chief Financial Officer
Right. So, in the second installment of The Door, we issued the second portion of the shares. It was 307,692 shares, which was the equivalent of $1 million. That was part of the purchase price of The Door. It was their second installment. So, that's the stock that was issued.

And then we also had some convertible notes outstanding and one of the note holders converted their note into stock. So, those are the two issuances of stock that we had.

Q: Okay. And that all accounts for the big increase in fully diluted shares?

Mirta Negrini – Chief Financial Officer
Well, fully diluted shares, the way the calculation, the way the FASB—and this is something that sometimes the FASB comes out with guidance on how we have to calculate earnings per share. How we calculate the earnings per share and why the fully diluted is so large is for fully diluted the requirement is that you basically take any instrument that you have outstanding that could be converted into stock and you assume that it's converted, assuming that it's dilutive. So, in our case, it's the put rights.

And you're asking, why did we go into negative income? Well what you need to do when you have to add those shares is you also have to take whatever income you have reported on your financial statements that's attributable to that instrument and reverse it. So, in our case we had a gain on the change in fair value of the put rights, so you have to reverse that gain. We end up with a loss. And then, on top of that, you add the shares that would be increased by the put rights because the method that you're supposed to use, it's called the Treasury stock method. Basically that method asks you to calculate how many shares you would need to sell in the market to raise sufficient capital to repurchase your put rights. Those are the shares that you have to include in that fully diluted earnings per share. It's something that FASB imposes as part of GAAP and we can't change that.

Q: Let me just ask one last question. Footnote two, going-concern, do you want to comment on that?

Mirta Negrini – Chief Financial Officer
Well, I think with the going-concern we are looking at ways to clean up our balance sheet as much as possible, so there's certain notes that will come up that will come due and that we're going to address. The put rights, as we go paying off these puts, will become less. So, we're looking at how we can move some of our items, either move them into a longer term or some of them will be paid off, and we're working to be able to remove that going-concern.

Bill O'Dowd – Chief Executive Officer
The largest item, too, Rick, and which is where it's not really understood well enough and we need to do as good a job as possible to explain it is put rights are for a limited term. They all expire December of 2020. And as we pay them down, the liability that's on our balance sheet decreases and the cause for a going-concern will be eliminated. That's our goal. If we can accelerate that to remove the going-concern prior to the elimination of the put rights, we'd love to, and we have a couple of ways to attempt to do that, that Mirta was indicating there.

So, we would expect to try and remove that as soon as possible, but it's those obligations that prevent us from doing so immediately.

Q: Okay. That's all I have.

Operator
Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the floor back over to Bill O'Dowd for closing comments.

Bill O'Dowd – Chief Executive Officer
Thank you, everyone, for joining. I know some are joining from the West Coast, so I know it's early, far easier for me over here in Europe in the middle of the afternoon. I appreciate everyone continuing to follow us and our story. We're excited and our subsidiaries are doing well. We feel the synergy with the Super Group. It's showing in how we're managing the company towards revenue growth and hopefully we'll continue to have good results to report in the quarters ahead. So, I thank everybody for their time.