UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021
OR

☐TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to
Commission File Number: 001-38125

CHICKEN SOUP FOR THE SOUL ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**81-2560811**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
132 East Putnam Avenue – Floor 2W, Cos Cob, CT	**06807**
(Address of Principal Executive Offices)	(Zip Code)

855-398-0443
(Registrant's Telephone Number, including Area Code)

Not Applicable
Former Name or Former Address, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock	CSSE	The Nasdaq Stock Market LLC
9.75% Series A Cumulative Redeemable Perpetual Preferred Stock	CSSEP	The Nasdaq Stock Market LLC
9.50% Notes Due 2025	CSSEN	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares of Common Stock outstanding as of November 8, 2021 totaled 16,420,671 as follows:

Title of Each Class	
Class A Common Stock, $.0001 par value per share	8,766,165
Class B Common Stock, $.0001 par value per share*	7,654,506

*Each share convertible into one share of Class A Common Stock at the direction of the holder at any time.

Chicken Soup for the Soul Entertainment, Inc.
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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

Chicken Soup for the Soul Entertainment, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Cash and cash equivalents	$ 66,947,955	$ 14,732,726
Accounts receivable, net of allowance for doubtful accounts of $795,192, and $1,035,643, respectively	48,265,450	25,996,947
Prepaid expenses and other current assets	2,113,322	1,382,502
Goodwill	41,286,849	21,448,106
Indefinite lived intangible assets	12,163,943	12,163,943
Intangible assets, net	18,976,226	19,370,490
Film library, net	72,850,313	35,239,135
Due from affiliated companies	—	5,648,652
Programming costs and rights, net	15,440,246	15,781,183
Other assets, net	4,876,056	4,517,102
Total assets	$ 282,920,360	$ 156,280,786
LIABILITIES AND EQUITY		
9.50% Notes due 2025, net of deferred issuance costs of $1,501,768 and $1,798,433, respectively	$ 31,394,132	$ 31,097,467
Notes payable under revolving credit facility	—	2,500,000
Revolving loan	17,585,699	—
Film acquisition advance	6,241,534	8,659,136
Accounts payable and accrued other expenses	39,431,948	21,394,957
Film library acquisition obligations	24,752,229	8,616,562
Programming obligations	1,641,250	4,697,316
Accrued participation costs	22,864,494	12,535,651
Due to affiliated companies	590,383	—
Put option obligation	11,400,000	—
Other liabilities	2,888,964	1,677,906
Total liabilities	158,790,633	91,178,995
Commitments and contingencies (Note 15)		
Equity		
Stockholders' Equity:		
Series A cumulative redeemable perpetual preferred stock, $.0001 par value, liquidation preference of $25.00 per share, 10,000,000 shares authorized; 3,698,318 and 2,098,318 shares issued and outstanding, respectively; redemption value of $92,457,950 and $52,457,950, respectively	370	210
Class A common stock, $.0001 par value, 70,000,000 shares authorized; 8,797,883 and 5,157,053 shares issued, 8,723,648 and 5,082,818 shares outstanding, respectively	881	516
Class B common stock, $.0001 par value, 20,000,000 shares authorized; 7,654,506 shares issued and outstanding, respectively	766	766
Additional paid-in capital	238,708,111	106,425,548
Deficit	(114,056,757)	(77,247,982)
Class A common stock held in treasury, at cost (74,235 shares)	(632,729)	(632,729)
Total stockholders' equity	124,020,642	28,546,329
Subsidiary convertible preferred stock	—	36,350,000
Noncontrolling interests	109,085	205,462
Total equity	124,129,727	65,101,791
Total liabilities and equity	$ 282,920,360	$ 156,280,786

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net revenue	$ 29,096,855	$ 19,361,751	$ 74,428,631	$ 46,126,364
Cost of revenue	22,856,374	14,840,851	54,533,027	37,684,786
Gross profit	6,240,481	4,520,900	19,895,604	8,441,578
Operating expenses:				
Selling, general and administrative	15,038,299	9,301,550	35,237,480	23,194,223
Amortization and depreciation	1,538,650	4,576,742	4,114,355	15,022,885
Management and license fees	2,909,686	1,936,175	7,442,863	4,612,636
Total operating expenses	19,486,635	15,814,467	46,794,698	42,829,744
Operating loss	(13,246,154)	(11,293,567)	(26,899,094)	(34,388,166)
Interest expense	1,304,952	659,803	3,533,940	1,322,831
Loss on extinguishment of debt	—	169,219	—	169,219
Acquisition-related costs	—	—	—	98,926
Other non-operating income, net	(101,898)	(43,445)	(247,037)	(4,381,292)
Loss before income taxes and preferred dividends	(14,449,208)	(12,079,144)	(30,185,997)	(31,597,850)
Provision for income taxes	30,000	26,000	59,000	93,000
Net loss before noncontrolling interests and preferred dividends	(14,479,208)	(12,105,144)	(30,244,997)	(31,690,850)
Net income (loss) attributable to noncontrolling interests	9,085	(73,135)	9,085	(169,878)
Net loss attributable to Chicken Soup for the Soul Entertainment, Inc.	(14,488,293)	(12,032,009)	(30,254,082)	(31,520,972)
Less: preferred dividends	2,253,385	1,017,691	6,760,155	2,966,235
Net loss available to common stockholders	$ (16,741,678)	$ (13,049,700)	$ (37,014,237)	$ (34,487,207)
Net loss per common share:				
Basic and diluted	$ (1.04)	$ (1.04)	$ (2.53)	$ (2.83)
Weighted-average common shares outstanding:				
Basic and diluted	16,145,808	12,508,643	14,622,787	12,174,779

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc
Condensed Consolidated Statements of Stockholders' Equity
(unaudited)

	Preferred Stock		Common Stock									
			Class A		Class B							
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	Deficit	Treasury Stock	Subsidiary convertible Preferred Stock	Noncontrolling Interests	Total
Balance, December 31, 2020 (audited)	**2,098,318**	**$ 210**	**5,157,053**	**$ 516**	**7,654,506**	**$ 766**	**$106,425,548**	**$ (77,247,982)**	**$(632,729)**	**$ 36,350,000**	**$ 205,462**	**$ 65,101,791**
Share based compensation - stock options							200,594					200,594
Share based compensation - common stock							31,250					31,250
Issuance of common stock			1,122,727	112			23,858,435					23,858,547
Stock options exercised			77,415	8			(8)					—
Warrant exercises - Class W and Z			43,571	4			(4)					—
Issuance of preferred stock, net	1,600,000	160					36,349,840			(36,350,000)		—
Dividends on preferred stock								(2,253,385)				(2,253,385)
Elimination of noncontrolling interests								205,462			(205,462)	—
Net loss								(6,939,996)				(6,939,996)
Balance, March 31, 2021	**3,698,318**	**$ 370**	**6,400,766**	**$ 640**	**7,654,506**	**$ 766**	**$166,865,655**	**$ (86,235,901)**	**$(632,729)**	**$ —**	**$ —**	**$ 79,998,801**
Share based compensation - stock options							200,594					200,594
Share based compensation - common stock							31,250					31,250
Issuance of common stock			26,000	3			952,263					952,266
Stock options exercised			282,360	28			2,123,757					2,123,785
Warrant exercises - Class W and Z			64,400	6			267,159					267,165
Shares issued to directors			2,290	1			(1)					—
Sonar business combination											100,000	100,000
Dividends on preferred stock								(2,253,385)				(2,253,385)
Net loss								(8,825,793)				(8,825,793)
Balance, June 30, 2021	**3,698,318**	**$ 370**	**6,775,816**	**$ 678**	**7,654,506**	**$ 766**	**$170,440,677**	**$ (97,315,079)**	**$(632,729)**	**$ —**	**$ 100,000**	**$ 72,594,683**
Share based compensation - stock options							1,016,981					1,016,981
Share based compensation - common stock							2,457,250					2,457,250
Issuance of common stock			1,875,000	188			70,499,812					70,500,000
Stock options exercised			32,916	3			274,615					274,618
Warrant exercises - Class W and Z			11,306	1			18,787					18,788
Shares issued to directors			2,845	1			(1)					—
Common stock grant			100,000	10			(10)					—
Dividends on preferred stock								(2,253,385)				(2,253,385)
Acquisition of subsidiary noncontrolling interest							(6,000,000)					(6,000,000)
Net income attributable to noncontrolling interest											9,085	9,085
Net loss								(14,488,293)				(14,488,293)
Balance, September 30, 2021	**3,698,318**	**$ 370**	**8,797,883**	**$ 881**	**7,654,506**	**$ 766**	**$ 238,708,111**	**$(114,056,757)**	**$(632,729)**	**$ —**	**$ 109,085**	**$124,129,727**

See accompanying notes to unaudited condensed consolidated financial statements.

	Preferred Stock		Common Stock							Subsidiary		
			Class A		Class B		Additional			convertible		
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid-In Capital	Deficit	Treasury Stock	Preferred Stock	Noncontrolling Interests	Total
Balance, December 31, 2019 (audited)	**1,599,002**	**$ 160**	**4,259,920**	**$ 425**	**7,813,938**	**$ 782**	**$87,610,030**	**$(32,695,629)**	**$(632,729)**	**$36,350,000**	**$ 387,663**	**$ 91,020,702**
Share based compensation - stock options							213,585					213,585
Share based compensation - common stock							31,250					31,250
Shares issued to directors			7,805	1			(1)					—
Dividends on preferred stock								(974,272)				(974,272)
Net loss attributable to noncontrolling interest											(52,854)	(52,854)
Net loss								(10,453,108)				(10,453,108)
Balance, March 31, 2020	**1,599,002**	**$ 160**	**4,267,725**	**$ 426**	**7,813,938**	**$ 782**	**$87,854,864**	**$(44,123,009)**	**$(632,729)**	**$36,350,000**	**$ 334,809**	**$ 79,785,303**
Share based compensation - stock options							198,023					198,023
Share based compensation - common stock							31,250					31,250
Dividends on preferred stock								(974,272)				(974,272)
Net loss attributable to noncontrolling interest											(43,889)	(43,889)
Net loss								(9,035,855)				(9,035,855)
Balance, June 30, 2020	**1,599,002**	**$ 160**	**4,267,725**	**$ 426**	**7,813,938**	**$ 782**	**$88,084,137**	**$(54,133,136)**	**$(632,729)**	**$36,350,000**	**$ 290,920**	**$ 69,960,560**
Share based compensation - stock options							230,123					230,123
Share based compensation - common stock							116,650					116,650
Stock options exercised			10,000	1			74,999					75,000
Shares issued to directors			6,470	1			(1)					—
Common stock grant			10,000	1			(1)					—
Issuance of common stock			625,000	63			4,999,937					5,000,000
Issuance of preferred stock, net	133,137	13					2,992,774					2,992,787
Dividends on preferred stock								(1,017,691)				(1,017,691)
Net loss attributable to noncontrolling interest											(73,135)	(73,135)
Net loss								(12,032,009)				(12,032,009)
Balance, September 30, 2020	**1,732,139**	**$ 173**	**4,919,195**	**$ 492**	**7,813,938**	**$ 782**	**$ 96,498,618**	**$(67,182,836)**	**$(632,729)**	**$ 36,350,000**	**$ 217,785**	**$ 65,252,285**

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Cash flows from Operating Activities:		
Net loss	$ (30,244,997)	$ (31,690,850)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	3,937,919	820,881
Programming amortization	4,725,242	216,486
Film library amortization	23,831,464	16,781,685
Amortization of deferred financing costs	354,048	65,905
Amortization and depreciation of intangibles, property and equipment	5,264,353	15,661,774
Bad debt and video return expense	2,156,308	4,072,785
Realized losses on marketable securities	—	183,815
Loss on debt extinguishment	—	169,219
Other non-operating income	—	(5,530,650)
Changes in operating assets and liabilities:		
Trade accounts receivable	(7,372,707)	5,816,310
Prepaid expenses and other assets	(653,453)	(2,691,799)
Programming costs and rights	(4,384,305)	(5,805,317)
Film library	(48,442,642)	(20,409,732)
Accounts payable, accrued expenses and other payables	2,542,629	(7,000,310)
Film library acquisition and programming obligations	13,079,601	6,093,737
Accrued participation costs	10,328,843	7,827,587
Other liabilities	1,211,058	1,607,442
Net cash used in operating activities	(23,666,639)	(13,811,032)
Cash flows from Investing Activities:		
Expenditures for property and equipment	(1,083,738)	(2,811,225)
Sales of marketable securities	—	640,510
Business combination	(1,143,518)	—
Acquisition of noncontrolling interests	(6,000,000)	
Decrease in due from affiliated companies, net	6,239,035	1,561,108
Net cash used in investing activities	(1,988,221)	(609,607)
Cash flows from Financing Activities:		
Repayments of commercial loan	—	(15,200,000)
Repayments of revolving credit facility	(2,500,000)	(2,500,000)
Repayment of film acquisition advance	(2,417,602)	—
Repayment of revolving loan	(687,232)	—
Payment of contingent consideration	(8,085,051)	—
Proceeds from 9.50% notes due 2025, net	—	20,995,000
Proceeds from film acquisition advance	—	8,820,000
Proceeds from issuance of Class A common stock	95,310,813	5,000,000
Proceeds from issuance of Series A preferred stock, net	—	2,992,787
Proceeds from exercise of stock options and warrants	2,684,356	75,000
Dividends paid to preferred stockholders	(6,435,195)	(2,966,235)
Net cash provided by financing activities	77,870,089	17,216,552
Net increase in cash and cash equivalents	52,215,229	2,795,913
Cash and cash equivalents at beginning of period	14,732,726	6,447,402
Cash and cash equivalents at end of the period	$ 66,947,955	$ 9,243,315
Supplemental data:		
Cash paid for interest	$ 3,601,199	$ 977,925
Non-cash investing activities:		
Property and equipment in accounts payable and accrued expenses	$ 163,606	$ 2,400,000
Non-cash financing activities:		
Preferred stock issued for Crackle Plus acquisition	$ 40,000,000	$ —

See accompanying notes to unaudited condensed consolidated financial statements.

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Description of the Business

Chicken Soup for the Soul Entertainment, Inc. (the "Company") is a Delaware corporation formed on May 4, 2016. We operate video-on-demand networks and are a leading global independent television and film distribution company with one of the largest independently owned television and film libraries.

The Company operates and is managed by the Company's CEO Mr. William J. Rouhana, Jr., as one reportable segment, the production and distribution of video content with a focus on the Company's streaming networks. The Company currently operates in the United States and internationally and derives its revenue primarily in the United States. The Company has a presence in over 56 countries and territories worldwide.

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

The accompanying interim condensed consolidated financial statements of Chicken Soup for the Soul Entertainment, Inc. have been prepared in conformity with accounting principles generally accepted in the United States and are consistent in all material respects with those applied in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission (the "SEC") on March 31, 2021. These condensed consolidated financial statements are unaudited and have been prepared by the Company following the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted as permitted by such rules and regulations; however, the Company believes the disclosures are adequate to make the information presented not misleading.

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include revenue recognition, estimated film ultimate revenues, allowance for doubtful accounts, intangible assets, share-based compensation expense, valuation allowance for income taxes and amortization of programming and film library costs. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. On a regular basis, the Company evaluates the assumptions, judgments and estimates. Actual results may differ from these estimates.

The interim financial information is unaudited, but reflects all normal recurring adjustments that are, in the opinion of management, necessary to fairly present the information set forth herein. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Interim results are not necessarily indicative of the results for a full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Total licensing revenues, including licensing revenues related to VOD and streaming, were approximately $14,100,000 and $9,800,000 for the three months ended September 30, 2021 and 2020, respectively, and $36,900,000 and $17,800,000 for the nine months ended September 30, 2021 and 2020, respectively.

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 3 – Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In March 2020, FASB issued Accounting Standards Update ("ASU") No. 2020-04, "Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The Company adopted ASU-2020-04 in the second quarter of 2021 on a prospective basis and will apply this guidance as contracts are modified through December 2022. The adoption did not have an immediate direct impact on our financial statements. We do not expect there to be a material impact on our financial statements.

In March 2019, FASB issued Accounting Standards Update ("ASU") No. 2019-02, "Improvements to Accounting for Costs of Films and License Agreements for Program Materials." The amendments in this ASU align the accounting for production costs of an episodic television series with the accounting for production costs of films. In addition, the ASU modifies certain aspects of the capitalization, impairment, presentation and disclosure requirements under the current film and broadcaster entertainment industry guidance. As the Company is an emerging growth company, the new guidance is effective for fiscal years beginning after December 15, 2020 (fiscal year 2021 for the Company). The new guidance was applied on a prospective basis. The Company adopted ASU 2019-02 in the first quarter of 2021 and the adoption had no material impact to the Company's condensed consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, "Collaborative Arrangements (Topic 808) – Clarifying the Interaction between Topic 808 and Topic 606." The amendments in this ASU clarify that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606, Revenue from Contracts with Customers, when the collaborative arrangement participant is a customer in the context of a unit of account and precludes recognizing as revenue consideration received from a collaborative arrangement participant if the participant is not a customer. As the Company is an emerging growth company, the new guidance is effective for fiscal years beginning after December 15, 2020 (fiscal year 2021 for the Company). The Company adopted ASU 2018-18 in the first quarter of 2021 and the adoption had no material impact to the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. As the Company is an emerging growth company, the new guidance is effective for fiscal years beginning after December 15, 2020 (fiscal year 2021 for the Company). The Company adopted ASU 2018-15 in the first quarter of 2021 and the adoption had no material impact to the Company's condensed consolidated financial statements.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which requires an entity to assess impairment of its financial instruments based on its estimate of expected credit losses. Since the issuance of ASU 2016-13, the FASB released several amendments to improve and clarify the implementation guidance. The provisions of ASU 2016-13 and the related amendments are effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2022 (fiscal year 2023 for the Company). Entities are required to apply these changes through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company does not expect the adoption of the amendments to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 was effective for public companies' fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach. Because the Company is an emerging growth company, adoption is not required until fiscal years beginning after December 15, 2021 as recently deferred by FASB. The Company is currently assessing the potential impact ASU 2016-02 will have on its consolidated financial statements. Based on the Company's preliminary assessment, the impact of implementation is expected to have a material impact on its consolidated financial statements. If adopted, the Company estimates the right-of-use lease asset and corresponding lease liability will each total approximately $14,400,000, respectively, as of September 30, 2021. The Company does not expect adoption to have any material impact on its results from operations and financial condition.

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the condensed consolidated financial statements.

Note 4 – Business Combination

On May 21, 2021, the Company consummated its acquisition of the principal assets of Sonar Entertainment, Inc. ("SEI") and certain of the direct and indirect subsidiaries of SEI (collectively, "Sonar"). Sonar is an award-winning independent television studio that owns, develops, produces, finances and distributes content for global audiences. In consideration for the assets purchased from Sonar ("Purchased Assets"), the Company paid to Sonar an initial cash purchase price of $18,902,000 and from time to time will be required to pay additional purchase price based on the performance of the acquired assets.

During the 18-month period following the closing, the Company has the right (the "Buyout Option"), exercisable upon written notice to Sonar during such period, to buy out all future entitlements (i.e., additional purchase price and other entitlements not yet due and payable to Sonar as of the date of such notice) in exchange for a one-time payment to Sonar. In connection with the transaction, the Company formed a new subsidiary, CSS AVOD Inc., and issued shares of common stock, representing 5% of the after-issued equity of CSS AVOD, to MidCap Financial Trust, as Agent. At any time during the three-year period immediately following the 18-month anniversary of the asset purchase agreement closing, MidCap, as Agent, shall have the right upon 60 days' prior written notice to CSSE to require CSSE to purchase such CSS AVOD Shares for $11,500,000 ("Put Election").

The Sonar acquisition was accounted for as a purchase of a business in accordance with ASC 805 and the aggregate purchase price consideration of $53,812,000 has been allocated to assets acquired and liabilities assumed, based on the estimated fair values at the date of acquisition. The excess of the purchase price over the amount allocated to the identifiable assets and liabilities was recorded as goodwill.

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The purchase price allocation is preliminary and subject to change up to one year after the date of acquisition and could result in changes to the amounts recorded below. The preliminary allocation of the purchase price to the fair values of the assets acquired assumed at the date of the acquisition was as follows:

	May 21, 2021
Accounts receivable, net	$ 17,373,257
Film library	13,000,000
Intangible asset	3,600,000
Total identifiable assets acquired	33,973,257
Goodwill	19,838,743
Net assets acquired	$ 53,812,000

In estimating the fair value of the acquired assets, the fair value estimates are based on, but not limited to, expected future revenue and cash flows, expected growth rates and estimated discount rates.

The amount related to the acquired intangible asset represent the estimated fair value of the distribution network. This definite lived intangible asset is being amortized on a straight-line basis over its estimated useful life of 36 months.

Goodwill was calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and liabilities assumed, and represents the future economic benefits expected to arise from the intangible assets acquired that do not qualify for separate recognition.

The fair values of assets acquired were based upon valuations performed by independent third party valuation experts.

Cash	$ 18,902,000
Fair Value of Additional Purchase Price – Library Account Receivable	1,580,000
Fair Value of Additional Purchase Price – Contracted TV Cash Flow	13,700,000
Fair Value of Additional Purchase Price – % of Film Cash Flow	630,000
Fair Value of Additional Purchase Price – % of Non-TV Business Cash Flow	2,300,000
Fair Value of Additional Purchase Price – Development Slate Cash Flow	5,200,000
Fair Value of Additional Purchase Price – CSS AVOD Equity Put	11,500,000
Total Estimated Purchase Price	$ 53,812,000

Based on the terms of the asset purchase agreement, the Company estimated the fair value of the Additional Purchase Price components based on, but not limited to, expected future collection of receivables, expected future revenue and cash flows, expected growth rates, and estimated discount rates.

The Additional Purchase Price included a 5% interest in CSS AVOD and a Put Option that requires the Company to purchase the shares of CSS AVOD, Inc. (5.0% of the entity) from the investor for $11,500,000. The fair value of the 5.0% interest in CSS AVOD, Inc. was estimated based on expected future cash flows. The Put Option was valued by the Company via a Black-Sholes valuation model assuming an initial price of $125,000, a strike price of $11,500,000, volatility of 100.0% and term of 1.5 years.

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The following table illustrates Sonar's stand-alone financial performance included in the Company's condensed consolidated statement of operations:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Net revenue	$ 6,233,196	$ 10,192,271
Net income	$ 2,869,905	$ 5,559,947

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Sonar on a pro forma basis, as though the companies had been combined as of January 1, 2020. These pro forma results were based on estimates and assumptions, which we believe are reasonable. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at January 1, 2020. The pro forma financial information assumes our revolving loan was entered into as of January 1, 2020 and includes adjustments to amortization for acquired intangible assets and interest expense.

	Three Months Ended September 30,	
	2021	2020
Net revenue	$ 29,096,855	$ 20,499,868
Net loss	$ (16,741,678)	$ (14,770,275)
Basic and diluted net loss per share	$ (1.04)	$ (1.18)

	Nine Months Ended September 30,	
	2021	2020
Net revenue	$ 80,382,025	$ 54,508,057
Net loss	$ (42,770,144)	$ (39,398,998)
Basic and diluted net loss per share	$ (2.92)	$ (3.24)

Note 5 – Revenue Recognition

Revenue from contracts with customers is recognized as an unsatisfied performance obligation until the terms of a customer contract are satisfied; generally, this occurs with the transfer of control or the completion of services as we satisfy contractual performance obligations at a point in time or over time. Our contractual performance obligations include licensing of content and delivery of online advertisements on our owned and operated VOD platforms, the distribution of film content, production of episodic television series and production related services. Revenue is measured at contract inception as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Our contracts are valued at a fixed price at inception and can sometimes include variable consideration.

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The following tables disaggregate our revenue by source:

	Three Months Ended September 30,			
	2021	% of revenue	2020	% of revenue
Revenue:				
VOD and streaming	$ 16,907,012	58 %	$ 16,840,003	87 %
Licensing and other	12,189,843	42 %	2,521,748	13 %
Net revenue	$ 29,096,855	100 %	$ 19,361,751	100 %

	Nine Months Ended September 30,			
	2021	% of revenue	2020	% of revenue
Revenue:				
VOD and streaming	$ 45,884,136	62 %	$ 37,744,391	82 %
Licensing and other	28,544,495	38 %	8,381,973	18 %
Net revenue	$ 74,428,631	100 %	$ 46,126,364	100 %

VOD and streaming

VOD and streaming revenue included in this revenue source is generated as the Company distributes and exhibits VOD content through the Crackle Plus network directly to consumers across all digital platforms, such as connected TV's, smartphones, tablets, gaming consoles and the web through our owned and operated AVOD or FAST channel networks. In addition this revenue source includes revenues from third party platforms, including transactional video on demand (TVOD) sales, AVOD or FAST channel revenue share or performance based revenue, SVOD, cable tv and barter syndication generated revenues. The Company generates VOD and streaming revenues for our VOD networks in three primary ways, selling advertisers product and content integrations and sponsorships related to our productions, selling advertisers the ability to present content to our viewers, often with fewer commercials, and selling advertisers video ad inventory on our VOD networks; we also generate revenues via direct to consumer sales on TVOD platforms.

Revenue from VOD and streaming is recognized as content with integrations and sponsorships as it is delivered and ready for exploitation, content with presenters is aired, over time as advertisements are delivered and when monthly activity is reported by TVOD partners.

Licensing and other

Licensing and other revenue included in this revenue source is generated as the Company licenses movies and television series worldwide, through Screen Media Ventures, through license agreements across channels, including theatrical and home video. We own the copyright or long-term distribution rights to over 4,000 television series and feature films, representing one of the largest independently owned libraries of filmed entertainment in the world.

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Revenue from the Licensing and production of movies, television series and programs and short-form video content is recognized when or as the Company transfers control of the contracted asset to the customer. The transfer of control is represented by the Company's delivery of the contracted asset (or the Company otherwise makes available unconditionally) to the customer and the license period during which the customer is able to benefit from its right to access or its right to use the asset has begun. Cash advances received by the Company are recorded as deferred revenue until all performance obligations have been satisfied. When payment is due from a customer more than one year before or after revenue is recognized, we consider whether the contract contains a significant financing component and if the transaction price should be adjusted for the time value of money. We do not adjust the transaction price for amounts that are due within one year from recognizing revenue. Given the nature of our business from time to time we engage with distributors for terms that include minimum guarantees, that may include a significant financing component, which are contractually paid over a period of time at a variable rate of payment – based on sales and net cash collections made by the distributor to third parties. These minimum guarantees are generally collectible via royalty payments on a monthly or quarterly basis. For the three and nine months ended September 30, 2021, the Company entered into minimum guarantees related to distributor licenses and the sale of film rights, of approximately $4,636,000 and $13,689,000, respectively.

For all customer contracts, the Company evaluates whether it is the principal (i.e., report revenue on a gross basis) or the agent (i.e., report revenue on a net basis). Generally, the Company reports revenue for show productions, acquired distribution rights for films , the sub-licensing of acquired distribution rights and advertising placed on CSSE properties on a gross basis (the amount billed to our customers is recorded as revenue, and the amount paid to our vendors is recorded as a cost of revenue). The Company is the principal because we control the asset or contractual distribution right before it is transferred to our customers. Our control is evidenced by our sole ability to monetize the asset, being primary obligor to our customers, having discretion in establishing pricing, or a combination of these factors. The Company also generates revenue through agency relationships in which revenue is reported net of agency commissions and publisher payments in arrangements where we do not own the asset in the form of content or ad inventory.

In the ordinary course of business and as part of its content acquisition strategy, the Company will acquire a film or the worldwide rights to distribute a film, to improve its overall film library offering and generate attractive risk adjusted film returns. The Company will sometimes look to sub-license rights to distributors when it is attractive to do so in order to reduce the risk associated with the acquisition of rights. During the three and nine months ended September 30, 2021, the Company relicensed a subset of acquired film rights for approximately $6,220,000 and $6,537,000, respectively.

No impairment losses have arisen from any Company contracts with customers during the nine months ended September 30, 2021 and 2020.

Performance obligations

The unit of measure under ASC 606 is a performance obligation, which is a promise in a contract to transfer a distinct or series of distinct goods or services to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our contracts have either a single performance obligation as the promise to transfer services is not separately identifiable from other promises in the contracts and is, therefore, not distinct, or have multiple performance obligations, most commonly due to the contract covering multiple service offerings. For contracts with multiple performance obligations, the contract's transaction price can generally be readily allocated to each performance obligation based upon the selling price of each distinct service in the contract. In cases where estimates are needed to allocate the transaction price, we use historical experience and projections based on currently available information.

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Contract balances

Contract balances include the following:

	September 30, 2021	December 31, 2020
Accounts receivable, net	$ 23,853,029	$ 14,588,684
Contract assets (included in accounts receivable)	24,412,421	11,408,263
Total accounts receivable, net	$ 48,265,450	$ 25,996,947
Deferred revenue (included in other liabilities)	$ 1,165,044	$ 590,624

Contract assets are primarily comprised of unbilled receivables that are generally paid over time in accordance with the terms of our contracts with customers and are transferred to accounts receivable when the timing and right to payment becomes unconditional. Contract liabilities or deferred revenues relate to advance consideration received from customers under the terms of our contractual arrangements in advance of satisfaction of the contractual performance obligation. We generally receive payments from customers based upon contractual billing schedules and arrangements.

Contract receivables are recognized in the period the Company performs the agreed upon performance obligations and the Company's right to consideration becomes unconditional. Payment terms vary by the type and location of our customer and the goods or services provided. The term between invoicing and when payment is due not generally significant, but can extend from 1 - 5 years where a significant financing component exists with a minimum guarantee.

A contract asset results when goods or services have been transferred to the customer, but payment is contingent upon a future event, other than the passage of time (i.e. type of unbilled receivable). Given the nature of our business from time to time we engage with distributors for terms that include minimum guarantees, that may include a significant financing component, which are contractually paid over a period of time at a variable rate of payment – based on sales and net cash collections made by the distributor from third parties. These minimum guarantees are generally collectible via royalty payments on a monthly or quarterly basis over the term of the contractual arrangement.

The Company records deferred revenue (also referred to as contract liabilities under Topic 606) when cash payments are received in advance of our satisfying our performance obligations. Our deferred revenue balance primarily relates to advance payments received related to our content distribution rights agreements and our production sponsorship arrangements. These contract liabilities are recognized as revenue when the related performance obligations are satisfied. No significant changes in the timeframe of the satisfaction of contract liabilities have occurred during the nine months ended September 30, 2021.

Arrangements with multiple performance obligations

In contracts with multiple performance obligations, the Company identifies each performance obligation and evaluates whether the performance obligations are distinct within the context of the contract at contract inception. When multiple performance obligations are identified, we identify how control transfers to the customer for each distinct contract obligation and determine the period when the obligations are satisfied. If obligations are satisfied in the same period, no allocation of revenue is deemed to be necessary. In the event performance obligations within a bundled contract do not run concurrently, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers or by using expected cost-plus margins. Performance obligations that are not distinct at contract inception are combined.

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Note 6 – Share-Based Compensation

Effective January 1, 2017, the Company adopted the 2017 Long Term Incentive Plan (the "Plan") to attract and retain certain employees. The Plan provides for the issuance of up to 2,500,000 common stock equivalents subject to the terms and conditions of the Plan. The Plan generally provides for quarterly and bi-annual vesting over terms ranging from two to three years. The Company accounts for the Plan as an equity plan.

The Company recognizes stock options granted under the Plan at fair value determined by applying the Black Scholes options pricing model to the grant date market value of the underlying common shares of the Company.

The compensation expense associated with these stock options is amortized on a straight-line basis over their respective vesting periods. For the three months ended September 30, 2021 and 2020, the Company recognized $1,016,981 and $230,123, respectively, and for the nine months ended September 30, 2021 and 2020, the Company recognized $1,418,169 and $641,731, respectively, of non-cash share-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations.

Stock options activity as of September 30, 2021 is as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Yrs.)	Aggregate Intrinsic Value
Outstanding at December 31, 2020	1,131,250	$ 8.13	2.66	$ 13,417,900
Granted	633,265	20.67		
Forfeited	(6,250)	9.51		
Exercised [(a)]	(415,276)	7.34		
Expired	—	—		
Outstanding at September 30, 2021	1,342,989	$ 14.28	3.30	$ 11,538,897
Vested and exercisable at September 30, 2021	670,832	$ 9.55	2.08	$ 8,933,971

(a)) During the nine months ended September 30, 2021, 100,000 stock options were exercised and converted to 77,415 shares of Class A Common Stock via the cashless exercise option.

As of September 30, 2021 the Company had unrecognized pre-tax compensation expense of $6,949,698 related to non-vested stock options under the Plan of which $793,922, $2,683,439, $2,493,447 and $978,890 and will be recognized in 2021, 2022, 2023 and 2024, respectively.

We used the following weighted average assumptions to estimate the fair value of stock options granted for the periods presented as follows:

Weighted Average Assumptions:	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Expected dividend yield	0.0 %	0.0 %
Expected equity volatility	60.7 %	56.1 %
Expected term (years)	5	5
Risk-free interest rate	1.40 %	2.20 %
Exercise price per stock option	$ 14.28	$ 7.76
Market price per share	$ 14.13	$ 7.32
Weighted average fair value per stock option	$ 7.48	$ 3.54

The risk-free rates are based on the implied yield available on U.S. Treasury constant maturities with remaining terms equivalent to the respective expected terms of the options.

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The Company estimates expected terms for stock options awarded to employees using the simplified method in accordance with ASC 718, *Stock Compensation*, because the Company does not have sufficient relevant information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for stock options using the contractual term. Expected volatility is calculated based on the Company's peer group because the Company does not have sufficient historical data and will continue to use peer group volatility information until historical volatility of the Company is available to measure expected volatility for future grants.

The Company also awards common stock under the Plan to directors, employees and third-party consultants that provide services to the Company. The value is based on the market price of the stock on the date granted and amortized over the vesting period. For the three months ended September 30, 2021 and 2020, the Company recognized in selling, general and administrative expense, non-cash share-based compensation expense relating to common stock grants of $2,457,250 and $116,650, respectively. For the nine months ended September 30, 2021 and 2020, the Company recognized in selling, general and administrative expense, non-cash share-based compensation expense relating to common stock grants of $2,519,750 and $179,150, respectively.

Note 7 - Earnings Per Share

Basic earnings (loss) per share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include stock options and warrants outstanding during the period, using the treasury stock method. Potentially dilutive common shares are excluded from the computations of diluted earnings per share if their effect would be anti-dilutive. A net loss available to common stockholders causes all potentially dilutive securities to be anti-dilutive.

Basic and diluted loss per share are computed as follows:

	Three Months Ended September 30,	
	2021	2020
Net loss available to common stockholders	$ (16,741,678)	$ (13,049,700)
Basic weighted-average common shares outstanding	16,145,808	12,508,643
Dilutive effect of options and warrants	—	—
Weighted-average diluted common shares outstanding	16,145,808	12,508,643
Basic and diluted loss per share	$ (1.04)	$ (1.04)
Anti-dilutive stock options and warrants	3,701,061	942,336

	Nine Months Ended September 30,	
	2021	2020
Net loss available to common stockholders	$ (37,014,237)	$ (34,487,207)
Basic weighted-average common shares outstanding	14,622,787	12,174,779
Dilutive effect of options and warrants	—	—
Weighted-average diluted common shares outstanding	14,622,787	12,174,779
Basic and diluted loss per share	$ (2.53)	$ (2.83)
Anti-dilutive stock options and warrants	3,785,734	344,419

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Note 8 – Programming Costs

Programming costs and rights, consists of the following:

	September 30, 2021	December 31, 2020
Programming costs released	$ 25,664,464	$ 22,986,486
In production	—	—
In development	6,345,496	4,639,169
Accumulated amortization [(a)]	(16,973,453)	(12,298,648)
Programming costs, net	15,036,507	15,327,007
Programming rights	1,209,362	1,209,362
Accumulated amortization	(805,623)	(755,186)
Programming rights, net	403,739	454,176
Programming costs and rights, net	$ 15,440,246	$ 15,781,183

(a) As of September 30, 2021 and December 31, 2020, accumulated amortization includes impairment expense of $0 and $2,213,032, respectively.

Programming costs consists primarily of episodic television programs which are available for distribution through a variety of platforms, including Crackle. Amounts capitalized include development costs, production costs and direct production overhead costs.

Costs to create episodic programming are amortized in the proportion that revenues bear to management's estimates of the ultimate revenues expected to be recognized from various forms of exploitation.

Programming rights consists of licenses to various titles which the company makes available for streaming on Crackle for an agreed upon license period.

Amortization of programming costs related to episodic television programs and programming rights related to licensed content is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Programming costs	$ 1,756,901	$ 11,667	$ 4,674,805	$ 75,418
Programming rights	24,346	39,426	50,437	141,068
Total programming amortization expense	$ 1,781,247	$ 51,093	$ 4,725,242	$ 216,486

During the three and nine months ended September 30, 2021 and 2020, the Company did not record any impairment related to programming costs.

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Note 9 – Film Library

Film library costs, net of amortization, consists of the following:

	September 30, 2021	December 31, 2020
Film library acquisition costs	$ 139,772,736	$ 78,330,094
Accumulated amortization [(a)]	(66,922,423)	(43,090,959)
Net film library costs	$ 72,850,313	$ 35,239,135

(a) As of September 30, 2021 and December 31, 2020, accumulated amortization includes impairment expense of $0 and $1,760,846, respectively.

Film library consists primarily of the cost of acquiring film distribution rights and related acquisition and accrued participation costs. Costs related to film distribution rights are amortized in the proportion that revenues bear to management's estimates of the ultimate revenue expected to be recognized from various forms of exploitation.

Amortization of film library costs is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Film library amortization expense	$ 10,087,539	$ 7,981,212	$ 23,831,464	$ 16,781,685

Note 10 - Intangible Assets

Indefinite lived intangible assets, consists of the following:

	September 30, 2021	December 31, 2020
Intangible asset - video content license	$ 5,000,000	$ 5,000,000
Popcornflix film rights and other assets	7,163,943	7,163,943
Total	$ 12,163,943	$ 12,163,943

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Intangible assets, net, consists of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2021:			
Acquired customer base	$ 2,290,241	$ 1,431,401	$ 858,840
Non-compete agreement	530,169	530,169	—
Website development	389,266	356,826	32,440
Crackle Plus content rights	1,708,270	1,352,380	355,890
Crackle brand value	18,807,004	6,380,948	12,426,056
Crackle Plus partner agreements	4,005,714	1,902,714	2,103,000
Distribution Network	3,600,000	400,000	3,200,000
Total	$ 31,330,664	$ 12,354,438	$ 18,976,226
December 31, 2020:			
Acquired customer base	$ 2,290,241	$ 1,087,865	$ 1,202,376
Non-compete agreement	530,169	419,717	110,452
Website development	389,266	259,510	129,756
Crackle Plus content rights	1,708,270	925,313	782,957
Crackle brand value	18,807,004	4,365,912	14,441,092
Crackle Plus partner agreements	4,005,714	1,301,857	2,703,857
Total	$ 27,730,664	$ 8,360,174	$ 19,370,490

Amortization expense was $1,483,361 and $4,517,115 for the three months ended September 30, 2021 and 2020, respectively, and $3,994,264 and $14,876,009 for the nine months ended September 30, 2021 and 2020, respectively.

As of September 30, 2021 amortization expense for the next 5 years is expected be:

Remainder of 2021	$ 1,461,272
2022	5,359,440
2023	4,974,138
2024	3,487,143
2025	2,686,715
Thereafter	1,007,518
Total	$ 18,976,226

Goodwill consists of the following:

	September 30, 2021	December 31, 2020
Goodwill: Pivotshare	$ 1,300,319	$ 1,300,319
Goodwill: A Plus	1,236,760	1,236,760
Goodwill: Crackle Plus	18,911,027	18,911,027
Goodwill: Sonar	19,838,743	—
Total	$ 41,286,849	$ 21,448,106

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There was no impairment recorded related to goodwill and intangible assets in the three and nine months ended September 30, 2021 and 2020, respectively.

Note 11 – Debt

Long-term debt for the periods presented was as follows:

	September 30, 2021	December 31, 2020
Notes due 2025	$ 32,895,900	$ 32,895,900
Revolving Credit Facility	—	2,500,000
Revolving Loan	17,585,699	—
Film Acquisition Advance	6,241,534	8,659,136
Total debt	56,723,133	44,055,036
Less: debt issuance costs	1,501,768	1,798,433
Less: current portion	—	2,500,000
Total long-term debt	$ 55,221,365	$ 39,756,603

Revolving Loan

On May 21, 2021, the Company entered into a Credit Agreement with Midcap Financial Trust. The credit agreement provides the Company with a revolving loan in an aggregate principal amount not to exceed $20,000,000 at any time outstanding. On the closing date, the Company made an initial draw down on the loan of $18,272,931 in connection with funding the SEI acquisition. The availability under the loan at any time is subject to the borrowing base, which is equal to 85% of the Eligible Accounts minus the sum of all Reserves.

The loan bears interest at 4% plus the greater of LIBOR or 0.75% per annum. In addition the loan contains an unused line fee of 0.5% per annum and a collateral management fee of 0.504% per annum. Interest and fees on the loan are payable in arrears on the first day of each month and on the maturity of the loan.

The Credit Agreement and other loan documents contain customary representations and warranties and affirmative and negative covenants. Under the Credit Agreement, the Company is required to maintain minimum liquidity in the form of borrowing base availability or cash on hand in an aggregate amount of not less than $6,000,000. The Company is in compliance with all covenants as of September 30, 2021.

9.50% Notes Due 2025

On July 17, 2020, the Company completed a public offering of 9.50% Notes due 2025 (the “Notes”) in the aggregate principal amount of $21,000,000. On August 5, 2020, the Company sold an additional $1,100,000 of Notes pursuant to the partial exercise of the overallotment option. The Notes bear interest at 9.50% per annum, payable every March 31, June 30, September 30, and December 31, and at maturity. The Notes mature on July 31, 2025.

The sale of the Notes resulted in net proceeds of approximately $20,995,000 after deducting underwriting discounts and commissions of approximately $1,105,000. The Company used $13,333,333 of the net proceeds to repay the outstanding principal under the Commercial Loan.

On December 22, 2020, the Company completed a public offering of 9.50% Notes due 2025 (the “December Notes”) in the aggregate principal amount of $9,387,750. On December 29, 2020, the Company sold an additional $1,408,150 of December Notes pursuant to the partial exercise of the overallotment option. The stated principal of $25.00 per note was discounted 2% to the public offering price of $24.50 per note.

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Film Acquisition Advance

On August 27, 2020, the Company entered into a Film Acquisition Advance Agreement with Great Point Media Limited ("GPM"). GPM advanced to the Company $10,210,000 of acquisition advances on August 28, 2020 (the "Acquisition Advance") and may, directly, or through affiliated entities, fund additional acquisition advances in the future. Pursuant to the agreement, GPM has formed a US-based special purpose vehicle (the "SPV"), which has been assigned the territorial licenses and distribution rights in certain films and productions owned or to be acquired by Screen Media Ventures Inc., CSSE's wholly owned subsidiary. The Company will pay the SPV on a quarterly basis adjusted gross receipts generated on each of the assigned productions during the two-year term of the agreement, until the SPV has recouped the full Acquisition Advance for each of the productions together with interest and additional participation amounts on gross receipts generated by the productions. The Acquisition Advance bears interest at 10% per annum compounded monthly on the amount outstanding. In the event the SPV has not recouped the full Acquisition Advance from gross receipts generated within the two-year contractual term, the Company shall pay the remaining balance outstanding, if any, by no later than November 30, 2022. For the nine months ended September 30, 2021, the Company repaid $2,579,434 of the principal outstanding under the Film Acquisition Advance.

Revolving Credit Facility

On October 11, 2019, the Company created a majority owned subsidiary Landmark Studio Group. Through Landmark Studio Group, the Company entered into a Revolving Credit Facility ("Revolving Credit Facility") with Cole Investments VII, LLC. The Revolving Credit Facility consisted of a line of credit in the amount of $5,000,000 and with interest at 8% per annum.

On July 23, 2020, the Company repaid $2,500,000 of the principal outstanding under the Revolving Credit Facility. The outstanding principal was repayable in full on October 11, 2021.

On March 3, 2021, the Company repaid the remaining outstanding principal of $2,500,000 and terminated the Revolving Credit Facility.

As of September 30, 2021, the expected aggregate maturities of debt for each of the next five years are as follows:

Remainder of 2021	$ —
2022	6,241,534
2023	—
2024	17,585,699
2025	32,895,900
	$ 56,723,133

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 12 – Put Option Obligation

As part of the additional purchase price for the Sonar Entertainment, Inc business acquisition, the Company issued a 5% interest in CSS AVOD, Inc and a Put Option that, if exercised, requires the Company to purchase the issued investor shares of CSS AVOD, Inc. from the investor for $11,500,000 in cash. The Put Option is exercisable, with 60 day's written notice, by the investor at any time during a three year period commencing on October 8, 2022 and expiring on October 7, 2025 ("Put Election Period").

As of September 30, 2021, the 5% interest in CSS AVOD, Inc consists of the following,

	September 30, 2021
Put Option Obligation	$ 11,400,000
Noncontrolling Interests	109,085
Total	$ 11,509,085

Note 13 – Income Taxes

The Company's current and deferred income tax provision are as follows:

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Current provision:				
States	$ 30,000	$ 26,000	$ 59,000	$ 93,000
Total current provision	$ 30,000	$ 26,000	$ 59,000	$ 93,000

Deferred income taxes reflect the temporary differences between the financial statement carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, adjusted by the relevant tax rate. The components of deferred tax assets and liabilities are as follows:

	September 30, 2021	December 31, 2020
Deferred tax assets:		
Net operating loss carry-forwards	$ 13,362,000	$ 10,428,000
Acquisition-related costs	550,000	723,000
Film library and other intangibles	15,302,000	11,968,000
Other	128,000	39,000
Less: valuation allowance	(27,195,000)	(20,003,000)
Total deferred tax assets	2,147,000	3,155,000
Deferred tax liabilities:		
Programming costs	1,747,000	2,715,000
Other assets	400,000	440,000
Total deferred tax liabilities	2,147,000	3,155,000
Net deferred tax asset	$ —	$ —

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
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The Company and its subsidiaries have combined net operating losses of approximately $49,627,000, $10,843,000 of which were incurred before 2018 and expire between 2031 and 2037 with the balance of $38,784,000 having no expiration under changes made by the Tax Cuts and Jobs Act but may only be utilized generally to offset only 80 percent of taxable income. The ultimate realization of the tax benefit from net operating losses is dependent upon future taxable income, if any, of the Company.

Internal Revenue Code Section 382 imposes limitations on the use of net operating loss carryovers when the stock ownership of one or more 5% stockholders (stockholders owning 5% or more of the Company's outstanding capital stock) has increased by more than 50 percentage points. Additionally the separate-return-limitation-year (SRLY) rules that apply to consolidated returns may limit the utilization of losses in a given year when consolidated tax returns are filed. Management has determined that because of a recent history of recurring losses, the ultimate realization of the net operating loss carryovers is not assured and has recorded a full valuation allowance. Public trading of company stock poses a risk of an ownership change beyond the control of the Company that could trigger a limitation of the use of the loss carryover.

The deferred tax asset valuation allowance increased by $3,307,000 and $2,920,000 during the three months ended September 30, 2021 and 2020, respectively. The deferred tax asset valuation allowance increased by $7,192,000 and $7,323,000 during the nine months ended September 30, 2021 and 2020, respectively.

Note 14 – Related Party Transactions

At September 30, 2021 and December 31, 2020, the Company had an intercompany payable and receivable, respectively, with affiliated companies - primarily CSS.

	September 30, 2021	December 31, 2020
Due to affiliated companies	$ 590,383	$ —
Due from affiliated companies	—	5,648,652
Total due to/due from affiliated companies	$ 590,383	$ 5,648,652

The Company is part of CSS's central cash management system whereby payroll and benefits are administered by CSS and the related expenses are charged to its subsidiaries and funds are transferred between affiliates to fulfill joint liquidity needs and business initiatives. Advances and repayments occur periodically. The Company and CSS do not charge interest on the net advances.

For the three months ended September 30, 2021 and 2020, the Company recorded management and license fees of $2,909,686 and $1,936,175, respectively, and $7,442,863 and $4,612,636 for the nine months ended September 30, 2021 and 2020, respectively, payable to CSS.

Note 15 - Commitments and Contingencies

Operating Leases

The Company is obligated under non-cancellable lease agreements for certain facilities and services, which frequently include renewal options and escalation clauses. For leases that contain predetermined fixed escalations, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rent expense and amounts payable under the lease as lease obligations. Lease obligations due within one year are included in accounts payable and accrued expenses on our condensed consolidated balance sheets. These leases expire at various points through 2031.

Rent expense related to these leases was $506,033 and $399,711 for the three months ended September 30, 2021 and 2020, respectively, and $1,505,455 and $1,314,019 for the nine months ended September 30, 2021 and 2020, respectively.

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Content Obligations

Content obligations include amounts related to the acquisition, licensing and production of content. An obligation for the acquisition and licensing of content is incurred at the time we enter into an agreement to obtain future titles. Once a title is delivered, accepted and becomes available for exploitation, a content liability is recorded on the condensed consolidated balance sheet.

As of September 30, 2021, the Company had $49,257,973 of content obligations, comprised of $24,752,229 in film library acquisition obligations, $1,641,250 of programming obligations and $22,864,494 of accrued participation costs.

As of December 31, 2020, the Company had $25,849,529 of content obligations, comprised of $8,616,562 in film library acquisition obligations, $4,697,316 of programming obligations and $12,535,651 of accrued participation costs.

In the ordinary course of business, the Company from time to time enters into contractual arrangements under which it agrees to commitments with producers and other content providers for the acquisition of content and distribution rights which are in production or have not yet been completed, delivered to, and accepted by the Company ready for exploitation. Based on those contractual arrangements, the Company is committed but is not contractually liable to transfer any financial consideration until final delivery and acceptance has occurred. These commitments which are expected to be fulfilled in the normal course of business have been included below. The Company does not include any estimated obligation for these future titles beyond the known minimum amount.

Future minimum payments under non-cancelable operating leases and content agreements as of September 30, 2021 were as follows:

Remainder of 2021	$ 1,367,884
2022	16,674,647
2023	4,387,187
2024	1,287,430
2025	1,313,178
2026 - 2031	8,052,953
Total minimum lease and content payments	$ 33,083,279

Legal and Other Matters

The Company is not presently a party to any legal proceedings the resolution of which the Company believes would have a material adverse effect on its business, financial condition, operating results, or cash flows. However, legal proceedings are subject to inherent uncertainties, and an unfavorable outcome could include monetary damages, and excessive verdicts can result from litigation, and as such, could result in a material adverse impact on its business, financial position, results of operations, and /or cash flows. Additionally, although the Company has specific insurance for certain potential risks, the Company may in the future incur judgments or enter into settlements of claims which may have a material adverse impact on its business, financial condition, or results of operations.

Chicken Soup for the Soul Entertainment, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 16 – Stockholders' Equity

Underwritten Public Common Stock Offering

On July 7, 2021, the Company completed an underwritten public offering of 1,875,000 shares of common stock at a price $40.00 per common share, generating net proceeds of $70,500,000.

Landmark Noncontrolling Interest

On September 8, 2021, the Company purchased an additional 25,000 units of common equity in Landmark Studio Group from Cole investments VII, LLC for $6,000,000. The purchase increases the Company's ownership in Landmark Studio Group from 53.5% to 78.5%.

Subsidiary Convertible Preferred Stock

The subsidiary convertible preferred stock represented the equity attributable to the noncontrolling interest holder as a part of the Crackle Plus business combination. Given the terms of the transaction, the noncontrolling interest holder had the right to convert their Preferred Units in Crackle Plus into Common Units representing common ownership of 49% in Crackle Plus or into Series A Preferred Stock of the Company.

On January 13, 2021, the Company issued 1,600,000 shares of its Series A Preferred Stock to CPEH pursuant to the Put Option granted to CPEH under the JV Operating Agreement, as amended. The Put Option was exercised on December 14, 2020. The Company had the option to elect to pay cash in lieu of issuing Series A Preferred Stock. The Company elected to satisfy the Put Option entirely through the issuance of Series A Preferred Stock. As a result of CPEH's exercise of the Put Option, the Company now owns 100% of Crackle Plus.

Warrants

Warrant activity as of September 30, 2021 is as follows:

Warrants	Outstanding at December 31, 2020	Exercised [(a)]	Outstanding at September 30, 2021	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Yrs.)
Class W	622,622	(95,410)	527,212	$ 7.50	2.00
Class Z	180,618	(57,173)	123,445	12.00	3.00
CSSE Class I	800,000	—	800,000	8.13	2.87
CSSE Class II	1,200,000	—	1,200,000	9.67	2.87
CSSE Class III-A	380,000	—	380,000	11.61	2.87
CSSE Class III-B	1,620,000	—	1,620,000	11.61	2.87
Total	4,803,240	(152,583)	4,650,657	$ 10.06	2.52

(a) During the nine months ended September 30, 2021 116,058 warrants were exercised and converted into 82,752 shares of Class A Common Stock via the cashless exercise option.

Note 17 – Segment Reporting and Geographic Information

The Company's reportable segment has been determined based on the distinct nature of its operations, the Company's internal management structure, and the financial information that is evaluated regularly by the Company's chief operating decision maker. The Company operates in one reportable segment, the distribution and production of video content for sale to others and for use on our owned and operated video on demand platforms. We have a presence in over 56 countries and territories worldwide and intend to continue to sell our video content internationally.

Net revenue generated in the United States accounted for approximately 82% and 99% of total net revenue for the three months ended September 30, 2021 and 2020, respectively, and 91% and 99% for the nine months ended September 30, 2021 and 2020, respectively. Remaining net revenue was generated in the rest of the world. Long-lived assets are 100% based in the United States.

Note 18 – Subsequent Events

Management has evaluated events occurring between the end of the period, September 30, 2021 and November 8, 2021 and noted no subsequent events requiring financial statement disclosure.

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission ("SEC") on March 31, 2021 ("Form 10-K") and our Current Report on Form 8-K as filed with the SEC on May 27, 2021 (and amended on each of June 11, 2021 and July 1, 2021). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, includes forward-looking statements involving risks and uncertainties and should be read together with the "Risk Factors" section of our report on Form 10-K for a discussion of important factors which could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding expectations, intentions and strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "target," "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predicts," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this Quarterly Report are based on current expectations and beliefs concerning future developments and their potential effects on our company and its subsidiaries. There can be no assurance that future developments will be those that have been anticipated. These forward-looking statements involve many risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Important factors that may affect our actual results include:

- we have and may continue to incur losses in the operation of our business;
- we may not be able to generate sufficient cash to service our debt, preferred stock dividend and other obligations or our ability to pay our preferred stock dividends could be adversely affected or prohibited upon default under our current or future indebtedness;
- difficult conditions in the economy generally and our industry specifically resulting from the COVID 19 pandemic may cause interruptions in our operations, a slow-down in the production or acquisition of new content, and changes in demand for our products and services, which may have a material adverse effect on our business operations and financial condition;
- potential effects of a challenging economy, for example, on the demand for our advertising and marketing services, on our clients' financial condition and on our business or financial condition;
- the occurrence of cyber-incidents, or a deficiency in our cybersecurity or in those of any of our third party service providers, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business and results of operations;
- the ability of our content offerings to achieve market acceptance;
- our success in retaining or recruiting, or changes required in retaining, our officers, key employees or directors;
- our potential ability to obtain additional financing when and if needed;

- our ability to protect our intellectual property;
- our ability to complete strategic acquisitions, including joint ventures and co-production arrangements;
- our ability to manage growth and integrate acquired operations;
- uninterrupted service by the third-party service providers we rely on for the distribution of our content and delivery of ad impressions;
- the potential liquidity and trading of our securities;
- regulatory or operational risks;
- downward revisions to, or withdrawals of, our credit ratings by third-party rating agencies;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing; and
- the time during which we will be an Emerging Growth Company under the Jumpstart Our Business Startups Act of 2012, or JOBS Act.

Overview

Chicken Soup for the Soul Entertainment, Inc. is a leading streaming video-on-demand (VOD) company. We operate Crackle Plus, a portfolio of ad-supported and subscription-based VOD streaming services, as well as Screen Media, Halcyon Television, and a number of affiliates that collectively enable us to acquire, produce, co-produce and distribute content, including our original and exclusive content, all in support of our streaming services.

Crackle Plus is comprised of unique networks, each delivering popular and original premium content focused on different themes such as family, kids, horror and comedy. Crackle Plus brands include Crackle, among the most watched ad-supported independent VOD networks, Popcornflix, Popcornflix Kids, Truli, Pivotshare, Españolflix and FrightPix. As of September 30, 2021, Crackle Plus served more than 32 million monthly active visitors through many distribution platforms including Roku, Amazon Fire, Vizio and others. These visitors viewed content produced through our various television production affiliates, acquired by Screen Media, or licensed from Sony Pictures Television (SPT), Lionsgate, Paramount, Fox, Warner Brothers and more than 100 other production and distribution companies. For the period ended September 30, 2021, viewers of Crackle Plus networks have access to approximately 6,200 films and 33,000 episodes of licensed or company-owned original or exclusive programming.

Screen Media manages one of the industry's largest independently owned television and film libraries consisting of approximately 9,000 feature films and 34,000 episodes of television programming. Screen Media also acquires between approximately 10 and 20 new films each year. Screen Media provides content for the Crackle Plus portfolio and also distributes its library to other exhibitors and third-party networks to generate additional revenue and operating cash flow.

Halcyon Television, our Company's new subsidiary, manages the extensive film and television library recently acquired from Sonar Entertainment. This library is distributed by Screen Media. The library contains more than 1,000 titles, and 4,000 hours of programming, ranging from classics, including *The Little Rascals*, *Laurel & Hardy and Blondie* (produced by Hal Roach Studios), to acclaimed epic event mini-series such as *Lonesome Dove* and *Dinotopia*. Our Halcyon library titles have received 446 Emmy Award nominations, 105 Emmy Awards and 15 Golden Globe Awards. Halcyon Television, and its subsidiary, Halcyon Studios, are headed by David Ellender. Ellender and his team have developed, produced, financed and distributed shows such as *The Shannara Chronicles* (MTV/Netflix), *Taboo* (BBC/FX), *The Son* (AMC), *Mr. Mercedes* (DirecTV), *Das Boot* (Sky Europe), *Hunters* (Amazon Prime), *Alien Xmas* (Netflix) and *Mysterious Benedict Society* (Disney+). Halcyon Studios, a subsidiary of Halcyon Television, will continue developing and producing current and future high-caliber content for our Company for all platforms across a broad spectrum in the U.S. and internationally.

Chicken Soup for the Soul's various television production activities are done through a number of affiliates including Landmark Studio Group, its Chicken Soup for the Soul Unscripted division, and APlus.com, which produce or co-produce original content for Crackle Plus and, occasionally, for other third-party networks.

We believe that we are the only independent ad-supported video-on-demand (AVOD) business with the proven capability to acquire, create and distribute original programming and that we have one of the largest libraries of valuable company-owned and third-party content. We believe this differentiation is important at a time of a major shift in consumer viewing habits as the growth in both availability and quality of high-speed broadband enables consumers to consume video content at any time on any device.

For the three months ended September 30, 2021 and 2020, our net revenue was approximately $29.1 million and $19.4 million, respectively, and $74.4 million and $46.1 million for the nine months ended September 30, 2021 and 2020, respectively.

Our Adjusted EBITDA for the three months ended September 30, 2021 and 2020 was $4.9 million and $4.2 million, respectively, and $12.6 million and $8.9 million for the nine months ended September 30, 2021 and 2020, respectively. As described below in "Use of Non-GAAP Financial Measure", we use Adjusted EBITDA as an important metric for management.

JOBS Act Accounting Election

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has irrevocably elected to avail itself of this exemption from new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

Use of Non-GAAP Financial Measure

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). We use a non-GAAP financial measure to evaluate our results of operations and as a supplemental indicator of our operating performance. The non-GAAP financial measure that we use is Adjusted EBITDA. Adjusted EBITDA (as defined below) is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. Due to the significance of non-cash and non-recurring expenses recognized during the three and nine months September 30, 2021 and 2020, and the likelihood of material non-cash, non-recurring, and acquisition related expenses to occur in future periods, we believe that this non-GAAP financial measure enhances the understanding of our historical and current financial results as well as provides investors with measures used by management for the planning and forecasting of future periods, as well as for measuring performance for compensation of executives and other members of management. Further, we believe that Adjusted EBITDA enables our board of directors and management to analyze and evaluate financial and strategic planning decisions that will directly affect operating decisions and investments. We believe this measure is an important indicator of our operational strength and performance of our business because it provides a link between operational performance and operating income. It is also a primary measure used by management in evaluating companies as potential acquisition targets. We believe the presentation of this measure is relevant and useful for investors because it allows investors to view performance in a manner similar to the method used by management. We believe it helps improve investors' ability to understand our operating performance and makes it easier to compare our results with other companies that have different capital structures or tax rates. In addition, we believe this measure is also among the primary measures used externally by our investors, analysts and peers in our industry for purposes of valuation and comparing our operating performance to other companies in our industry.

The presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual, infrequent or non-recurring items or by non-cash items. This non-GAAP financial measure should be considered in addition to, rather than as a substitute for, our actual operating results included in our condensed consolidated financial statements.

We define Adjusted EBITDA as consolidated operating income (loss) adjusted to exclude interest, taxes, depreciation, amortization (including tangible and intangible assets), acquisition-related costs, consulting fees related to acquisitions, dividend payments, non-cash share-based compensation expense, and adjustments for other unusual and infrequent in nature identified charges, including transition related expenses. Adjusted EBITDA is not an earnings measure recognized by U.S. GAAP and does not have a standardized meaning prescribed by GAAP; accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other companies. We believe Adjusted EBITDA to be a meaningful indicator of our performance that management uses and believes provides useful information to investors regarding our financial condition and results of operations. The most comparable GAAP measure is operating income (loss).

Adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for our working capital needs;
- Adjusted EBITDA does not reflect the effects of preferred dividend payments, or the cash requirements necessary to fund;
- Although amortization and depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such future replacements;
- Adjusted EBITDA does not reflect the effects of the amortization of our film library, which include cash and non-cash amortization of our initial film library investments, participation costs and theatrical release costs;
- Adjusted EBITDA does not reflect the impact of stock-based compensation upon our results of operations;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our income tax expense (benefit) or the cash requirements to pay our income taxes;
- Adjusted EBITDA does not reflect the impact of acquisition related expenses; and the cash requirements necessary;
- Adjusted EBITDA does not reflect the impact of other non-recurring, infrequent in nature and unusual income and expenses, including acquisition related cash participation payments received and other fee income items generated in normal course of business practices; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.
- In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to those eliminated in this presentation.

Reconciliation of Historical GAAP Net Income as reported to Adjusted EBITDA

The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP measure, for the periods presented:

	Three Months Ended September 30,	
	2021	2020
Net loss available to common stockholders	$ (16,741,678)	$ (13,049,700)
Preferred dividends	2,253,385	1,017,691
Provision for income taxes	30,000	26,000
Other taxes	62,279	97,466
Interest expense[(a)]	1,304,952	659,803
Film library and program rights amortization[(b)]	10,111,885	8,020,638
Share-based compensation expense[(c)]	3,474,231	346,773
Reserve for bad debt and video returns	554,259	1,538,449
Amortization and depreciation[(e)]	1,921,982	4,960,074
Other non-operating income, net[(f)]	(101,898)	(43,445)
Loss on extinguishment of debt	—	169,219
Transitional expenses[(g)]	213,813	—
All other nonrecurring costs[(h)]	1,775,232	472,322
Adjusted EBITDA	$ 4,858,442	$ 4,215,290

	Nine Months Ended September 30,	
	2021	2020
Net loss available to common stockholders	$ (37,014,237)	$ (34,487,207)
Preferred dividends	6,760,155	2,966,235
Provision for income taxes	59,000	93,000
Other Taxes	250,626	202,117
Interest expense[(a)]	3,533,940	1,322,831
Film library and program rights amortization[(b)]	23,881,901	16,922,753
Share-based compensation expense[(c)]	3,937,919	820,881
Acquisition-related costs[(d)]	—	98,926
Reserve for bad debt & video returns	2,156,308	4,072,785
Amortization and depreciation[(e)]	5,264,353	15,661,774
Other non-operating income, net[(f)]	(247,037)	(4,381,292)
Loss on extinguishment of debt	—	169,219
Transitional expenses[(g)]	405,867	4,353,345
All other nonrecurring costs[(h)]	3,583,130	1,128,662
Adjusted EBITDA	$ 12,571,925	$ 8,944,029

(a) Includes amortization of deferred financing costs of $141,925 and $45,599 for the three months ended September 30, 2021 and 2020, respectively, and $354,048 and $65,905 for the nine months ended September 30, 2021 and 2020, respectively.

(b) Represents amortization of our film library, which include cash and non-cash amortization of our film library investments, participation costs and theatrical release costs as well as amortization for our acquired program rights.

(c) Represents expense related to common stock equivalents issued to certain employees and officers under the Long-Term Incentive Plan. In addition to common stock grants issued to employees, directors and consultants.

(d) Represents aggregate transaction-related costs, including legal fees, accounting fees, investment advisory fees and various consulting fees.

(e) Includes depreciation and amortization of intangibles, property and equipment and amortization of technology expenditures included in cost of revenue.

(f) Other non-operating income is primarily comprised of interest income earned on cash deposits. and other non operating income including settlements and contract cancellation fees.

(g) Represents transitional related expenses primarily associated with the Sonar & Crackle Plus business combinations and the Company’s strategic shift related to its production business. Costs include non-recurring payroll, redundant non-recurring technology costs and other transitional costs.

(h) Includes legal, consulting, accounting and other non recurring operating expenses.

Results of Operations

Revenue

Our revenue is derived from content generated by online streaming of films and television programs on our advertising-supported video on demand (AVOD) networks consisting of Crackle, our YouTube channel and Popcornflix®, and our subscription-based video on demand (SVOD) network Pivotshare, all of which collectively form The Crackle Plus Network. Additionally, we derive revenue from the distribution of television series and films in all media, including theatrical, home video, and pay-per-view, free, cable and pay television, VOD and new digital media platforms worldwide as well as owned and operated networks, (i.e., Crackle, Popcornflix® and A Plus).

Cost of Revenue

Our cost of revenue is derived from platform costs which are related to the various expenses incurred by the Company to support and maintain the AVOD and SVOD networks. These costs are comprised of hosting and bandwidth costs, website traffic costs, royalty fees, and music costs. Also, included in cost of revenue are advertisement representation fees earned by our advertising representation partners ("Ad Rep Partners") and license fees payable to third parties and the related amortization associated with programming rights. Also included in our cost of revenue is the amortization of capitalized programming and film library costs relating to both television and short-form online videos as well as film library costs. We record cost of revenue based on the individual-film-forecast method. This method requires costs to be amortized in the proportion that the current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production or film. We have a growing list of independent production companies that we work with. We generally acquire distribution rights of our films covering periods of ten or more years. Cost of revenue also includes distribution costs for television series and films and amortization of film library costs.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses include compensation, non-cash share-based compensation, public and investor relations fees, outside director fees, professional fees and other overhead. A portion of selling, general and administrative expenses are covered by our management and license agreements with CSS, as noted below.

Management and License Fees

We pay management fees of five percent (5%) of our net revenue to CSS pursuant to the CSS Management Agreement as amended. CSS provides us with the operational expertise of its personnel, and we also receive other services, including accounting, legal, marketing, management, data access and back office systems, office space and equipment usage. We believe that the terms and conditions of the CSS Management Agreement, as amended, are more favorable and cost effective to us than if we hired the full staff to operate the company.

We pay license and marketing support fees of five percent (5%) of our net revenue to CSS pursuant to a License Agreement, which we refer to as the CSS License Agreement. Four percent (4%) of this fee is a recurring license fee for the right to use all video content of the Brand. One percent (1%) of this fee relates to marketing support activities through CSS' email distribution, blogs and other marketing and public relations resources. We believe that the terms and conditions of the CSS License Agreement, which provides us with the rights to use the trademark and intellectual property in connection with our video content, are more favorable to us than any similar agreement we could have negotiated with an independent third party.

Interest Expense

Our interest expense is comprised of cash interest paid on our 9.50% Notes Due 2025, the Film Acquisition Advance, the Revolving Loan and the Revolving Credit Facility.

Income Taxes

We provide for federal and state income taxes currently payable, as well as those deferred resulting from temporary differences between reporting income and expenses for financial statement purposes versus income tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable. The effect of the change in the tax rate, if it occurs, will be recognized as income or expense in the period of the enacted change in tax rate. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount that is more-likely-than-not to be realized.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED WITH THE THREE MONTHS ENDED SEPTEMBER 30, 2020

Revenue

The following table presents revenue by revenue source for the three months ended September 30, 2021 and 2020 and for the period-over-period dollar and percentage changes:

	Three Months Ended September 30,				Change	
	2021	% of revenue	2020	% of revenue	Period over Period	
Revenue:						
VOD and streaming	$ 16,907,012	58 %	$ 16,840,003	87 %	$ 67,009	0 %
Licensing and other	12,189,843	42 %	2,521,748	13 %	9,668,095	383 %
Net revenue	$ 29,096,855	100 %	$ 19,361,751	100 %	$ 9,735,104	50 %

Our net revenue increased by $9.7 million for the three months ended September 30, 2021, compared to 2020. On May 21, 2021, we completed the acquisition of the principal assets of Sonar Entertainment, Inc. ("Sonar"). The Sonar acquisition contributed $6.2 million or 64% of the revenue increase in the three months ended September 30, 2021 compared to 2020.

VOD and streaming revenue increased $0.1 million for the three months ended September 30, 2021, compared to 2020. VOD and streaming revenues increased $3.7 million with $2.0 million due to the Sonar acquisition and $1.7 million related to increases in Crackle direct and Ad Rep Partners revenue driven by growing relationships with several direct customers and Ad Rep Partners. The increase was largely offset by a $3.6 million decrease in TVOD and internet streaming revenue, primarily due to the timing and mix of current year titles compared to the prior year title mix which included *The Outpost*, which hit #1 on several VOD platforms during the prior period. .

Licensing and other revenue increased $9.7 million for the three months ended September 30, 2021, compared to 2020. The increase was driven by the Sonar acquisition for $4.3 million, $3.3 million related to an increase in International territory distribution rights sales and a $2.2 million increase in content production and sublicensing revenue primarily due to executive producer fees earned on *Hunters Season 2* and the sublicensing of *Cordelia* and *Slasher Season 4*.

Cost of Revenue

The following table presents cost of revenue line items for the three months ended September 30, 2021 and 2020 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,				Change	
	2021	% of revenue	2020	% of revenue	Period over Period	
Cost of revenue:						
Programming amortization	$ 1,781,247	6 %	$ 51,094	0 %	$ 1,730,153	3,386 %
Film library amortization	10,087,539	35 %	7,981,212	41 %	2,106,327	26 %
Revenue share and partner fees	4,134,780	14 %	2,285,131	12 %	1,849,649	81 %
Distribution and platform costs	6,852,808	24 %	4,523,414	23 %	2,329,394	51 %
Total cost of revenue	$ 22,856,374	79 %	$ 14,840,851	77 %	$ 8,015,523	54 %
Gross profit	$ 6,240,481		$ 4,520,900		$ 1,719,581	38 %
Gross profit margin	*21 %*		*23 %*			

Our cost of revenue increased by $8.0 million for the three months ended September 30, 2021, compared to 2020. This increase was due to a $2.3 million increase in distribution and platform costs primarily related to various technology costs to support and maintain our growing Crackle Plus Platform and the sale of bundled distribution content, a $2.1 million increase in film library amortization primarily driven by licensing international distribution rights, and a $1.8 million increase in revenue share and partner fees primarily related to stronger Ad Rep sales and $1.7 million increase in programming amortization primarily related to the sublicensing of *Slasher Season 4.*

For the three months ended September 30, 2021, the Sonar acquisition accounted for $1.2 million or 12% of film library amortization and $1.5 million or 22% of distribution costs included in distribution and platform costs.

Operating Expenses

The following table presents operating expense line items for the three months ended September 30, 2021 and 2020 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,				Change Period over Period	
	2021	% of revenue	2020	% of revenue		
Operating expenses:						
Selling, general and administrative	$ 15,038,299	52 %	$ 9,301,550	48 %	$ 5,736,749	62 %
Amortization and depreciation	1,538,650	5 %	4,576,742	24 %	(3,038,092)	(66)%
Management and license fees	2,909,686	10 %	1,936,175	10 %	973,511	50 %
Total operating expenses	$ 19,486,635	67 %	$ 15,814,467	82 %	$ 3,672,168	23 %

Our total operating expenses were 67% of net revenue for the three months ended September 30, 2021, compared to 82% in the same period in 2020 and increased in absolute dollars by $3.7 million. Excluding amortization and depreciation expense, total operating expenses were 62% and 58% of net revenue for the three months ended September 30, 2021 and 2020, respectively.

Selling, general and administrative expenses increased by $5.7 million for the three months ended September 30, 2021, compared to 2020. The increase is primarily due to a $3.1 million increase in share-based compensation expense as described further below.

Amortization and depreciation expense decreased by $3.0 million for the three months ended September 30, 2021, compared to 2020. The decrease is primarily due to the Crackle Plus customer user base intangible asset being fully amortized during the third quarter of 2020.

The management and license fee increased $1.0 million or 50% for the three months ended September 30, 2021, compared to 2020. The increase is due to and in line with the $9.7 million or 50% increase in net revenue for the three months ended September 30, 2021 compared to 2020.

Selling, General and Administrative Expenses

The following table presents selling, general and administrative expense line items for the three months ended September 30, 2021 and 2020 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,		Change	
	2021	2020	Period over Period	
Compensation expense	$ 6,048,343	$ 5,422,776	$ 625,567	12 %
Share-based compensation	3,474,231	346,773	3,127,458	902 %
Professional fees	2,366,947	815,415	1,551,532	190 %
Public company expenses	181,080	142,834	38,246	27 %
Bad debt expense	41,483	929,588	(888,105)	(96)%
Other operating expenses	2,926,215	1,644,164	1,282,051	78 %
	$ 15,038,299	$ 9,301,550	$ 5,736,749	62 %

Our selling, general and administrative expenses increased by $5.7 million for the three months ended September 30, 2021, compared to 2020.

Our compensation expense increased by $0.6 million for the three months ended September 30, 2021, compared to 2020. This increase is primarily due to an increase in headcount and the acquisition of Sonar.

Share-based compensation expense increased $3.1 million for the three months ended September 30, 2021, compared to 2020. This increase is primarily related to a broader issuance of stock options granted under the 2017 Long Term Incentive Plan.

Professional fees increased by $1.6 million for the three months ended September 30, 2021, compared to 2020. This increase is primarily related to an increase in consulting, advisory and legal expenses.

Bad debt expense decreased $0.9 million for the three months ended September 30, 2021, compared to 2020 as a result of increased collection efforts in 2021 and certain aged customer balances being reserved in the prior period.

Other operating expenses increased by $1.3 million in the three months ended September 30, 2021, compared to 2020. This increase is primarily related to a $0.9 million increase in marketing expenses related to increased Crackle Plus marketing efforts.

Management and License Fees

We incurred management fees to CSS equal to 5% of total net revenue reported for the three months ended September 30, 2021 and 2020. We also incurred license fees to CSS for use of the brand equal to 5% of total net revenue reported for the three months ended September 30, 2021 and 2020.

Interest Expense

The following table presents interest expense for the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30,	
	2021	2020
9.50% Notes due 2025	$ 781,278	$ 431,564
Revolving Loan	213,320	—
Film acquisition advance	168,429	82,918
Revolving credit facility	—	63,334
Commercial loan	—	36,388
Amortization of deferred financing costs	141,925	45,599
	$ 1,304,952	$ 659,803

Interest expense increased $0.6 million for the three months ended September 30, 2021, compared to 2020. The increase is primarily related to a higher average outstanding debt balance during 2021 as compared to 2020.

Provision for Income Taxes

The Company’s provision for income taxes consists of federal and state taxes in amounts necessary to align our tax provision to the effective rate that we expect for the full year.

Our effective rate is impacted by permanent differences which consist primarily of charges for incentive stock options issued under the Company’s Long-Term Incentive Plan that are not tax-deductible as well as amortization of pre-acquisition film library costs for Screen Media Ventures for the three months ended September 30, 2021 and 2020.

Temporary differences consist primarily of net production costs and film library acquisition costs, which management has the option to deduct for tax purposes in the period incurred under Internal Revenue Code Section 181 or when placed in service (original release) under Section 168(k) (post-2017) for films which the production costs have been incurred in the United States. This tax treatment contrasts with the capitalization and amortization for financial reporting purposes under the guidance of ASC 926 —Entertainment — Films. Management has also determined that the Company will, for the current fiscal year, be subject to the interest limitation rules of Internal Revenue Code Section 163(j) resulting in additional temporary differences. The Company also amortized, under Section 197 of the Internal Revenue Code, certain intangible assets acquired in business combinations, with such amortization either not reported in the consolidated financial statements or reported at different amounts. Furthermore, acquisition related costs that were expensed for financial reporting purposes are not immediately deductible for tax purposes but are amortized over 15 years under Section 197.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 COMPARED WITH THE NINE MONTHS ENDED SEPTEMBER 30, 2020

Revenue

The following table presents revenue line items for the nine months ended September 30, 2021 and 2020 and for the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,				Change Period over Period	
	2021	% of revenue	2020	% of revenue		
Revenue:						
VOD and streaming	$ 45,884,136	62 %	$ 37,744,391	82 %	$ 8,139,745	22 %
Licensing and other	28,544,495	38 %	8,381,973	18 %	20,162,522	241 %
Net revenue	$ 74,428,631	100 %	$ 46,126,364	100 %	$ 28,302,267	61 %

Our net revenue increased by $28.3 million for the nine months ended September 30, 2021, compared to 2020. The Sonar acquisition contributed $10.2 million or 36% of the increase in revenue in the nine months ended September 30, 2021 compared to 2020.

VOD and streaming revenue increased $8.1 million for the nine months ended September 30, 2021, compared to 2020. The increase was driven by $2.5 million for the Sonar acquisition, a $2.5 million increase in Crackle Direct and Ad Rep Partners revenue driven by growing relationships with several Direct customers and Ad Rep Partners, a $2.2 million increase in TVOD and internet streaming revenues primarily driven by strong performances and sales of various library titles, and $1.1 million increase related to CSSE original and exclusives streaming sponsorship integrations.

Licensing and other revenue increased $20.2 million for the nine months ended September 30, 2021, compared to 2020. The increase is related to $9.4 million in International territory distribution rights sales, $7.8 million related to the Sonar acquisition revenues and a $2.7 million increase in content production and sublicensing revenue, primarily driven by executive producer fees earned on *Hunters Season 2* and the sublicensing of *Cordelia and Slasher Season 4*.

Cost of Revenue

The following table presents cost of revenue line items for the nine months ended September 30, 2021 and 2020 and the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,				Change Period over Period	
	2021	% of revenue	2020	% of revenue		
Cost of revenue:						
Programming amortization	$ 4,725,242	6 %	$ 216,487	1 %	$ 4,508,755	2,083 %
Film library amortization	23,831,464	32 %	16,781,685	36 %	7,049,779	42 %
Revenue share and partner fees	9,465,409	13 %	6,495,468	14 %	2,969,941	46 %
Distribution and platform costs	16,510,912	22 %	14,191,146	31 %	2,319,766	16 %
Total cost of revenue	$ 54,533,027	73 %	$ 37,684,786	82 %	$ 16,848,241	45 %
Gross profit	$ 19,895,604		$ 8,441,578			
Gross profit margin	*27 %*		*18 %*			

Our cost of revenue increased by $16.8 million for the nine months ended September 30, 2021, compared to 2020. This increase was primarily due to a combined $11.6 million increase in film library and programming amortization as a result of the $20.2 million increase in licensing and other revenue, a $3.0 million increase in revenue share and partner fees primarily related to stronger Ad Rep Partner sales and a $2.3 million increase in distribution and platform costs primarily related to various technology costs to support and maintain our growing Crackle Plus Platform and the sale of bundled distribution content.

For the nine months ended September 30, 2021, the Sonar acquisition accounted for $2.1 million or 9% of film library amortization and $1.5 million or 9% of distribution costs included in distribution and platform costs.

Operating Expenses

The following table presents operating expense line items for the nine months ended September 30, 2021 and 2020 and the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,				Change Period over Period	
	2021	% of revenue	2020	% of revenue		
Operating expenses:						
Selling, general and administrative	$ 35,237,480	47 %	$ 23,194,223	50 %	$ 12,043,257	52 %
Amortization and depreciation	4,114,355	6 %	15,022,885	33 %	(10,908,530)	(73)%
Management and license fees	7,442,863	10 %	4,612,636	10 %	2,830,227	61 %
Total operating expenses	$ 46,794,698	63 %	$ 42,829,744	93 %	$ 3,964,954	9 %

Our total operating expenses were 63% of net revenue for the nine months ended September 30, 2021, compared to 93% in the same period in 2020 and increased in absolute dollars by $4.0 million. Excluding amortization and depreciation, operating expenses were 57% and 60% of net revenue for the nine months ended September 30, 2021 and 2020, respectively.

Selling, general and administrative expenses increased by $12.0 million for the nine months ended September 30, 2021, compared to 2020. The increase is primarily due to a $7.3 million increase in employee compensation expense.

Amortization and depreciation expense decreased by $10.9 million for the nine months ended September 30, 2021, compared to 2020. The decrease is primarily due to the Crackle Plus customer user base intangible asset being fully amortized during the third quarter of 2020.

The management and license fee increased $2.8 million or 61% for the nine months ended September 30, 2021, compared to 2020. The increase is due to and in line with the $28.3 million or 61% increase in net revenue for the nine months ended September 30, 2021 compared to 2020.

Selling, General and Administrative Expenses

The following table presents selling, general and administrative expense line items for the nine months ended September 30, 2021 and 2020 and the period-over-period dollar and percentage changes for those line items:

	Nine Months Ended September 30,		Change Period over Period	
	2021	2020		
Compensation expense	$ 16,853,398	$ 12,695,703	$ 4,157,695	33 %
Share-based compensation	3,937,919	820,881	3,117,038	380 %
Professional fees	5,035,223	2,513,449	2,521,774	100 %
Public company expenses	870,065	432,170	437,895	101 %
Bad debt expense	617,614	2,211,389	(1,593,775)	(72)%
Other operating expenses	7,923,261	4,520,631	3,402,630	75 %
	$ 35,237,480	$ 23,194,223	$ 12,043,257	52 %

Our selling, general and administrative expenses increased by $12.0 million for the nine months ended September 30, 2021 compared to 2020.

Our compensation expense increased by $4.2 million for the nine months ended September 30, 2021, compared to 2020. This increase is primarily due to a 93% increase in headcount as a result of the continued growth of the Company and a different accrual pattern for bonuses in 2021, given the impact of the COVID pandemic on our expected performance during 2020.

Share-based compensation expense increased $3.1 million for the nine months ended September 30, 2021, compared to 2020. This increase is primarily related to a broader issuance of stock options granted under the 2017 Long Term Incentive Plan.

Professional fees increased by $2.5 million for the nine months ended September 30, 2021, compared to 2020. This increase is primarily related to an increase in consulting, advisory and legal expenses.

Public company expenses increased $0.4 million for the nine months ended September 30, 2021, compared to 2020. This increase is primarily related to various fees in connection with our recent financing activities.

Bad debt expense decreased $1.6 million for the nine months ended September 30, 2021, compared to 2020 as a result of increased collection efforts in 2021 and certain aged customer balances being reserved in the prior period.

Other operating expenses increased by $3.4 million for the nine months ended September 30, 2021, compared to 2020. This increase is primarily related to a $2.8 million increase in marketing expenses related to increased Crackle Plus marketing efforts.

Management and License Fees

We incurred management fees to CSS equal to 5% of total net revenue reported for the nine months ended September 30, 2021 and 2020. We also incurred license fees to CSS for use of the brand equal to 5% of total net revenue reported for the nine months ended September 30 2021 and 2020.

Interest Expense

The following table presents interest expense for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
9.50% Notes due 2025	$ 2,312,113	$ 431,564
Revolving loan	312,172	—
Film acquisition advance	505,052	82,918
Revolving credit facility	50,555	265,556
Commercial loan	—	476,888
Amortization of deferred financing costs	354,048	65,905
	$ 3,533,940	$ 1,322,831

Interest expense increased $2.2 million for the nine months ended September 30, 2021, compared to 2020. The increase is primarily related to a higher average outstanding debt balance during 2021 as compared to 2020.

Provision for Income Taxes

The Company's provision for income taxes consists of federal and state taxes in amounts necessary to align our tax provision to the effective rate that we expect for the full year.

Our effective rate is impacted by permanent differences which consist primarily of charges for incentive stock options issued under the Company's Long-Term Incentive Plan that are not tax-deductible as well as amortization of pre-acquisition film library costs for Screen Media Ventures for the nine months ended September 30, 2021 and 2020.

Temporary differences consist primarily of net production costs and film library acquisition costs, which management has the option to deduct for tax purposes in the period incurred under Internal Revenue Code Section 181 or when placed in service (original release) under Section 168(k) (post-2017) for films which the production costs have been incurred in the United States. This tax treatment contrasts with the capitalization and amortization for financial reporting purposes under the guidance of ASC 926 —Entertainment — Films. Management has also determined that the Company will, for the current fiscal year, be subject to the interest limitation rules of Internal Revenue Code Section 163(j) resulting in additional temporary differences. The Company also amortized, under Section 197 of the Internal Revenue Code, certain intangible assets acquired in business combinations, with such amortization either not reported in the consolidated financial statements or reported at different amounts. Furthermore, acquisition related costs that were expensed for financial reporting purposes are not immediately deductible for tax purposes but are amortized over 15 years under Section 197.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of liquidity are our existing cash and cash equivalents, cash inflows from operating activities and financing activities. As of September 30, 2021, we had cash and cash equivalents of $66.9 million. Our total debt principal outstanding was $56.7 million as of September 30, 2021, of which $32.9 million is comprised of outstanding principal under our 9.50% Notes due 2025.

Debt, net of debt issuance costs, increased $13.0 million primarily due to drawing on the Revolving Loan, offset by the repayment of the outstanding principal under the Revolving Credit Facility and partial repayment of the Film Acquisition Advance. The amount of principal and interest due in the next twelve months is approximately $3.2 million. See Note 11, *Debt* in the accompanying notes to our condensed consolidated financial statements.

On July 7, 2021, the Company completed an underwritten public offering of 1,875,000 shares of common stock at a price $40.00 per common share, generating gross proceeds of $75.0 million and net proceeds of $70.5 million.

On January 20, 2021, the Company completed a private placement sale of 1,022,727 shares of common stock at a price $22.00 per common share, generating gross proceeds of $22.5 million and net proceeds of $21.4 million.

During the nine months ended September 30, 2021, the Company completed the sale of an aggregate of 126,000 shares of Class A Common Stock, for net proceeds of $3.4 million, pursuant to an At the Market Issuance Sales Agreement with B. Riley FBR, Inc. as sales agent.

We have declared monthly dividends of $0.2031 per share on our Series A Preferred Stock to holders of record as of each month end January through September 2021. Total dividends declared during the nine months ended September 30, 2021 and 2020 was $6.8 million and $3.0 million, respectively.

Cash Flows

Our cash and cash equivalents balance was $66.9 million as of September 30, 2021 and $14.7 million as of December 31, 2020.

Cash flow information for the nine months ended September 30, 2021 and 2020 is as follows:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash (used in) provided by:		
Operating activities	$ (23,666,639)	$ (13,811,032)
Investing activities	(1,988,221)	(609,607)
Financing activities	77,870,089	17,216,552
Net increase in cash and cash equivalents	$ 52,215,229	$ 2,795,913

Operating Activities

Net cash used in operating activities was $23.7 and $13.8 million for the nine months ended September 30, 2021 and 2020, respectively. The increase in cash used in operating activities for the nine months ended September 30, 2021, as compared to the nine months ended September 30, 2020 was primarily due to a $9.3 million decrease in net loss adjusted for the exclusion of non-cash items and a $19.1 million decrease related to the effect of changes in operating assets and liabilities.

The net loss adjusted for the exclusion of non-cash items was approximately $10.0 million for the nine months ended September 30, 2021 as compared to a net loss adjusted for the exclusion of non-cash items of $0.8 million for the nine months ended September 30, 2020. The decrease in the net loss adjusted for non-cash items was primarily due to a $7.8 million increase in net non-cash items driven by the amortization of content assets and a $1.4 million decrease in net loss.

The effect of changes in operating assets and liabilities was a decrease of $33.7 million for the nine months ended September 30, 2021 compared to a decrease of $14.6 million for the nine months ended September 30, 2020. The most significant drivers contributing to this decrease relate to the following:

- Changes in accounts receivable primarily driven by the timing of collections. Accounts receivable increased $7.3 million during the nine months ended September 30, 2021 as compared to a decrease of $5.8 million during the nine months ended September 30, 2020.

- Changes in the film library asset primarily due to increased premium content investment in our film library. The film library asset increased $48.4 million for the nine months ended September 30, 2021 compared to a $20.4 million increase for the nine months ended September 30, 2020.

- Changes in accrued participation costs primarily due to the timing of payments. Accrued participation costs increased $10.3 million during the nine months ended September 30, 2021 compared to a $7.8 million increase during the nine months ended September 30, 2020.

- Changes in film library acquisition and programming obligations primarily due to the timing of payments and increased content investment in our film library content. Film library acquisition and programming obligations increased $13.1 million for the nine months ended September 30, 2021 compared to a $6.1 million increase for the nine months ended September 30, 2020.

Investing Activities

For the nine months ended September 30, 2021, our investing activities used net cash totaling $2.0 million. This increase resulted from the Company purchasing an additional 25,000 units of common equity in Landmark Studio Group for $6.0 million, $1.1 million in cash used in connection with the Sonar Entertainment acquisition and $1.1 million in cash used for capital expenditures primarily related to our ongoing investments, particularly as it relates to enhancing our technology infrastructure and platforms to support our growing operations. The cash used in investing activities was offset by a $6.2 million decrease in our due-from affiliated companies' balance driven by our parent company's central cash management system through which from time to time funds are transferred to meet liquidity needs and are settled on an ongoing basis

For the nine months ended September 30, 2020, our investing activities used net cash totaling $0.6 million. This resulted primarily from $2.8 million in cash used for capital expenditures primarily related to our ongoing investments, particularly as it relates to enhancing our technology infrastructure and platforms to support our growing operations, offset by $0.6 million in cash provided by the sale of marketable securities and a $1.6 million decrease in our due-from affiliated companies' balance.

Financing Activities

For the nine months ended September 30, 2021, our financing activities provided net cash totaling $77.9 million. This increase was primarily due to the $70.5 million in net proceeds related to the July 2021 public common stock offering, $21.4 million in net proceeds related to the January 2021 common stock private placement, $3.4 million in net proceeds from the at-the-market common stock offerings during the period, $2.7 million in proceeds from the exercise of stock options and warrants, offset by a $8.1 million payment of contingent consideration related to the Sonar acquisition, a $6.4 million payment of dividends to preferred stockholders, the $2.5 million repayment of the outstanding principal under the revolving credit facility with Cole Investments VII, LLC, a $2.4 million payment on our film acquisition advance and a $0.7 million payment on our Revolving Loan. These financing activities during the period have resulted in the Company improving its liquidity position by increasing cash on hand and decreasing future interest payments.

For the nine months ended September 30, 2020, our financing activities provided net cash totaling $17.2 million. This increase was primarily due to the $21.0 million in net proceeds related to the public offering of the 9.50% notes due 2025, $8.8 million in proceeds from the film acquisition advance, $5.0 million in proceeds from a private placement sale of common stock and $3.0 million in net proceeds from the sale of our preferred stock, offset by the $15.2 million repayment of the Commercial Loan, the $3.0 million payment of dividends to preferred stockholders and a $2.5 million payment on our revolving credit facility. These financing activities during the period have resulted in the Company improving its liquidity position by increasing cash on hand and extending future principal payments.

Anticipated Cash Requirements

We believe that cash flow from operations, cash on hand, and the monetization of trade accounts receivable, together with equity and debt offerings, will be adequate to meet our known operational cash and debt service (i.e., principal and interest payments) requirements for the foreseeable future. We monitor our cash flow liquidity, availability, capital base, operational spending and leverage ratios with the long-term goal of maintaining our credit worthiness. If we are required to access financing for our operating needs, we may incur additional debt and/or issue preferred stock or common equity, which could serve to materially increase our liabilities and/or cause dilution to existing holders of our shares. There can be no assurance that we would be able to access debt or equity financing if required on a timely basis or at all or on terms that are commercially reasonable to our Company. If we should be required to obtain debt or equity financing and are unable to do so on the required terms, our operations and financial performance could be materially adversely affected.

Critical Accounting Policies and Significant Judgments and Estimates

This discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in more detail in the notes to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our report on Form 10-K for the year ended December 31, 2020. There have been no significant changes in our critical accounting policies, judgments and estimates, since December 31, 2020.

JOBS Act

We are an emerging growth company, as defined in the JOBS Act and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy or information statements, and not being required to adopt certain new and revised accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to avail ourselves of the extended time for the adoption of new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

Off-Balance Sheet Arrangements

As of September 30, 2021 and December 31, 2020, we had no off-balance sheet arrangements.

Effect of Inflation and Changes in Prices

Not applicable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management has established disclosure controls and procedures designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission rules and forms. Such disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management to allow timely decisions regarding required disclosure. A control system, no matter how well designed and operated, cannot provide absolute assurance the objectives of the control system are met, and no evaluation of controls can provide absolute assurance all control issues and instances of fraud, if any, within a company have been detected.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the date of our Quarterly Report on Form 10-Q, September 30, 2021, have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Our independent registered public accounting firm has not performed an evaluation of our internal control over financial reporting during any period in accordance with the provisions of the Sarbanes-Oxley Act. As a result, it is possible, had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, material weaknesses and significant control deficiencies may have been identified. However, for as long as we remain an "emerging growth company" as defined in the JOBS Act, we intend to take advantage of the exemption permitting us not to comply with the requirement that our independent registered public accounting firm provide an attestation on the effectiveness of our internal control over financial reporting.

Changes in internal control over financial reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) 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. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

In the normal course of business, from time-to-time, the Company may become subject to claims in legal proceedings. In addition to creating its own content and using its own technologies, the Company distributes third party content and utilizes third party technology, which could further expose the Company to claims arising from actions of such third parties (for which the Company would seek indemnification that may or may not be available under the terms governing the Company's relationships with such third parties). Legal proceedings are subject-to inherent uncertainties, and an unfavorable outcome could include monetary damages, and in such event, could result in a material adverse impact on the Company's business, financial position, results of operations, or cash flows.

Item 1A – Risk Factors

We are affected by risks specific to us as well as factors that could affect all businesses, including our desire to operate in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are set forth in the "Risk Factors" section of our report on Form 10-K for the year ended December 31, 2020.

Item 2 – Unregistered Sales of Equity Securities

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 – Other Information

None.

Item 6 – Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which is incorporated herein by reference.

Exhibit No.	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Principal 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 Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Included herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHICKEN SOUP FOR THE SOUL ENTERTAINMENT, INC.
(Registrant)

/s/ Christopher Mitchell
Christopher Mitchell
Chief Financial Officer
(Principal Financial Officer)

/s/ William J. Rouhana, Jr.
William J. Rouhana, Jr.
Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2021

Exhibit 31.1

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

I, William J. Rouhana, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chicken Soup for the Soul Entertainment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2021

/s/ William J. Rouhana, Jr.
William J. Rouhana, Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Mitchell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chicken Soup for the Soul Entertainment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2021

/s/ Christopher Mitchell
Christopher Mitchell
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Chicken Soup for the Soul Entertainment, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2021 as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 8, 2021

/s/ William J. Rouhana, Jr.
William J. Rouhana, Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Chicken Soup for the Soul Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 8, 2021

/s/ Christopher Mitchell
Christopher Mitchell
Chief Financial Officer
(Principal Financial Officer)