

**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, 2020

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: 001-35824

**Professional Diversity Network, Inc.**

*(Exact name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**55 E. Monroe Street, Suite 2120  
Chicago, Illinois**  
*(Address of Principal Executive Offices)*

**80-0900177**

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

**60603**  
*(Zip Code)*

**(312) 614-0950**

*(Registrant's telephone number, including area code)*

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

**Title of each class**

Common Stock, \$0.01 par value per share

**Name of each exchange on which registered**

The Nasdaq Stock Market LLC

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

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark 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" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 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

There were 12,819,843 shares outstanding of the registrant's common stock as of November 13, 2020.

### **Note Regarding Forward-Looking Statements**

This Quarterly Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements concern expectations, beliefs, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Specifically, this Quarterly Report contains forward-looking statements regarding:

- our beliefs regarding our ability to capture and capitalize on market trends;
- our expectations on the future growth and financial health of the online diversity recruitment industry and the industry participants, and the drivers of such growth;
- our expectations regarding continued membership growth;
- our beliefs regarding the increased value derived from the synergies among our segments; and
- our beliefs regarding our liquidity requirements, the availability of cash and capital resources to fund our business in the future and intended use of liquidity.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following:

- our ability to raise funds in the future to support operations failure to realize synergies and other financial benefits from mergers and acquisitions within expected time frames, including increases in expected costs or difficulties related to integration of merger and acquisition partners;
- inability to identify and successfully negotiate and complete additional combinations with potential merger or acquisition partners or to successfully integrate such businesses;
- our history of operating losses;
- our limited operating history in a new and unproven market;
- increasing competition in the market for online professional networks;
- our ability to comply with increasing governmental regulation and other legal obligations related to privacy;
- our ability to adapt to changing technologies and social trends and preferences;
- our ability to attract and retain a sales and marketing team, management and other key personnel and the ability of that team to execute on the Company’s business strategies and plans;
- our ability to obtain and maintain intellectual property protection for our intellectual property;
- any future litigation regarding our business, including intellectual property claims;
- general and economic business conditions; and
- legal and regulatory developments.

The foregoing list of important factors may not include all such factors. You should consult other disclosures made by the Company (such as in our other filings with the SEC or in company press releases) for additional factors, risks and uncertainties that may cause actual results to differ materially from those projected by the Company. Please refer to Part I, Item 1A, “Risk Factors” of our 2019 Annual Report for additional information regarding factors that could affect our results of operations, financial condition and cash flow. You should consider these factors, risks and uncertainties when evaluating any forward-looking statements and you should not place undue reliance on any forward-looking statement. Forward-looking statements represent our views as of the date of this Quarterly Report, and we undertake no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date of this Quarterly Report.

PROFESSIONAL DIVERSITY NETWORK, INC.

FORM 10-Q  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020  
TABLE OF CONTENTS

	<u>PAGE</u>
<b>PART I</b>	
<a href="#">ITEM 1. FINANCIAL STATEMENTS</a>	4
<a href="#">ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	23
<a href="#">ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	35
<a href="#">ITEM 4 CONTROLS AND PROCEDURES</a>	35
<b>PART II</b>	
<a href="#">ITEM 1 LEGAL PROCEEDINGS</a>	36
<a href="#">ITEM 1A RISK FACTORS</a>	37
<a href="#">ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</a>	37
<a href="#">ITEM 3 DEFAULTS UPON SENIOR SECURITIES</a>	37
<a href="#">ITEM 4 MINE SAFETY DISCLOSURES</a>	37
<a href="#">ITEM 5 OTHER INFORMATION</a>	37
<a href="#">ITEM 6 EXHIBITS</a>	37

Item 1. FINANCIAL STATEMENTS

Professional Diversity Network, Inc. and Subsidiaries  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	(Unaudited)	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 2,685,451	\$ 633,615
Accounts receivable, net	982,362	720,750
Incremental direct costs	27,015	33,258
Prepaid expense and other current assets	268,229	240,763
Current assets from discontinued operations	2,202	75,996
<b>Total current assets</b>	<b>3,965,259</b>	<b>1,704,382</b>
Property and equipment, net	8,225	21,188
Capitalized technology, net	37,867	95,884
Goodwill	339,451	339,451
Intangible assets, net	395,230	452,385
Right-of-use assets	503,478	93,251
Merchant reserve	760,849	760,849
Security deposits	81,374	15,033
Long-term assets from discontinued operations	2,970,685	3,109,200
<b>Total assets</b>	<b>\$ 9,062,418</b>	<b>\$ 6,591,623</b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,044,873	\$ 796,137
Accrued expenses	1,651,069	654,169
Deferred revenue	1,478,914	1,699,001
Short-term loan	162,770	-
Lease liability, current portion	31,556	105,083
Current liabilities from discontinued operations	347,619	564,044
<b>Total current liabilities</b>	<b>4,716,801</b>	<b>3,818,434</b>
Long-term loan	488,308	-
Lease liability, non-current portion	471,922	-
Deferred tax liability	189,221	221,254
<b>Total liabilities</b>	<b>5,866,252</b>	<b>4,039,688</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.01 par value; 45,000,000 shares authorized, 12,820,891 shares and 8,928,611 shares issued as of September 30, 2020 and December 31, 2019, and 12,819,843 and 8,927,563 shares outstanding as of September 30, 2020 and December 31, 2019	128,198	89,286
Additional paid in capital	95,873,689	91,126,784
Accumulated other comprehensive income	175,311	44,242
Accumulated deficit	(92,943,915)	(88,671,260)
Treasury stock, at cost; 1,048 shares at September 30, 2020 and December 31, 2019	(37,117)	(37,117)
<b>Total stockholders' equity</b>	<b>3,196,166</b>	<b>2,551,935</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,062,418</b>	<b>\$ 6,591,623</b>

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

**Professional Diversity Network, Inc. and Subsidiaries**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Revenues:</b>				
Membership fees and related services	\$ 319,248	\$ 515,796	\$ 1,056,487	\$ 1,944,249
Recruitment services	930,330	790,488	2,069,250	1,915,794
Products sales and other	218	1,053	3,548	5,008
Consumer advertising and marketing solutions	55,726	34,069	110,364	107,844
<b>Total revenues</b>	<b>1,305,522</b>	<b>1,341,406</b>	<b>3,239,649</b>	<b>3,972,895</b>
<b>Costs and expenses:</b>				
Cost of revenues	205,974	275,218	549,371	685,802
Sales and marketing	419,969	521,578	1,404,044	1,686,722
General and administrative	1,561,871	1,236,915	5,296,794	3,489,103
Depreciation and amortization	38,290	216,644	138,139	651,161
<b>Total costs and expenses</b>	<b>2,226,104</b>	<b>2,250,355</b>	<b>7,388,348</b>	<b>6,512,788</b>
<b>Loss from continuing operations</b>	<b>(920,582)</b>	<b>(908,949)</b>	<b>(4,148,699)</b>	<b>(2,539,893)</b>
<b>Other income (expense)</b>				
Change in fair value of common stock to be issued	-	219,807	-	219,807
Interest expense	-	-	-	(14,183)
Interest and other income	(5,253)	-	961	376,068
Other (expense) income, net	(5,253)	219,807	961	581,692
<b>Loss before income tax benefit</b>	<b>(925,835)</b>	<b>(689,142)</b>	<b>(4,147,738)</b>	<b>(1,958,201)</b>
Income tax benefit	(13,612)	(45,458)	(32,033)	(121,327)
<b>Loss from continuing operations</b>	<b>(912,223)</b>	<b>(643,684)</b>	<b>(4,115,705)</b>	<b>(1,836,874)</b>
Loss from discontinued operations	(29,464)	(133,327)	(156,950)	(870,740)
<b>Net loss</b>	<b>\$ (941,687)</b>	<b>\$ (777,011)</b>	<b>\$ (4,272,655)</b>	<b>\$ (2,707,614)</b>
<b>Other comprehensive loss:</b>				
Net loss	\$ (941,687)	\$ (777,011)	\$ (4,272,655)	\$ (2,707,614)
Foreign currency translation adjustment	102,964	(27,592)	131,069	(13,906)
<b>Comprehensive loss:</b>	<b>\$ (838,723)</b>	<b>\$ (804,603)</b>	<b>\$ (4,141,586)</b>	<b>\$ (2,721,520)</b>
<b>Basic and diluted loss per share:</b>				
Continuing operations	\$ (0.07)	\$ (0.09)	\$ (0.38)	\$ (0.32)
Discontinued operations	-	(0.02)	(0.01)	(0.15)
<b>Net loss</b>	<b>\$ (0.07)</b>	<b>\$ (0.11)</b>	<b>\$ (0.39)</b>	<b>\$ (0.47)</b>
<b>Weighted average outstanding shares used in computing net loss per common share:</b>				
Basic and diluted	12,488,268	6,984,506	10,756,911	5,746,408

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

**Professional Diversity Network, Inc. and Subsidiaries**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

	Nine Months Ended September 30,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Loss from continuing operations	\$ (4,115,705)	\$ (2,707,614)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities - continuing operations:		
Depreciation and amortization	138,139	651,161
Deferred tax benefit	(32,033)	(120,216)
Amortization of right-of-use asset	92,715	113,128
Accretion of lease liability	2,312	8,585
Change in value of common stock to be issued	-	(219,807)
Share-based compensation expense	508,990	183,916
Litigation settlement reserve	1,474,922	-
Write-off of accounts payable	-	(375,997)
Write-off of property and equipment	1,232	1,385
Recovery of bad debt expense	-	(4,495)
Payment of lease obligations	(106,859)	(118,552)
Changes in operating assets and liabilities, net of effects of discontinued operations:		
Accounts receivable	(261,612)	395,685
Prepaid expenses and other current assets	(27,466)	34,771
Incremental direct costs	6,243	(10,477)
Accounts payable	(517,765)	(507,929)
Accrued expenses	288,479	8,209
Deferred revenue	(220,087)	(771,582)
Net cash used in operating activities - continuing operations	(2,768,495)	(3,439,829)
Net cash used in operating activities - discontinued operations	(65,980)	(1,950,486)
<b>Net cash used in operating activities</b>	<b>(2,834,475)</b>	<b>(5,390,315)</b>
<b>Cash flows from investing activities:</b>		
Costs incurred to develop technology	(3,700)	(2,499)
Purchases of property and equipment	(7,536)	-
Payment of security deposit	(66,341)	-
Net cash used in investing activities - continuing operations	(77,577)	(2,499)
Net cash provided by investing activities - discontinued operations	-	1,688
<b>Net cash provided used in investing activities</b>	<b>(77,577)</b>	<b>(811)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the sale of common stock	4,276,827	6,614,928
Proceeds from short-term loan	651,078	-
Proceeds from short-term loan - related party	-	400,000
Repayment from short-term loan - related party	-	(400,000)
Proceeds from line of credit - related party	-	292,882
Repayment of line of credit - related party	-	(292,882)
Net cash provided by financing activities - continuing operations	4,927,905	6,614,928
Net cash provided by financing activities - discontinued operations	-	279,916
<b>Net cash provided by financing activities</b>	<b>4,927,905</b>	<b>6,894,844</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>35,983</b>	<b>(52,169)</b>
Net increase in cash and cash equivalents	2,051,836	1,451,549
Cash, cash equivalents, beginning of period	633,615	105,670
Cash and cash equivalents, end of period	<u>\$ 2,685,451</u>	<u>\$ 1,557,219</u>
<b>Supplemental disclosures of other cash flow information:</b>		
Cash paid for income taxes	\$ 3,100	\$ 8,594
Cash paid for interest	\$ -	\$ 18,819

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

Professional Diversity Network, Inc. and Subsidiaries  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
<b>Balance at January 1, 2020</b>	<b>8,928,611</b>	<b>\$ 89,286</b>	<b>\$ 91,126,784</b>	<b>\$ (88,671,260)</b>	<b>1,048.0</b>	<b>\$ (37,117)</b>	<b>\$ 44,242</b>	<b>\$ 2,551,935</b>
Issuance of common stock	3,891,232	38,912	4,237,915	-	-	-	-	4,276,827
Share-based compensation	-	-	508,990	-	-	-	-	508,990
Translation adjustments	-	-	-	-	-	-	131,069	131,069
Net loss	-	-	-	(4,272,655)	-	-	-	(4,272,655)
<b>Balance at September 30, 2020</b>	<b>12,819,843</b>	<b>\$ 128,198</b>	<b>\$ 95,873,689</b>	<b>\$ (92,943,915)</b>	<b>1,048</b>	<b>\$ (37,117)</b>	<b>\$ 175,311</b>	<b>\$ 3,196,166</b>
	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount			Shares	Amount		
<b>Balance at January 1, 2019</b>	<b>4,856,213</b>	<b>\$ 48,562</b>	<b>\$ 83,728,903</b>	<b>\$ (84,826,796)</b>	<b>1,048</b>	<b>\$ (37,117)</b>	<b>\$ (24,340)</b>	<b>\$ (1,110,788)</b>
Issuance of common stock	3,824,515	38,246	1,590,094	-	-	-	-	1,628,340
Conversion of note payable - related party	209,205	2,092	5,484,496	-	-	-	-	5,486,588
Issuance of common stock for settlement of accounts payable	30,640	306	98,664	-	-	-	-	98,970
Share-based compensation	-	-	183,916	-	-	-	-	183,916
Translation adjustments	-	-	-	-	-	-	(13,906)	(13,906)
Net loss	-	-	-	(2,707,614)	-	-	-	(2,707,614)
<b>Balance at September 30, 2019</b>	<b>8,920,573</b>	<b>\$ 89,206</b>	<b>\$ 91,086,073</b>	<b>\$ (87,534,410)</b>	<b>1,048</b>	<b>\$ (37,117)</b>	<b>\$ (38,246)</b>	<b>\$ 3,565,506</b>

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

**Professional Diversity Network, Inc. and Subsidiaries**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. Basis of Presentation and Description of Business**

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. GAAP pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The interim financial information includes all adjustments, which consist of normal recurring adjustments and transactions or events discretely impacting the interim periods, considered necessary by management to fairly state our results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. The interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2019 Form 10-K.

Professional Diversity Network, Inc. is both the operator of the Professional Diversity Network (the “Company,” “we,” “our,” “us,” “PDN Network,” “PDN” or the “Professional Diversity Network”) and a holding company for NAPW, Inc., a wholly-owned subsidiary of the Company and the operator of the National Association of Professional Women (the “NAPW Network” or “NAPW”). The PDN Network operates online professional networking communities with career resources specifically tailored to the needs of different diverse cultural groups including: Women, Hispanic-Americans, African-Americans, Asian-Americans, Disabled, Military Professionals, Lesbians, Gay, Bisexual and Transgender (LGBT), and Students and Graduates seeking to transition from education to career. The networks’ purposes, among others, are to assist its registered users in their efforts to connect with like-minded individuals, identify career opportunities within the network and connect with prospective employers. The Company’s technology platform is integral to the operation of its business. The NAPW Network is networking organization for professional women, whereby its members can develop their professional networks, further their education and skills, and promote their business and career accomplishments. NAPW provides its members with opportunities to network and develop valuable business relationships with other professionals through its website, as well as at events hosted at its local chapters across the country.

In March 2020, our Board decided to suspend all China operations generated by the former CEO, Michael Wang. The results of China operations are presented in the condensed consolidated statements of operations and comprehensive loss as net loss from discontinued operations. On March 19, 2020, Jiangxi PDN Culture Media Co., Ltd. (“Jiangxi PDN”), a company established under the laws of the People’s Republic of China and a variable interest entity (VIE) controlled by Professional Diversity Network, Inc. (“PDN”), issued a Notice of Termination of the Agreement of Acquisition and Equity Transfer (the “Termination”). This Notice was exercised under Jiangxi PDN’s unilateral right and was delivered on March 19, 2020. Under the terms of the Termination, no additional due diligence shall be completed, any materials shall be returned to the respective owners, and there shall be no breakup fee or penalty associated with this Termination. We expect no further involvement in this matter.

**2. Going Concern and Management’s Plans**

At September 30, 2020, the Company’s principal sources of liquidity were its cash and cash equivalents and the net proceeds from the sale of common stock during the nine months ended September 30, 2020.

The Company had an accumulated deficit of (\$92,943,915) at September 30, 2020. During the three and nine months ended September 30, 2020, the Company generated a net loss from continuing operations of approximately (\$912,000) and (\$4,116,000), and used cash in continuing operations for the nine months of approximately \$2,834,000. At September 30, 2020, the Company had a cash balance of \$2,685,451. Total revenues were approximately \$1,305,000 and \$3,240,000 for the three and nine months ended September 30, 2020. The Company had a working capital deficiency from continuing operations of approximately (\$752,000) and (\$2,114,000) at September 30, 2020 and December 31, 2019. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company’s ability to further implement its business plan, raise capital, and generate revenues. The interim financial information does not include any adjustments that might be necessary if the Company is unable to continue as a going concern.



Management believes that its available cash on hand and cash flow from operations may not be sufficient to meet our working capital requirements for the next twelve months. In order to accomplish our business plan objectives, the Company will need to continue its cost reduction efforts, increase revenues, raise capital through the issuance of common stock, or through a strategic merger or acquisition. However, there can be no assurances that our business plans and actions will be successful, that we will generate anticipated revenues, or that unforeseen circumstances will not require additional funding sources or impact plans to conserve liquidity. Future efforts to improve liquidity through the issuance of our common stock may not be successful, or if available, they may not be negotiable on acceptable terms.

On June 26, 2020, the Company entered into an agreement with an existing investor, Malven Group Limited, in connection with the purchase of 312,500 shares of common stock of the Company at a price of \$3.20 per share for gross proceeds of \$1,000,000. The closing date of the transaction was June 29, 2020 and gross proceeds of \$1,000,000 were received in July 2020.

On July 27, 2020, the Company entered into a Securities Purchase Agreement (the "Agreement") with three institutional accredited investors. Pursuant to the Agreement, the Company offered and sold 1,481,484 shares of its common stock at a per share price of \$1.35 for gross proceeds of approximately \$2,000,000 pursuant to the Company's Registration Statement on Form S-3 (Registration Statement No. 333-227249) (the "Transaction"). The Transaction closed on July 29, 2020 and the Company received net proceeds of \$1,814,353, after deducting financial advisory, legal and escrow related fees.

### 3. Summary of Significant Accounting Policies

**Principles of Consolidation** - The interim financial information includes the accounts of the Company, its wholly-owned subsidiaries, and a variable interest entity. All significant intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates** - The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim financial information and the reported amounts of revenues and expenses for the periods then ended. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future intervening events. Accordingly, the actual results could differ significantly from estimates.

Significant estimates underlying the financial statements include the fair value of acquired assets and liabilities associated with acquisitions; the assessment of goodwill for impairment, intangible assets and long-lived assets for impairment; allowances for doubtful accounts, and assumptions related to the valuation allowances on deferred taxes, impact of applying the revised federal tax rates on deferred taxes, the valuation of share-based compensation and the valuation of stock warrants.

**Cash Equivalents** - The Company considers cash equivalents to include all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

**Accounts Receivable** - Accounts receivable represent receivables generated from fees earned from customers and advertising revenue. The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of September 30, 2020 and December 31, 2019, the allowance for doubtful accounts was \$23,647 and \$20,007.

**Incremental Direct Costs** - Incremental direct costs incurred in connection with enrolling members in the NAPW Network consist of sales commissions paid to the Company's direct sales agents. Incremental direct costs associated with the PDN Network consists of commissions paid to third-party agencies. Commissions associated with the NAPW Network are deferred and amortized over the term of membership, which is a 12-month period and agency commissions associated with the PDN Network are deferred and amortized over the membership service period. Total incremental direct costs related to the NAPW and PDN Network during the three months ended September 30, 2020 and 2019 was \$26,000 and \$28,000. During the nine months ended September 30, 2020 and 2019, total incremental direct costs related to the NAPW and PDN Network was \$78,000 and \$90,000.

PDN Network sales commission agency commission over service capitalized

**Property and Equipment** - Property and equipment is stated at cost, including any cost to place the property into service, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets which currently range from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and betterments are capitalized. The cost of any assets sold or retired and related accumulated depreciation are removed from the accounts at the time of disposition, and any resulting profit or loss is reflected in income or expense for the period.

**Lease Obligations** - The Company leases office space and equipment under various operating lease agreements, including an office for its corporate headquarters, as well as office spaces for its events business, sales and administrative offices under non-cancelable lease arrangements that provide for payments on a graduated basis with various expiration dates.

On September 23, 2020, the Company entered into a new office lease agreement for its corporate headquarters. The office lease is for 4,902 square feet of office space and the lease term is for 84 months, commencing on October 1, 2020. Additionally, the office lease required a security deposit of \$66,340 and the lease agreement provided for a rent abatement of twelve months beginning in October 2020. In accordance with ASC 842, the right of use assets and current lease obligations were recognized in September 2020 based on the present value of future minimum lease payments over the term of the lease agreement. As of September 30, 2020, the Company capitalized right of use assets of \$503,478, short-term lease obligations of \$31,556 and long-term lease obligations of \$471,922 and will commence the amortization of the right of use asset in October 2020.

**Capitalized Technology Costs** - In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-40, Internal-Use Software, the Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

**Business Combinations** - ASC 805, Business Combinations ("ASC 805"), applies the acquisition method of accounting for business combinations to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. ASC 805 establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accounting for acquisitions requires the Company to recognize, separately from goodwill, the assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition-date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the interim financial information.

**Goodwill and Intangible Assets** - The Company accounts for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”). ASC 350 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill is tested for impairment at the reporting unit level on an annual basis (December 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company considers its market capitalization and the carrying value of its assets and liabilities, including goodwill, when performing its goodwill impairment test.

When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then compares the fair value of the Company’s reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of a reporting unit exceeds its fair value, the Company will measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

**Treasury Stock** – Treasury stock is recorded at cost as a reduction of stockholders’ equity in the accompanying balance sheets.

**Revenue Recognition** – Revenue is recognized when all of the following conditions exist: (1) persuasive evidence of an arrangement exists, (2) services are performed, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured.

*Membership Fees and Related Services*

Membership fees are collected up-front and member benefits become available immediately; however those benefits must remain available over the 12-month membership period. At the time of enrollment, membership fees are recorded as deferred revenue and are recognized as revenue ratably over the 12-month membership period. Members who are enrolled in this plan may cancel their membership in the program at any time and receive a partial refund (amount remaining in deferred revenue) or due to consumer protection legislation, a full refund based on the policies of the member’s credit card company.

We also offer a monthly membership for which we collect fees on a monthly basis and we recognize revenue in the same month as we collect the monthly fees.

Revenue from related membership services are derived from fees for development and set-up of a member’s personal on-line profile and/or press release announcements. Fees related to these services are recognized as revenue at the time the on-line profile is complete and a press release is distributed.

Deferred Revenue – Deferred revenue includes customer payments which are received prior to performing services and revenues are recognized upon the completion of these services. Annual membership fees collected at the time of enrollment are recognized as revenue ratably over the membership period, which are typically for a 12-month membership period.

### *Recruitment Services*

The Company's recruitment services revenue is derived from the Company's agreements through single and multiple job postings, recruitment media, talent recruitment communities, basic and premier corporate memberships, hiring campaign marketing and advertising, e-newsletter marketing and research and outreach services. Recruitment revenue includes revenue recognized from direct sales to customers for recruitment services and events, as well as revenue from the Company's direct e-commerce sales. Direct sales to customers are most typically a twelve-month contract for services and as such the revenue for each contract is recognized ratably over its twelve-month term. Event revenue is recognized in the month that the event takes place and e-commerce sales are for one-month job postings and the revenue from those sales are recognized in the month the sale is made. Our recruitment services mainly consist of the following products:

- On-line job postings to our diversity sites and to our broader network of websites including the National Association for the Advancement of Colored People, National Urban League and over 20 other partner organizations
- OFCCP job promotion and recordation services
- Diversity job fairs, both in person and virtual fairs
- Diversity recruitment job advertising services
- Cost per application, a service that employers can purchase whereby PDN sources qualified candidates and charges only for those applicants who meet the employers' minimum qualifications
- Diversity executive staffing services

### *Product Sales and Other Revenue*

Products offered to members relate to custom made plaques. Product sales are recognized as deferred revenue at the time the initial order is placed. Revenue is then recognized at the time these products are shipped. The Company's shipping and handling costs are included in cost of sales.

### *Education and Training*

The Company works with its business partners to provide education and training seminars to business people in China. Revenues are recognized in the month when the seminar takes place.

### *Consumer Advertising and Marketing Solutions*

The Company provides career opportunity services to its various partner organizations through advertising and job postings on their websites. The Company works with its partners to develop customized websites and job boards where the partners can generate advertising, job postings and career services to their members, students and alumni. Consumer advertising and marketing solutions revenue is recognized as jobs are posted to their hosted sites.

The Company's partner organizations include NAACP and National Urban League, VetJobs, among others.

### ***Discontinued Operations***

#### *China Operations*

On November 25, 2019, PDN China received a Seizure Decision Notice (the "Notice") from the Yuexiu District Branch of the Police Department of Guangzhou City, the People's Republic of China. The Notice stated that it is necessary to seize the assets of PDN China in connection with the criminal investigation of alleged illegal public fund raising by Gatewang Group (the "Gatewang Case"), a separate company organized under the laws of the People's Republic of China ("Gatewang"), with which Mr. Maoji (Michael) Wang, the former Chairman and CEO of the Company ("Michael Wang") is affiliated, who was subsequently held in custody by the local police department.

In response to such events, on December 12, 2019 the Company's Board of Directors (the "Board") established the Special Committee to investigate the situation, and retained the international law firm of King & Wood Mallesons ("KWM") to assist the Special Committee in connection with the Special Committee's investigation of the Company's operations in the People's Republic of China and related events, in collaboration with the Company's external auditor Ciro E. Adams CPA LLC. KWM conducted extensive research into public records in China, and interviewed the relevant divisions of the Public Security Bureau in China and any related witnesses in relation to the operations and specific transactions that had some relationship to the Gatewang entities. On April 16, 2020, based upon the information obtained, the investigation team concluded that it did not find any evidence that the Company or PDN China engaged in any criminal activity of illegal fund raising as alleged against Gatewang.

The Investigation also revealed that three entities and two individuals (the “Payors”), who appeared to be related to Gatewang, collectively paid RMB 14.25 million to PDN China on behalf of EGBT Foundation Ltd., a private placement investor that purchased 1,265,823 shares of the Company’s common stock (approximately 11.6%) in September 2019 (the “EGBT Transaction”). To the knowledge of the Investigation team, the bank account holding the proceeds of the EGBT Transaction is still frozen by the Chinese authorities. The seizure of PDN China office by the local police was lifted on March 23, 2020. These funds, approximately \$2.89 million dollars (USD) continue to be subject to the PRC government’s jurisdiction. If the source of funds is actually (or perceived to be) connected to Gatewang, the Chinese authorities may not unfreeze PDN China’s bank account. If and when the bank account is unfrozen, the Company will consider whether the EGBT Transaction needs to be unwound or further documented to be in full compliance with applicable law.

The Company’s operations in China have been suspended since December 2019. On March 4, 2020 the Board decided to discontinue all of the Company’s operations in the People’s Republic of China, namely PDN (China) International Culture Development Co. Ltd., a wholly owned subsidiary of the Company, Jiangxi PDN Culture Media Co., Ltd. (“PDN Jiangxi”), a variable interest entity controlled by of the Company, and the joint venture between PDN Jiangxi, Guangzhou Zengcheng District Zhili Education Training Center, and Guangzhou Angye Education Consulting Co. Ltd.

All historical operating results for the Company’s China operations are included in a loss from discontinued operations, net of tax, in the accompanying statement of operations. For the three and nine months ended September 30, 2020, loss from discontinued operations was approximately (\$29,000) and (\$157,000), compared to a loss from discontinued operations of (\$133,000) and (\$871,000) for the three and nine months ended September 30, 2019.

Assets and liabilities of China operations are now included in current assets and long-term assets from discontinued operations, and current liabilities and long-term liabilities from discontinued operations. As of September 30, 2020, current assets from discontinued operations were approximately \$2,200, compared to approximately \$76,000 as of December 31, 2019, and long-term assets from discontinued operations were approximately \$2,971,000 at September 30, 2020, compared to approximately \$3,109,000 as of December 31, 2019. As of September 30, 2020, current liabilities from discontinued operations were approximately \$348,000, compared to approximately \$564,000 as of December 31, 2019.

### *Operating Results of Discontinued Operations*

The following table represents the components of operating results from discontinued operations, as presented in the statements of operations and comprehensive loss for the three and nine months ended September 30, 2020 and 2019:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenues	\$ -	\$ 6,610	\$ -	\$ 48,093
Cost of Sales	3,828	(3,845)	18,971	25,780
Depreciation and amortization	-	4,036	1,676	12,482
Sales and marketing	-	53,833	82,120	208,237
General and administrative	27,459	92,034	50,453	675,333
Non-operating (expense) income	<u>1,823</u>	<u>8,443</u>	<u>(3,730)</u>	<u>12,704</u>
Loss from discontinued operations before income tax	(29,464)	(131,005)	(156,950)	(861,035)
Income tax expense	-	2,322	-	9,705
Net loss from discontinued operations	<u>\$ (29,464)</u>	<u>\$ (133,327)</u>	<u>\$ (156,950)</u>	<u>\$ (870,740)</u>

**Advertising and Marketing Expenses** – Advertising and marketing expenses are expensed as incurred or the first time the advertising takes place. The production costs of advertising are expensed the first time the advertising takes place. For the three months ended September 30, 2020 and 2019, the Company incurred advertising and marketing expenses of approximately \$174,000 and \$149,000. For the nine months ended September 30, 2020 and 2019, advertising and marketing expenses were \$511,000 and \$385,000. These amounts are included in sales and marketing expenses in the accompanying statements of operations.

**Concentrations of Credit Risk** - Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and cash equivalents and accounts receivable. The Company places its cash with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on the account.

**Income Taxes** - The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement basis and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC 740-20 and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were no unrecognized tax benefits as of September 30, 2020. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company may be subject to potential income tax examinations by federal or state authorities. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with federal and state tax laws. Management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months. Tax years that remain open for assessment for federal and state tax purposes include the years ended December 31, 2016 through 2019.

The Company's policy for recording interest and penalties associated with audits is to record such expense as a component of income tax expense. There were no amounts accrued for penalties or interest as of September 30, 2020.

**Fair Value of Financial Assets and Liabilities** - Financial instruments, including cash and cash equivalents, short-term investments and accounts payable, are carried at cost. Management believes that the recorded amounts approximate fair value due to the short-term nature of these instruments.

**Net Loss per Share** - The Company computes basic net loss per share by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the "treasury stock" and/or "if converted" methods as applicable. The computation of basic net loss per share for the three and nine months ended September 30, 2020 and 2019 excludes the potentially dilutive securities summarized in the table below because their inclusion would be anti-dilutive.

	<b>As of September 30,</b>	
	<b>2020</b>	<b>2019</b>
Warrants to purchase common stock	125,000	125,000
Stock options	66,126	319,126
Unvested restricted stock	206,775	54,440
Total dilutive securities	<u>397,901</u>	<u>498,566</u>

#### **Recent Accounting Pronouncements**

In December 2019, the Financial Accounting Standards Board (“FASB”) issued ASU 2019-12, Income Taxes (ASU 2019-02): Simplifying the Accounting for Income Taxes which simplifies the accounting for income taxes by removing certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and by clarifying and amending existing guidance in order to improve consistent application of and simplify GAAP for other areas of Topic 740. ASU 2019-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the adoption of this pronouncement guidance.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modification and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The guidance is effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating the potential impact of this ASU on its interim financial information.

#### **4. Capitalized Technology**

Capitalized Technology, net is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Capitalized cost:		
Balance, beginning of period	\$ 2,165,545	\$ 2,163,044
Additional capitalized cost	3,700	2,501
Balance, end of period	<u>2,169,245</u>	<u>2,165,545</u>
Accumulated amortization:		
Balance, beginning of period	\$ 2,119,279	\$ 1,968,213
Provision for amortization	12,099	101,448
Balance, end of period	<u>2,131,378</u>	<u>2,069,661</u>
Capitalized Technology, net	<u>37,867</u>	<u>95,884</u>

For the three months ended September 30, 2020 and 2019, amortization expense was approximately \$1,770 and \$25,000, and was approximately \$12,000 and \$76,000 for the nine months ended September 30, 2020 and 2019. Amortization of capitalized technology is recorded in depreciation and amortization expense in the accompanying condensed consolidated statements of operations.

## 5. Intangible Assets

Intangible assets, net was as follows:

September 30, 2020	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Long-lived intangible assets:				
Sales Process	10	\$ 2,130,956	\$ (1,826,126)	\$ 304,830
Paid Member Relationships	5	803,472	(803,472)	-
Member Lists	5	8,086,181	(8,086,181)	-
Developed Technology	3	648,000	(648,000)	-
Trade Name/Trademarks	4	440,000	(440,000)	-
		<u>12,108,609</u>	<u>(11,803,779)</u>	<u>304,830</u>
Indefinite-lived intangible assets:				
Trade name				90,400
Intangible assets, net				<u>\$ 395,230</u>

December 31, 2019	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Long-lived intangible assets:				
Sales Process	10	\$ 2,130,956	\$ (1,768,971)	\$ 361,985
Paid Member Relationships	5	803,472	(803,472)	-
Member Lists	5	8,086,181	(8,086,181)	-
Developed Technology	3	648,000	(648,000)	-
Trade Name/Trademarks	4	440,000	(440,000)	-
		<u>12,108,609</u>	<u>(11,746,624)</u>	<u>361,985</u>
Indefinite-lived intangible assets:				
Trade name				90,400
Intangible assets, net				<u>\$ 452,385</u>

As of September 30, 2020, estimated amortization expense in future fiscal years is summarized as follows:

<b>Year ended December 31,</b>	
Remaining of 2020	\$ 19,052
2021	76,207
2022	76,207
2023	76,207
2024 and thereafter	57,157
	<u>\$ 304,830</u>

For the three months ended September 30, 2020 and 2019, amortization expense was approximately \$19,000 and \$183,000. For the nine months ended September 30, 2020 and 2019, amortization expenses was \$57,000 and \$550,000. Intangible amortization expense is recorded in depreciation and amortization expense in the accompanying statements of operations.

## 6. Loan

The CARES Act was enacted on March 27, 2020. Among the provisions contained in the CARES Act was the creation of the Paycheck Protection Program (“PPP”) that provides for under the Small Business Administration (“SBA”) Section 7(a) loans for qualified small businesses. PPP loan proceeds are available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves, rent, utilities and interest on certain other outstanding debt. The amount that will be forgiven will be calculated in part with reference to the Company’s full-time headcount during the eight-week period following the funding of the PPP loan. The Company applied for the PPP loan and on May 5, 2020, the Company received total proceeds of \$651,077 from the SBA. In accordance with the loan forgiveness requirements under the CARES Act, the Company utilized the proceeds from the PPP Loan for payroll costs, rent and utilities.



The Company will be applying for loan forgiveness during the fourth quarter of 2020 and anticipates that 100% of the PPP Loan will be forgiven by the SBA. Until such time as the PPP Loan is fully or partially forgiven, the Company has recorded the receipts under the PPP Loan as a short-term and long-term loan in its condensed consolidated balance sheets.

## 7. Accrued Liabilities

As of September 30, 2020 and December 31, 2019, accrued liabilities consisted of the following:

	As of	
	September 30, 2020	December 31, 2019
Litigation reserve	1,246,002	\$ 348,000
Accrued payroll	140,277	72,166
Accrued legal fees	62,449	69,896
Accrued Board of Director fees	66,132	50,364
Accrued revenue sharing agreements	73,482	43,844
Other	62,728	69,899
Total accrued liabilities	<u>\$ 1,651,069</u>	<u>\$ 654,169</u>

## 8. Commitments and Contingencies

PDN China's bank account with balance of approximately \$2.9 million was frozen by Guangzhou Police due to the Gatewang Case. The Company has classified this entire cash balance as a long-term asset and is classified in discontinued operations.

### Legal Proceedings

In a letter dated October 12, 2017, White Winston Select Asset Funds ("White Winston") threatened to assert claims against the Company in excess of \$2 million based on White Winston's contention that the Company's conduct delayed White Winston's ability to sell shares in the Company during a period when the Company's stock price was generally falling. On April 30, 2018, White Winston filed a lawsuit, entitled White Winston Select Asset Funds, LLC v. Professional Diversity Network, Inc., No. 18-cv-10844, (the "Federal Action") in the United States District Court for the District of Massachusetts, asserting federal jurisdiction based on diversity of citizenship. On October 28, 2020, the Company and White Winston agreed to settle its litigation by the Company paying \$766,500 to White Winston as follows: cash payments of \$600,000 and shares of the Company's common issued valued at \$166,500. The Company made a cash payment of \$250,000 on October 29, 2020 and the final cash payment of \$350,000 is due by February 16, 2021. The Company recorded this litigation settlement as an expense in the third quarter of 2020.

NAPW is a defendant in a Nassau County (NY) Supreme Court case, whereby TL Franklin Avenue Plaza LLC has sued NAPW Case index No. LT-000421/2018, with respect to NAPW's former Garden City NY Premises. NAPW had surrendered the Premises to the Landlord, and the Landlord has obtained a judgment against NAPW in the amount of \$746,142.41. As a result of the judgement order, the Company recorded a \$780,000 litigation settlement reserve in the second quarter of 2020, which reflected the judgement order in addition to imputed interest costs and legal fees. NAPW is currently negotiating a settlement with the Landlord.

The Company and its wholly-owned subsidiary, NAPW, Inc., are parties to a proceeding captioned Deborah Bayne, et al. vs. NAPW, Inc. and Professional Diversity Network, Inc., No. 18-cv-3591 (E.D.N.Y.), filed on June 20, 2018 and alleging violations of the Fair Labor Standards Act and certain provisions of the New York Labor Law. The Company disputes that it or its subsidiary violated the applicable laws or that either entity has any liability and intends to vigorously defend against these claims. The matter is in the final stages of discovery and we have completed depositions of relevant witnesses. During the first quarter of 2020, the Company recorded a \$450,000 litigation settlement reserve in the event of an unfavorable outcome in this proceeding. The Company is engaged in settlement discussions and anticipates entering into mediation proceedings in November 2020.

We are also generally subject to legal proceedings and litigation arising in the ordinary course of business.

### ***General Legal Matters***

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

### **9. CFL Transaction**

On August 12, 2016, the Company entered into a stock purchase agreement (the "Purchase Agreement"), with CFL, a Republic of Seychelles company wholly-owned by a group of Chinese investors. Pursuant to the Purchase Agreement, the Company agreed to issue and sell to CFL (the "Share Issuance and Sale"), and CFL agreed to purchase, at a price of \$9.60 per share (the "Per Share Price"), upon the terms and subject to the conditions set forth in the Purchase Agreement, a number of shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), such that CFL will hold shares of Common Stock equal to approximately 51% of the outstanding shares of Common Stock, determined on a fully-diluted basis, after giving effect to the consummation of the transactions contemplated by the Purchase Agreement, including the Tender Offer described below (the "CFL Transaction").

On November 7, 2016, the Company consummated the Share Issuance and Sale of 1,777,417 shares of its common stock to CFL at a price of \$9.60 per share, pursuant to the terms of the Purchase Agreement, dated August 12, 2016. In addition, on November 7, 2016, the Company completed the purchase of 312,500 shares of its common stock at a price of \$9.60 per share, net to the seller in cash, pursuant to the Tender Offer. The Company received approximately \$9,000,000 in net proceeds from the Share Issuance and Sale, after the payment for the shares repurchased in the Tender Offer, the repayment of all amounts outstanding under the Master Credit Facility and the payment of transaction-related expenses.

At the closing of the CFL Transaction, the Company entered into a Stockholders' Agreement, dated November 7, 2016 (the "Stockholders' Agreement") with CFL and each of its shareholders: Maoji (Michael) Wang, Jingbo Song, Yong Xiong Zheng and Nan Kou (the "CFL Shareholders"). The Stockholders' Agreement sets forth the agreement of the Company, CFL and the CFL Shareholders relating to board representation rights, transfer restrictions, standstill provisions, voting, registration rights and other matters following the closing of the Share Issuance and Sale (see Note 13).

On November 15, 2019, CFL purchased additional 1,142,857 shares of the Company's common stock for \$1.75 per share for gross proceeds of \$2,000,000 from an existing shareholder.

## **10. Related Party Transactions**

In September 2020, the Company entered into a consulting agreement for administrative services involving the spouse of a former Chief Executive Officer of the Company and the agreement expires on December 31, 2020. At September 30, 2020, the Company paid approximately \$13,000 and estimates that the remaining consulting fees due under this agreement to be approximately \$7,000.

## **11. Stockholders' Equity**

**Preferred Stock** – The Company has no preferred stock issued. The Company's amended and restated certificate of incorporation and amended and restated bylaws include provisions that allow the Company's Board of Directors to issue, without further action by the stockholders, up to 1,000,000 shares of undesignated preferred stock.

**Common Stock** – The Company has one class of common stock outstanding with a total number of shares authorized of 45,000,000. As of September 30, 2020, the Company had 12,819,843 shares of common stock outstanding.

On March 22, 2020, the Company entered into an agreement with Malven Group Limited, a company established under the laws of the British Virgin Islands, in connection with the purchase of 1,939,237 shares of common stock of the Company at a price of \$0.7735 per share for gross proceeds of \$1,500,000. The closing of the transaction took place on March 30, 2020.

On June 26, 2020, Malven Group Limited, purchased an additional 312,500 shares of common stock of the Company at a price of \$3.20 per share for gross proceeds of \$1,000,000. The closing of the transaction took place on June 29, 2020.

On July 27, 2020, we entered into a Securities Purchase Agreement with three institutional accredited investors, in which the Company sold 1,481,484 shares of our common stock at a per share price of \$1.35 for gross proceeds of approximately \$2,000,000 pursuant to the Company's Registration Statement filed on Form S-3. The transaction closed on July 29, 2020.

## **12. Share-Based Compensation**

**Equity Incentive Plans** – The Company's 2013 Equity Compensation Plan (the "2013 Plan") was adopted for the purpose of providing equity incentives to employees, officers, directors and consultants including options, restricted stock, restricted stock units, stock appreciation rights, other equity awards, annual incentive awards and dividend equivalents. The Company amended the 2013 Plan to increase the number of authorized shares of common stock under the Plan from 225,000 shares to 615,000 shares, which the Company's stockholders approved on June 26, 2017. The Company further amended the 2013 Plan to increase the number of authorized shares of common stock under the Plan by 300,000 shares, which the Company's stockholders approved and ratified on November 8, 2018. The Company is now authorized to issue 915,000 shares under the amended 2013 Plan.

### **Stock Options**

The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, the expected life is based on the estimated average of the life of options using the simplified method, and forfeitures are estimated on the date of grant based on certain historical data. The Company utilizes the simplified method to determine the expected life of its options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2020 and 2019:

	Number of Options	Weighted Average Exercise Price
Outstanding - January 1, 2020	295,793	\$ 8.88
Granted	30,000	3.69
Exercised	-	-
Forfeited	(259,667)	9.21
Outstanding - September 30, 2020	<u>66,126</u>	<u>\$ 5.24</u>
Exercisable at September 30, 2020	<u>26,126</u>	<u>\$ 8.18</u>
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1, 2019	499,439	\$ 6.94
Granted	30,000	2.23
Exercised	-	-
Forfeited	(210,313)	3.98
Outstanding - September 30, 2019	<u>319,126</u>	<u>\$ 8.44</u>
Exercisable at September 30, 2019	<u>275,792</u>	<u>\$ 9.37</u>

The fair value of stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of share options were estimated using the following assumptions:

	Nine Months Ended September 30, 2020
Expected dividend yield	-
Risk-free interest rate	0.33%
Expected volatility	111.55%
Expected term (in years)	5.75
Grant-date fair value of stock options awarded	\$ 3.03

Total unrecognized pre-tax share-based compensation expense related to unvested stock options at September 30, 2020 was \$90,216, which is expected to be recognized through the second quarter of 2023.

#### **Warrants**

As of September 30, 2020 and December 31, 2019, 125,000 warrants were outstanding and exercisable with an exercise price of \$20.00 per share. The aggregate intrinsic value was \$0 and the warrants are scheduled to expire on December 27, 2021.

### **Restricted Stock**

As of September 30, 2020 and 2019, the following is a summary of restricted stock activity:

	<b>Number of Shares</b>
Outstanding - January 1, 2020	27,319
Granted	306,775
Forfeited	-
Vested	(127,319)
Outstanding - September 30, 2020	<u>206,775</u>

	<b>Number of Shares</b>
Outstanding - January 1, 2019	60,651
Granted	47,568
Forfeited	(13,865)
Vested	(39,914)
Outstanding - September 30, 2019	<u>54,440</u>

Additionally, the Company recorded non-cash pre-tax share-based compensation expense of approximately \$488,000 and \$143,000 for the nine months ended September 30, 2020 and September 30, 2019, as a component of general and administrative expenses in the accompanying statements of operations, pertaining to restricted stock.

Total unrecognized pre-tax share-based compensation expense related to unvested restricted stock at September 30, 2020 was \$658,293 and is expected to be recognized through the second quarter of 2022.

### **13. Income Taxes**

The Company's quarterly income tax provision is based upon an estimated annual income tax rate. The Company's quarterly provision for income taxes also includes the tax impact of discrete items, if any, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur.

During the three months ended September 30, 2020 and 2019, the Company recorded a benefit for income tax from continuing operations of \$13,612 and \$45,458. For the nine months ended September 30, 2020 and 2019, the Company recorded a benefit for income tax of \$32,033 and \$121,327. The decrease in income tax benefit during the current period was primarily due to a decrease in discrete tax items associated with lower share-based compensation expense in the current period.

The valuation allowance at September 30, 2020 was approximately \$8,514,000. The net change in the valuation allowance during the three months ended September 30, 2020 was an increase of approximately \$252,000. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, management has determined that enough uncertainty exists relative to the realization of the deferred income tax asset balances to warrant the application of a valuation allowance as of September 30, 2020.

#### 14. Segment Information

The Company operates in the following segments: (i) NAPW Network, (ii) PDN Network and (iii) Corporate Overhead. The financial results of China Operations have been reclassified from the Company's reportable segments to discontinued operations for all periods presented.

	Three Months Ended September 30, 2020				Nine Months Ended September 30, 2020			
	PDN Network	NAPW Network	Corporate Overhead	Consolidated	PDN Network	NAPW Network	Corporate Overhead	Consolidated
Membership fees and related services	\$ -	\$ 319,248	\$ -	\$ 319,248	\$ -	\$ 1,056,487	\$ -	\$ 1,056,487
Recruitment services	930,330	-	-	930,330	2,069,250	-	-	2,069,250
Products sales and other	-	218	-	218	-	3,548	-	3,548
Consumer advertising and marketing solutions	55,726	-	-	55,726	110,364	-	-	110,364
Total revenues	986,056	319,466	-	1,305,522	2,179,614	1,060,035	-	3,239,649
Income (loss) from continuing operations	315,145	42,958	(1,278,685)	(920,582)	82,595	(395,348)	(3,835,946)	(4,148,699)
Depreciation and amortization	4,560	33,730	-	38,290	31,070	107,069	-	138,139
Income tax expense (benefit)	1,893	(28)	(15,477)	(13,612)	821	(2,636)	(30,218)	(32,033)
Net income (loss) from continuing operations	307,999	42,986	(1,263,208)	(912,223)	82,735	(392,712)	(3,805,728)	(4,115,705)

As of September 30, 2020				
Goodwill	\$ 339,451	\$ -	\$ -	\$ 339,451
Intangibles assets, net	90,400	304,830	-	395,230
Assets from continuing operations	4,935,607	1,153,924	-	6,089,531

	Three Months Ended September 30, 2019				Nine Months Ended September 30, 2019			
	PDN Network	NAPW Network	Corporate Overhead	Consolidated	PDN Network	NAPW Network	Corporate Overhead	Consolidated
Membership fees and related services	\$ -	\$ 515,796	\$ -	\$ 515,796	\$ -	\$ 1,944,249	\$ -	\$ 1,944,249
Recruitment services	790,488	-	-	790,488	1,915,794	-	-	1,915,794
Products sales and other	-	1,053	-	1,053	-	5,008	-	5,008
Consumer advertising and marketing solutions	34,069	-	-	34,069	107,844	-	-	107,844
Total revenues	824,557	516,849	-	1,341,406	2,023,638	1,949,257	-	3,972,895
Loss from continuing operations	(9,843)	(128,039)	(771,067)	(908,949)	(200,864)	(280,015)	(2,059,014)	(2,539,893)
Depreciation and amortization	15,202	201,442	-	216,644	46,834	604,327	-	651,161
Income tax benefit (expense)	(1,646)	(6,475)	(37,337)	(45,458)	9,329	(15,641)	(115,015)	(121,327)
Net income (loss) from continuing operations	211,610	(121,564)	(733,730)	(643,684)	388,150	(264,374)	(1,960,650)	(1,836,874)

As of December 31, 2019				
Goodwill	\$ 339,451	\$ -	\$ -	\$ 339,451
Intangibles assets, net	90,400	361,985	-	452,385
Assets from continuing operations	2,151,734	1,254,693	-	3,406,427

#### 15. Subsequent Events

On October 28, 2020, the Company and White Winston agreed to settle its litigation by the Company paying \$766,500 to White Winston as follows: cash payments of \$600,000 and shares of the Company's common issued valued at \$166,500. The Company made a cash payment of \$250,000 on October 29, 2020 and the final cash payment of \$350,000 is due by February 16, 2021. The Company recorded this litigation settlement as an expense in the third quarter of 2020.

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

### **Basis of Presentation**

This MD&A should be read in conjunction with the accompanying interim financial information and the audited consolidated financial statements and notes thereto included in our 2019 Form 10-K.

Forward-looking statements in this MD&A are not guarantees of future performance and may involve risks and uncertainties that could cause actual results to differ materially from those projected. Refer to the "Forward-Looking Statements" section of this MD&A and Item 1A. Risk Factors of our 2019 Form 10-K for a discussion of these risks and uncertainties.

### **Overview**

We are an operator of professional networks with a focus on diversity, employment, education and training. We use the term "diversity" (or "diverse") to describe communities, or "affinities," that are distinct based on a wide array of criteria, including ethnic, national, cultural, racial, religious or gender classification. We serve a variety of such communities, including Women, Hispanic-Americans, African-Americans, Asian-Americans, Disabled, Military Professionals, and Lesbian, Gay, Bisexual and Transgender (LGBT+).

We currently operate in two business segments: (i) Professional Diversity Network ("**PDN Network**"), which includes online professional networking communities with career resources tailored to the needs of various diverse cultural groups and employers looking to hire members of such groups, and (ii) National Association of Professional Women ("**NAPW Network**"), a women-only professional networking organization.

Our value proposition is simple: (i) we provide a robust online and in-person network for our women members to make professional and personal connections for our diverse audience of women: African Americans, Hispanics, Asians, Veterans, individuals with disabilities and members of the gay community (with the ability to roll out to our other affinities); (ii) we assist our registered users, or members, in their efforts to connect with like-minded individuals and identify career opportunities within the network; and (iii) we help employers address their workforce diversity needs by connecting them with the right candidates.

### **Third Quarter Results**

During the third quarter of 2020, we began to see a strong recovery in our PDN Network. In the first half of 2020, we made significant investments in our e-commerce, technology platforms and digital advertising and branding initiatives, which resulted in a 17.7% increase in our recruitment revenues during the third quarter of 2020. As the U.S. economy continues to recover from COVID-19 and the significant political and corporate awareness to diversity and inclusion efforts, we expect to see an increase in new client acquisitions and continued growth in our recruitment revenues during the fourth quarter of 2020. Additionally, revenues associated with our in-person events business have transitioned to online events for the remainder of the year and we have experienced positive feedback in terms of enrollment and sponsorship by our clients.

During the third quarter of 2020, we continued to experience a decline in our NAPW Network revenues, which we believe is primarily attributable to the COVID-19 pandemic as retention rates for new and legacy membership enrollments continue to decline as a result of economic and financial uncertainty. We are currently working on updating NAPW's website and making improvements to our digital and online advertising, which we anticipate the completion of these initiatives before the end of the year.

## ***Sources of Revenue***

We generate revenue from (i) paid membership subscriptions and related services, (ii) recruitment services, (iii) product sales, (iv) education and training and (v) consumer advertising and consumer marketing solutions. The following table sets forth our revenues from each product as a percentage of total revenue for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

*Paid Membership Subscriptions and Related Services.* Paid Membership Subscriptions and Related Services. We offer paid membership subscriptions through our NAPW Network, a women-only professional networking organization, operated by our wholly-owned subsidiary. Members gain access to networking opportunities through a members-only website at [www.iawomen.com](http://www.iawomen.com) and “virtual” eChapter events which occur in a webcast setting as well as through in-person networking at approximately 100 local chapters nationwide, additional career and networking events such as the National Networking Summit Series, Power Networking Events and the PDN Network events. NAPW members also receive ancillary (non-networking) benefits such as educational discounts, shopping, and other membership perks. The basic package is the Initiator level, which provides online benefits only. Upgrades to an Innovator membership include the Initiator benefits as well as membership in local chapters, and access to live in-person events. The most comprehensive level, the Influencer, provides all the aforementioned benefits plus admission to exclusive “live” events and expanded opportunities for marketing and promotion, including the creation and distribution of a press release, which is prepared by professional writers and sent over major newswires. Additionally, all memberships offer educational programs with discounts or at no cost, based on the membership level. NAPW Membership is renewable and fees are payable on an annual or monthly basis, with the first fee payable at the commencement of the membership.

As part of the launch of IAW in the United States, the Company began to offer a monthly membership option in January 2018, in addition to an annual membership option. While this has increased the number of new members registering, membership revenue is received on a monthly rather than an annual basis. The new IAW is focused on delivering member benefits and providing value to those who join as paid members.

*Recruitment Services.* We provide recruitment services through PDN Network to medium and large employers seeking to diversify their employment ranks. Our recruitment services include recruitment advertising, job postings, semantic search technology and paid access to, and placement in, or advertising around our career and networking events. The majority of recruitment services revenue comes from job recruitment advertising. We also offer to businesses subject to the regulations and requirements of the Equal Employment Opportunity Office of Federal Contract Compliance Program (“OFCCP”) our OFCCP compliance product, which combines diversity recruitment advertising with job postings and compliance services.

*Product Sales.* We offer to new purchasers of our NAPW memberships the opportunity to purchase a commemorative wall plaque at the time of purchase. They may purchase up to two plaques at that time.

*Consumer Advertising and Consumer Marketing Solutions.* We work with partner organizations to provide them with integrated job boards on their websites which offer their members or customers the ability to post recruitment advertising and job openings. We generate revenue from fees charged for those postings.

## ***Cost of Revenue***

Cost of revenue primarily consists of costs of producing job fair and other events, revenue sharing with partner organizations, costs of web hosting and operating our websites for the PDN Network. Costs of producing wall plaques, hosting member conferences and local chapter meetings are also included in the cost of revenue for NAPW Network.

## ***Non-GAAP Financial Measure***

### *Adjusted EBITDA*

We believe Adjusted EBITDA provides a meaningful representation of our operating performance that provides useful information to investors regarding our financial condition and results of operations. Adjusted EBITDA is commonly used by financial analysts and others to measure operating performance. Furthermore, management believes that this non-GAAP financial measure may provide investors with additional meaningful comparisons between current results and results of prior periods as they are expected to be reflective of our core ongoing business. However, while we consider Adjusted EBITDA to be an important measure of operating performance, Adjusted EBITDA and other non-GAAP financial measures have limitations, and investors should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Further, Adjusted EBITDA, as we define it, may not be comparable to EBITDA, or similarly titled measures, as defined by other companies.



The following table provides a reconciliation of net loss from continuing operations to Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019, the most directly comparable GAAP measure reported in the interim financial information:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	(in thousands)		(in thousands)	
<b>Loss from Continuing Operations</b>	\$ (912)	\$ (644)	\$ (4,116)	\$ (1,837)
Stock-based compensation	111	85	509	184
Litigation settlement reserve	766	-	1,475	-
Change in fair value of common stock to be issued	-	(220)	-	(220)
Depreciation and amortization	38	217	138	651
Interest expense	-	-	-	14
Interest and other income	5	-	(1)	(376)
Income tax benefit	(14)	(45)	(32)	(121)
<b>Adjusted EBITDA</b>	<b>\$ (6)</b>	<b>\$ (607)</b>	<b>\$ (2,027)</b>	<b>\$ (1,705)</b>

### **Results of Operations**

#### **Revenues**

##### ***Total Revenues***

The following tables set forth our revenue for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	<b>Three Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
Revenues:				
Membership fees and related services	\$ 319	\$ 516	\$ (197)	-38.2%
Recruitment services	930	790	140	17.7%
Products sales and other	-	1	(1)	-100.0%
Consumer advertising and marketing solutions	56	34	22	64.7%
Total revenues	<b>\$ 1,305</b>	<b>\$ 1,341</b>	<b>\$ (36)</b>	<b>-2.7%</b>

Total revenues decreased \$36,000, or 2.7%, from \$1,341,000 during the three months ended September 30, 2019, to \$1,305,000 during the three months ended September 30, 2020. The decrease was primarily attributable to a \$197,000 decline in membership fees and related services revenues, which was partially offset by higher revenues of \$140,000 in recruitment services during the three months ended September 30, 2020.

	Nine Months Ended September 30,		Change (Dollars)	Change (Percent)
	2020	2019		
	(in thousands)			
Revenues:				
Membership fees and related services	\$ 1,056	\$ 1,944	\$ (888)	-45.7%
Recruitment services	2,069	1,916	153	8.0%
Products sales and other	4	5	(1)	-20.0%
Consumer advertising and marketing solutions	110	108	2	1.9%
Total revenues	\$ 3,239	\$ 3,973	\$ (734)	-18.5%

Total revenues decreased \$734,000, or 18.5%, from \$3,973,000 during the nine months ended September 30, 2019, to \$3,239,000 during the nine months ended September 30, 2020. The decrease was primarily attributable to a \$888,000 or 45.7% decline in membership fees and related services revenues, which was offset by \$153,000 in higher recruitment services revenues.

#### Revenues by Segment

The following table sets forth each operating segment's revenues for the periods presented. The period-to-period comparison is not necessarily indicative of future results.

	Three Months Ended September 30,		Change (Dollars)	Change (Percent)
	2020	2019		
	(in thousands)			
PDN Network	\$ 986	\$ 824	\$ 162	19.7%
NAPW Network	319	517	(198)	-38.3%
Total revenues	\$ 1,305	\$ 1,341	\$ (36)	-2.7%

During the three months ended September 30, 2020, our PDN Network generated \$986,000 in revenues compared to \$824,000 in revenues during the three months ended September 30, 2019, an increase of \$162,000 or 19.7%. The increase in revenues was primarily due to improvements in our e-commerce platform, higher new client acquisitions and a significant increase in diversity recruitment initiatives by our clients during the current period.

During the three months ended September 30, 2020, our NAPW Network revenues were \$319,000, compared to revenues of \$517,000 during the three months ended September 30, 2019, a decrease of \$198,000 or 38.3%. The decrease in revenues was primarily due a continued decrease in legacy membership retention rates and the continued effects of COVID-19 as new membership enrollment significantly declined as we believe that the membership services that we provide to our customers has turned into a discretionary spending item and the services that we provide were postponed as a result.

	Nine Months Ended September 30,		Change (Dollars)	Change (Percent)
	2020	2019		
	(in thousands)			
PDN Network	\$ 2,180	\$ 2,024	\$ 156	7.7%
NAPW Network	1,059	1,949	(890)	-45.7%
Total revenues	\$ 3,239	\$ 3,973	\$ (734)	-18.5%

During the nine months ended September 30, 2020, our PDN Network generated \$2,180,000 in revenues compared to \$2,024,000 in revenues during the nine months ended September 30, 2019, an increase of \$156,000 or 7.7%. The increase in revenues was primarily due to higher new client acquisitions and from an increase in revenues associated with new sales collaborations efforts in the current year.

During the nine months ended September 30, 2020, our NAPW Network revenues were \$1,059,000, compared to revenues of \$1,949,000 during the nine months ended September 30, 2019, a decrease of \$890,000 or 45.7%. The decrease in revenues was primarily due a continued decrease in legacy membership retention rates and a reduction in new membership enrollments in the current year due to the continued effects of the COVID-19 pandemic.

## Costs and Expenses

The following tables set forth our costs and expenses for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	<b>Three Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
Cost and expenses:				
Cost of revenues	\$ 206	\$ 275	\$ (69)	-25.1%
Sales and marketing	420	522	(102)	-19.5%
General and administrative	1,562	1,237	325	26.3%
Depreciation and amortization	38	217	(179)	-82.5%
Total cost and expenses:	<u>\$ 2,226</u>	<u>\$ 2,251</u>	<u>\$ (25)</u>	<u>-1.1%</u>

Total costs and expenses decreased during the three months ended September 30, 2020 to \$2,226,000 compared to \$2,251,000 during the three months ended September 30, 2019. The decrease was primarily the result of lower intangible amortization expense of \$179,000, a decrease of \$102,000 in sales and marketing expenses primarily due to lower advertising expense, lower personnel costs and a \$69,000 decrease in costs of revenues associated with a \$62,000 reduction in our partner revenue sharing arrangements. This decrease was partially offset by \$325,000 in higher general and administrative expenses associated with a \$766,000 litigation settlement expense, partially offset by lower salaries and benefits and corporate overhead costs in the current period.

	<b>Nine Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
Cost and expenses:				
Cost of revenues	\$ 549	\$ 686	\$ (137)	-20.0%
Sales and marketing	1,404	1,687	(283)	-16.8%
General and administrative	5,297	3,489	1,808	51.8%
Depreciation and amortization	138	651	(513)	-78.8%
Total cost and expenses:	<u>\$ 7,388</u>	<u>\$ 6,513</u>	<u>\$ 875</u>	<u>13.4%</u>

Total costs and expenses increased during the nine months ended September 30, 2020 to \$7,388,000 compared to \$6,513,000 during the nine months ended September 30, 2019. The increase of \$875,000 was primarily the result of higher general and administrative expenses for litigation settlements of \$1,475,000 and a \$325,000 increase in share-based compensation expense, which was partially offset by a reduction of \$356,000 in general and administrative personnel costs. The increase in general and administrative expenses was partially offset by \$513,000 in lower intangible amortization expense, a \$283,000 reduction in sales and marketing expense primarily associated with a \$271,000 reduction in personnel costs and a decrease of \$137,000 in cost of revenues primarily due to lower revenue partner revenue sharing arrangements and event venue and facility costs.

## Costs and Expenses by Segment

The following table sets forth each operating segment's costs and expenses for the periods presented. The period-to-period comparison is not necessarily indicative of future results.

	<b>Three Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
PDN Network	\$ 670	\$ 835	\$ (165)	-19.8%
NAPW Network	277	645	(368)	-57.1%
Corporate Overhead	1,279	771	508	65.9%
Total cost and expenses:	<u>\$ 2,226</u>	<u>\$ 2,251</u>	<u>\$ (25)</u>	<u>-1.1%</u>

Costs and expenses decreased \$165,000, or 19.8%, in our PDN Network during the three months ended September 30, 2020 primarily due to a \$62,000 reduction in our partner revenue sharing arrangements, a \$32,000 decrease in sales and marketing personnel costs, a \$26,000 reduction in bad debt expense, a \$23,000 decrease in event and facility costs and a \$19,000 decrease in general and administrative personnel costs in the current period.

Costs and expenses decreased \$368,000, or 57.1%, in our NAPW Network during the three months ended September 30, 2020 primarily as a result of a \$168,000 decrease in intangible amortization expense, a \$112,000 reduction in advertising and promotional expenses, a \$38,000 decrease in legal fees and a \$32,000 decrease in personnel costs.

Corporate overhead expenses increased \$508,000 during the three months ended September 30, 2020 primarily as a result of a \$766,000 litigation settlement recorded in the current period, partially offset by lower legal and personnel costs.

	<b>Nine Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
PDN Network	\$ 2,098	\$ 2,225	\$ (127)	-5.7%
NAPW Network	1,455	2,229	(774)	-34.7%
Corporate Overhead	3,835	2,059	1,776	86.3%
Total cost and expenses:	<u>\$ 7,388</u>	<u>\$ 6,513</u>	<u>\$ 875</u>	<u>13.4%</u>

Costs and expenses decreased \$127,000 in our PDN Network during the nine months ended September 30, 2020 primarily due to a \$110,000 reduction in personnel costs, a \$76,000 reduction in our partner revenue sharing arrangements, a \$51,000 reduction in venue and facility costs, which was partially offset by a \$51,000 increase in marketing costs and a \$25,000 increase in rent expense and outside services.

Costs and expenses decreased \$774,000, or 34.7%, in our NAPW Network segment during the nine months ended September 30, 2020 primarily as a result of lower intangible amortization expense of \$492,000, a \$265,000 decrease in personnel costs and a \$111,000 reduction in marketing and promotions costs.

Corporate overhead expenses increased \$1,776,000 during the nine months ended September 30, 2020 primarily as a result of higher legal and accounting fees of \$1,660,000, which reflects a litigation settlement of \$766,000 recorded in the third quarter of 2020 in addition to \$325,000 in higher share-based compensation expense, which was partially offset by a \$251,000 decrease in corporate personnel costs.

### **Operating Expenses**

*Cost of revenues:* Cost of revenues during the three months ended September 30, 2020 was \$206,000, a decrease of \$69,000, or 25.1%, from \$275,000 during the three months ended September 30, 2019 as a result of a \$62,000 reduction in our partner revenue sharing arrangements. Cost of revenues during the nine months ended September 30, 2020 was \$549,000, a decrease of \$137,000, or 20.0%, from \$686,000 during the nine months ended September 30, 2019. The decrease in costs of revenues was primarily attributable to a \$76,000 reduction in partner revenue sharing arrangements and a \$51,000 decrease in facility rent for our career events business.

*Sales and marketing expense:* Sales and marketing expense during the three months ended September 30, 2020 was \$420,000, a decrease of \$102,000, from \$522,000 during the three months ended September 30, 2019. The decrease was mainly attributable to a \$63,000 decrease in sales and marketing spending in our NAPW Network in addition to \$40,000 in lower sales and marketing personnel costs. Sales and marketing expense during the nine months ended September 30, 2020 was \$1,404,000, a decrease of \$283,000, from \$1,687,000 during the nine months ended September 30, 2019. The decrease was mainly attributable to a decrease of \$272,000 in sales and marketing personnel costs in the current period.

*General and administrative expense:* General and administrative expenses during the three months ended September 30, 2020 was \$1,562,000, an increase of \$325,000, or 26.3%, from \$1,237,000 during the three months ended September 30, 2019. The increase was primarily attributable to a \$766,000 litigation settlement recorded in the third quarter of 2020, which was partially offset by a reduction in general and administrative personnel costs. General and administrative expenses during the nine months ended September 30, 2020 was \$5,297,000, an increase of \$1,808,000, or 51.8%, compared to \$3,489,000 during the nine months ended September 30, 2019. The increase was a result of litigation settlements of \$1,475,000 and \$325,000 in higher share-based compensation expense, which was partially offset by a reduction of \$356,000 in general and administrative personnel costs.

*Depreciation and amortization expense:* Depreciation and amortization expense during the three months ended September 30, 2020 was \$38,000, compared to \$217,000 during the three months ended September 30, 2019, a decrease of \$179,000, or 82.5%. The decrease was primarily attributable to \$164,000 in lower intangible amortization expense. During the nine months ended September 30, 2020 and 2019, depreciation and amortization expense was \$138,000 and \$651,000, respectively, a decrease of \$513,000. The decrease was primarily attributable to \$492,000 in lower intangible amortization expense.

**Income Tax Expense (Benefit)**

	<b>Three Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
Income tax benefit	\$ (14)	\$ (45)	\$ 31	-68.9%

During the three months ended September 30, 2020 and 2019, we recorded a benefit for income tax of \$14,000 and \$45,000, respectively. The decrease in income tax benefit during the current period was primarily due to a decrease in discrete tax items associated with lower share-based compensation expense in the current period.

	<b>Nine Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
Income tax benefit	\$ (32)	\$ (121)	\$ 89	-73.6%

During the nine months ended September 30, 2020 and 2019, we recorded a benefit for income tax of \$32,000 and \$121,000, respectively. The decrease in income tax benefit during the current period was primarily due to decrease in tax rates pursuant to the U.S. Tax Cuts and Jobs Act enacted in the prior year in addition to a reduction in our deferred tax liabilities in the current year.

**Discontinued Operations**

In March 2020, our Board decided to suspend all China operations generated by the former CEO, Michael Wang. The results of operations for China operations are presented in the condensed consolidated statements of operation and comprehensive loss as loss from discontinued operations.

The following table presents results from discontinued operations for the three and nine months ended September 30, 2020 and 2019:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenues	\$ -	\$ 7	\$ -	\$ 48
Cost of Sales	4	(4)	19	26
Depreciation and amortization	-	4	2	12
Sales and marketing	-	54	82	208
General and administrative	27	92	50	675
Non-operating (expense) income	2	8	(4)	13
Loss from discontinued operations before income tax	(29)	(131)	(157)	(860)
Income tax expense	-	2	-	10
Net loss from discontinued operations	<u>\$ (29)</u>	<u>\$ (133)</u>	<u>\$ (157)</u>	<u>\$ (870)</u>

#### Net loss

The following table sets forth each operating segment's net income or loss for the periods presented. The period-to-period comparison is not necessarily indicative of future results.

	<b>Three Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
PDN Network	\$ 308	\$ 211	\$ 97	46.0%
NAPW Network	43	(122)	165	-135.2%
Corporate Overhead	(1,263)	(733)	(530)	72.3%
Consolidated net loss from continuing operations	<u>\$ (912)</u>	<u>\$ (644)</u>	<u>\$ (268)</u>	<u>41.6%</u>
	<b>Nine Months Ended September 30,</b>		<b>Change (Dollars)</b>	<b>Change (Percent)</b>
	<b>2020</b>	<b>2019</b>		
	(in thousands)			
PDN Network	\$ 84	\$ 388	\$ (304)	-78.4%
NAPW Network	(393)	(264)	(129)	48.9%
Corporate Overhead	(3,807)	(1,961)	(1,846)	94.1%
Consolidated net loss from continuing operations	<u>\$ (4,116)</u>	<u>\$ (1,837)</u>	<u>\$ (2,279)</u>	<u>124.1%</u>

#### Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of September 30, 2020 and December 31, 2019:

	<b>September 30,</b>		<b>December 31,</b>	
	<b>2020</b>		<b>2019</b>	
	(in thousands)			
Cash and cash equivalents	\$ 2,685	\$	\$ 634	
Working capital (deficiency)	\$ (752)	\$	\$ (2,114)	

As of September 30, 2020, we had cash and cash equivalents of \$2,685,000 compared to cash and cash equivalents of \$634,000 at December 31, 2019. Our principal sources of liquidity are our cash and cash equivalents, including net proceeds from the issuances of common stock. As of September 30, 2020, we had a working capital deficit of approximately \$752,000, compared to a working capital deficit of approximately \$2,114,000 as of December 31, 2019. We had an accumulated deficit of approximately \$92,944,000 at September 30, 2020. During the nine months ended September 30, 2020, we generated a net loss from continuing operations of approximately \$4,116,000 and used cash from continuing operations of approximately \$2,768,000.

While we have aggressively implemented cost cutting initiatives and have continued our focus on improving our overall profitability through new sales and marketing initiatives and through business collaborations, we have continued to generate negative cash flows from operations, and we expect to incur net losses for the foreseeable future. These conditions raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to further implement our business plan, raise capital, make strategic acquisitions and generate organic growth in revenues from our existing operating segments. The interim financial information does not include any adjustments that might be necessary if we unable to continue as a going concern.

On March 22, 2020, we entered into an agreement with Malven Group Limited, a company established under the laws of the British Virgin Islands (“Malven”), in connection with the purchase by Malven of 1,939,237 shares of our common stock at a price of \$0.7735 per share for gross proceeds of \$1,500,000. The closing of the transaction took place on March 31, 2020.

On June 26, 2020, we entered into a second agreement with Malven Group Limited, in connection with the purchase of 312,500 shares of common stock at a price of \$3.20 per share for gross proceeds of \$1,000,000. The closing of the transaction took place on June 29, 2020 and we received the funds in July 2020.

On July 27, 2020, we entered into a Securities Purchase Agreement (the “Agreement”) with three institutional accredited investors. Pursuant to the Agreement, we offered and sold 1,481,484 shares of our common stock at a per share price of \$1.35 for gross proceeds of approximately \$2,000,000. The transaction closed on July 29, 2020 and we received net proceeds of \$1,814,353, after deducting financial advisory, legal and escrow related fees.

We currently anticipate that our available funds and cash flow from operations may not be sufficient to meet our working capital requirements for the twelve months subsequent to the issuance of our interim financial information. In order to fund our operations, we will need to increase revenues or raise capital by the issuance of common stock. However, there can be no assurances that our business plans and actions will be successful, that we will generate anticipated revenues, or that unforeseen circumstances similar to COVID-19 will not require additional funding sources in the future or effectuate plans to conserve liquidity. Future efforts to raise additional funds may not be successful or they may not be available on acceptable terms, if at all.

We collect membership fees generally at the commencement of the membership term or at renewal periods thereafter. The memberships we sell are for one year and we defer recognition of the revenue from membership sales and renewals and recognize it ratably over the twelve-month period. Starting January 2, 2018, we also offer a monthly membership for IAW USA for which we collect a fee on a monthly basis. Our PDN Network also sells recruitment services to employers, generally on a one-year contract basis. This revenue is also deferred and recognized over the life of the contract. Our payment terms for PDN Network customers range from 30 to 60 days. We consider the difference between the payment terms and payment receipts a result of transit time for invoice and payment processing and to date have not experienced any liquidity issues as a result of the payments extending past the specified terms. Cash and cash equivalents consist primarily of cash on deposit with banks and investments in money market funds.

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
	(in thousands)	
Cash (used in) provided by continued operations		
Operating activities	\$ (2,768)	\$ (3,440)
Investing activities	(78)	(2)
Financing activities	4,928	6,615
Effect of exchange rate fluctuations on cash and cash equivalents	36	(52)
Cash provided by (used in) discontinued operations		
Operating activities	(66)	(1,950)
Net increase in cash and cash equivalents	<u>\$ 2,052</u>	<u>\$ 1,173</u>

## **Cash and Cash Equivalents**

The Company considers cash and cash equivalents to include all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

### **Net Cash Used in Operating Activities**

Net cash used in operating activities from continuing operations during the nine months ended September 30, 2020 was \$2,768,000. We had a net loss from continuing operations of \$4,116,000 during the nine months ended September 30, 2020, which includes litigation settlements to be paid in the next six months of \$600,000, share-based compensation expenses of \$509,000 and depreciation and amortization expense of \$138,000 and amortization of right-of-use assets of \$93,000, which was partially offset by payments of lease obligations of \$107,000. Changes in operating assets and liabilities used \$732,000 of cash during the nine months ended September 30, 2020, consisting primarily of a \$518,000 decrease in accounts payable, a \$262,000 decrease in accounts receivable and a \$220,000 decrease in deferred revenues, which was partially offset by a \$288,000 increase in accrued liabilities.

Net cash used in operating activities from continuing operations for the nine months ended September 30, 2019 was \$3,440,000. We had a net loss from continuing operations of \$2,708,000 during the nine months ended September 30, 2019, which included depreciation and amortization expense of \$651,000, share-based compensation expense of \$184,000 and amortization of right-of-use assets of \$113,000, which was partially by a \$376,000 write-off of accounts payable, \$220,000 change in the fair value of common stock to be issued, 120,000 in deferred tax benefits and payments of lease obligations of \$119,000. Changes in operating assets and liabilities used \$851,000 of cash during the nine months ended September 30, 2019, consisting primarily of a \$771,000 decreases in deferred revenues and a \$508,000 decrease in accounts payable, partially offset by a \$396,000 increases in accounts receivable.

### **Net Cash Used in Investing Activities**

Net cash used in investing activities from continuing operations during the nine months ended September 30, 2020 was approximately \$78,000, which consisted primarily of a security deposit on our new office lease of \$66,000, \$8,000 associated with the purchases of computer equipment and \$4,000 in costs associated with internally developed technology. During the nine months ended September 30, 2019, net cash used in investing activities from continuing operations was \$2,500 and consisted of investment in developed technology.

### **Net Cash Provided by Financing Activities**

Net cash provided by financing activities from continuing operations during the nine months ended September 30, 2020 was approximately \$4,928,000, which reflected proceeds from the sale of common stock of \$4,277,000 and \$651,000 in proceeds received with respect to the Paycheck Protection Program loan.

On March 22, 2020, we entered into an agreement with Malven Group Limited, a company established under the laws of the British Virgin Islands, in connection with the purchase of 1,939,237 shares of our common stock at a price of \$0.7735 per share for gross proceeds of \$1,500,000. The closing of the transaction took place on March 30, 2020.

On June 26, 2020, we entered into a second agreement with Malven Group Limited, in connection with the purchase of 312,500 shares of common stock at a price of \$3.20 per share for gross proceeds of \$1,000,000. The closing of the transaction took place on June 29, 2020 and gross proceeds of \$1,000,000 were received in July 2020.

On July 27, 2020, we entered into a Securities Purchase Agreement (the "Agreement") with three institutional accredited investors. Pursuant to the Agreement, the Company offered and sold 1,481,484 shares of our common stock at a per share price of \$1.35 for gross proceeds of approximately \$2,000,000. The transaction closed on July 29, 2020 and the Company received net proceeds of \$1,814,353, after deducting financial advisory, legal and escrow related fees.



Net cash provided by financing activities from continuing operations during the nine months ended September 30, 2019 was approximately \$6,615,000, consisting of \$1,100,000 in gross proceeds from the sale of 500,000 shares of our common stock to one purchaser at a purchase price \$2.20 per share, \$2,000,000 in gross proceeds from sale of 1,142,857 shares of common stock to one purchaser at a purchase price \$1.75 per share, \$700,000 in gross proceeds from the sale of 442,830 shares of our common stock to one purchaser at a purchase price \$1.58 per share, \$300,000 in gross proceeds from sale of 189,873 shares of common stock to one purchaser at a purchase price \$1.58 per share, \$400,000 in gross proceeds from a short-term loan from GNet Tech Holdings, a related party through one of our shareholders, Cosmic Forward Limited, partially offset by a \$400,000 repayment of the short-term loan from GNet Tech Holdings

#### **Off-Balance Sheet Arrangements**

Since inception, we have not engaged in any off-balance sheet activities as defined in Regulation S-K Item 303(a)(4).

#### **Critical Accounting Policies and Estimates**

Our management's discussion and analysis of financial condition and results of operations is based on our interim financial information, which has been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and disclosure of commitments and contingencies at the date of the interim financial information.

We base our estimates on our historical experience, knowledge of our business and industry, current and expected economic conditions, the attributes of our products, the regulatory environment, and in certain cases, the results of outside appraisals. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

While our significant accounting policies are more fully described in Note 3 to our interim financial information included in this Form 10-Q, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our financial statements.

#### ***Accounts Receivable***

Our policy is to reserve for uncollectible accounts based on our best estimate of the amount of probable credit losses in our existing accounts receivable. We periodically review our accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

#### ***Goodwill and Intangible Assets***

The Company accounts for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”). ASC 350 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill is tested for impairment at the reporting unit level on an annual basis (December 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company considers its market capitalization and the carrying value of its assets and liabilities, including goodwill, when performing its goodwill impairment test.

When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then compares the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of a reporting unit exceeds its fair value, the Company will measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

#### ***Capitalized Technology Costs***

We account for capitalized technology costs in accordance with ASC 350-40, Internal-Use Software ("ASC 350-40"). In accordance with ASC 350-40, we capitalize certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

#### ***Business Combinations***

ASC 805, Business Combinations ("ASC 805"), applies the acquisition method of accounting for business combinations to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. ASC 805 establishes principles and requirements for how the acquirer : a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accounting for acquisitions requires the Company to recognize, separately from goodwill, the assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition-date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the condensed consolidated statements of comprehensive loss.

#### ***Revenue Recognition***

Our principal sources of revenue are recruitment revenue, consumer marketing and consumer advertising revenue, membership subscription fees, and product sales. Recruitment revenue includes revenue recognized from direct sales to customers for recruitment services and events, as well as revenue from our direct ecommerce sales. Revenues from recruitment services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed or determinable and collectability is probable. Our recruitment revenue is derived from agreements through single and multiple job postings, recruitment media, talent recruitment communities, basic and premier corporate memberships, hiring campaign marketing and advertising, e-newsletter marketing and research and outreach services.

Consumer marketing and consumer advertising revenue is recognized either based upon a fixed fee for revenue sharing agreements in which payment is required at the time of posting, or billed based upon the number of impressions (the number of times an advertisement is displayed) recorded on the websites as specified in the customer agreement.

Revenue generated from NAPW Network membership subscriptions is recognized ratably over the 12-month membership period, although members pay their annual fees at the commencement of the membership period. Starting January 2, 2018, we also offer a monthly membership for which we collect fees on a monthly basis and we recognize revenue in the same month as the fees are collected. Revenue from related membership services are derived from fees for development and set-up of a member's personal on-line profile and/or press release announcements. Fees related to these services are recognized as revenue at the time the on-line profile is complete and press release is distributed.

#### **Recent Accounting Pronouncements**

See Note 3 to our financial statements.

#### **ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 4 – CONTROLS AND PROCEDURES**

##### ***Evaluation of disclosure controls and procedures***

As of September 30, 2020, our management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures; as is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We recognize that there are material weaknesses related to our internal controls. Therefore, our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were not effective, as of the end of the period covered by this Quarterly Report. This includes ensuring that information required to be disclosed was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Furthermore, to provide reasonable assurance that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### ***Changes in internal control over financial reporting***

During the first nine months of 2020, we continued to undertake certain initiatives to improve and remediate material weaknesses related to our internal control over financial reporting that were identified for the year ended December 31, 2019. Specifically, we hired an Interim Chief Financial Officer during the second quarter of 2020 with significant expertise in general accounting, financial reporting and SEC reporting to assist in our remediation efforts. Additionally, we have continued to develop and implement more effective financial reporting process and internal control procedures that included monthly and quarterly closing check-lists and monthly review of the financial reports by the Company's Finance Department. We also continued improving GAAP training of internal staff and to utilized third-party consultants to assist in the review and preparation of complex accounting transaction and financial statement reports. There have been no other changes in our internal control over financial reporting during the first nine months of 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Our management has concluded that, as of September 30, 2020, we did not maintain effective controls over the preparation, review, presentation and disclosure of our financial statements. Specifically, we noted the following:

- Relevant operating information is not adequately used to develop accounting and financial information and serve as a basis for reliable financial reporting. This same operating information is also used as the basis for accounting estimates. Specifically, financial and nonfinancial indicators of going concern and impairment of assets were not completely assessed by management.
- Employees lack full technical competence and training necessary for the nature and complexity of the entity's activities. Specifically, Company personnel could not perform purchase accounting or fair value measurements with Company's acquisitions.

- Supporting analysis is not prepared for each non-routine event or transaction that requires management’s judgement and/or estimate. Specifically, no analysis is prepared to document compliance with relevant GAAP and entity’s accounting policies.
- Accounting procedures relevant to foreign subsidiaries are not sufficiently formal that management can determine whether the control objective is met, documentation supporting the procedures is in place, and personnel routinely know the procedures that need to be performed. Specifically, data from foreign subsidiaries underlying financial statements is not captured completely, accurately, and timely, in accordance with the entity’s policy and procedures.

***Limitations on effectiveness of controls and procedures***

We anticipate that the actions described above and resulting improvements in controls will strengthen the Company’s internal control over financial reporting and will, over time, address the related material weaknesses. However, because many of the controls in the Company’s system of internal controls rely extensively on manual review and approval, the successful operation of these controls may be required for several quarters prior to management being able to conclude that the material weaknesses have been remediated.

**PART II**

**ITEM 1 – LEGAL PROCEEDINGS**

In a letter dated October 12, 2017, White Winston Select Asset Funds (“White Winston”) threatened to assert claims against the Company in excess of \$2 million based on White Winston’s contention that the Company’s conduct delayed White Winston’s ability to sell shares in the Company during a period when the Company’s stock price was generally falling. On April 30, 2018, White Winston filed a lawsuit, entitled White Winston Select Asset Funds, LLC v. Professional Diversity Network, Inc., No. 18-cv-10844, (the “Federal Action”) in the United States District Court for the District of Massachusetts, asserting federal jurisdiction based on diversity of citizenship. On October 28, 2020, the Company and White Winston agreed to settle its litigation by the Company paying \$766,500 to White Winston as follows: cash payments of \$600,000 and shares of the Company’s common issued valued at \$166,500. The Company made a cash payment of \$250,000 on October 29, 2020 and the final cash payment of \$350,000 is due by February 16, 2021. The Company recorded this litigation settlement as an expense in the third quarter of 2020.

NAPW is a defendant in a Nassau County (NY) Supreme Court case, whereby TL Franklin Avenue Plaza LLC has sued NAPW Case index No. LT-000421/2018, with respect to NAPW’s former Garden City NY Premises. NAPW had surrendered the Premises to the Landlord, and the Landlord has obtained a judgment against NAPW in the amount of \$746,142.41. As a result of the judgement order, the Company recorded a \$780,000 litigation settlement expense in the second quarter of 2020, which reflected the judgement order in addition to imputed interest costs and legal fees. NAPW is currently negotiating a settlement with the Landlord.

The Company and its wholly-owned subsidiary, NAPW, Inc., are parties to a proceeding captioned Deborah Bayne, et al. vs. NAPW, Inc. and Professional Diversity Network, Inc., No. 18-cv-3591 (E.D.N.Y.), filed on June 20, 2018 and alleging violations of the Fair Labor Standards Act and certain provisions of the New York Labor Law. The Company disputes that it or its subsidiary violated the applicable laws or that either entity has any liability and intends to vigorously defend against these claims. The matter is in the final stages of discovery and we have completed depositions of relevant witnesses. During the first quarter of 2020, the Company recorded a \$450,000 litigation settlement expense in the event of an unfavorable outcome in this proceeding. The Company is engaged in settlement discussions and anticipates entering into mediation proceedings in November 2020.

We are also generally subject to legal proceedings and litigation arising in the ordinary course of business.

### **General Legal Matters**

From time to time, the Company is involved in legal matters arising in the ordinary course of business. While the Company believes that such matters are currently not material, there can be no assurance that matters arising in the ordinary course of business for which the Company is, or could be, involved in litigation, will not have a material adverse effect on its business, financial condition or results of operations.

### **ITEM 1A – RISK FACTORS**

Smaller reporting companies are not required to provide the information required by this item.

### **ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On March 31, 2020 the Company closed a private placement with Malven Group Limited, a company established under the laws of the British Virgin Islands, in connection with the purchase of 1,939,237 shares of our common stock at a price of \$0.7735 per share for gross proceeds of \$1,500,000. The Company's Form 8-K filed on March 27, 2020 is incorporated herein by reference.

On June 26, 2020, the Company entered into a second agreement with Malven Group Limited, in connection with the sale of 312,500 shares of common stock of the Company at a price of \$3.20 per share for gross proceeds of \$1,000,000. The closing of the transaction took place on June 29, 2020 and the sale proceeds of \$1,000,000 were received in July 2020.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

- 31.1 [Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14\(a\) or Rule 15d- 14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14\(a\) or Rule 15d- 14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101. INS XBRL Instance Document
- 101. SCH XBRL Taxonomy Extension Schema Document
- 101. CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101. DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101. LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101. PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 13, 2020.

PROFESSIONAL DIVERSITY NETWORK, INC.

Date: November 13, 2020

By: /s/ Xin (Adam) He

Name: Xin (Adam) He

Title: Chief Executive Officer

Date: November 13, 2020

By: /s/ Charles O'Brien

Name: Charles O'Brien

Title: Interim Chief Financial Officer

## EXHIBIT INDEX

- 31.1 [Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14\(a\) or Rule 15d- 14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14\(a\) or Rule 15d- 14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101. INS XBRL Instance Document
- 101. SCH XBRL Taxonomy Extension Schema Document
- 101. CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101. DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101. LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101. PRE XBRL Taxonomy Extension Presentation Linkbase Document

## CERTIFICATIONS

I, Xin (Adam) He, certify that:

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

Date: November 13, 2020

*/s/ Xin (Adam) He*

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Xin (Adam) He  
Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATIONS

I, Charles O'Brien, certify that:

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

Date: November 13, 2020

*/s/ Charles O'Brien*

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Charles O'Brien  
Interim Chief Financial Officer  
(Principal Financial Officer)

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CERTIFICATION PURSUANT TO 18  
U.S.C. SECTION 1350

In connection with the Quarterly Report of Professional Diversity Network, Inc. (the “registrant”) on Form 10-Q for the fiscal quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Xin (Adam) He, Chief Executive Officer, of the registrant, certify, pursuant to 18 U.S.C. § 1350, that to our knowledge:

- (1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: November 13, 2020

*/s/ Xin (Adam) He*

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Xin (Adam) He  
Chief Executive Officer

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CERTIFICATION PURSUANT TO 18  
U.S.C. SECTION 1350

In connection with the Quarterly Report of Professional Diversity Network, Inc. (the “registrant”) on Form 10-Q for the fiscal quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Charles O’Brien, Interim Chief Financial Officer, of the registrant, certify, pursuant to 18 U.S.C. § 1350, that to our knowledge:

- (1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Date: November 13, 2020

*/s/ Charles O'Brien*  
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Charles O'Brien  
Interim Chief Financial Officer

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